



DU Conforming Fixed & ARM and High-Balance Fixed & ARM

PURCHASE & RATE/TERM REFINANCE		
PRIMARY RESIDENCE		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	95% ¹	95% ²
2 Units	85%	85%
3-4 Units	75%	75%
SECOND HOME		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	90%	90%
INVESTMENT PURCHASE		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	85%	80/85/85%
2-4 Units	75%	75%
INVESTMENT RATE/TERM REFINANCE		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1-4 Units	75%	75%

CASH-OUT REFINANCE		
PRIMARY RESIDENCE		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	80%	80%
2-4 Units	75%	75%
SECOND HOME		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	75%	75%
INVESTMENT		
Property Type	FRM LTV/CLTV/HCLTV	ARM LTV/CLTV/HCLTV
1 Unit	75%	75%
2-4 Units	70%	70%



NOTES – Specific to Certain Transactions

¹ **LTV capped at 95%, CLTV, and HCLTV Ratios > 95%:** These transactions are not permitted for high-balance loans or loans with a non-occupant co-borrower. Must be one-unit principal residence. At least one (1) borrower on the loan must have a credit score. For purchase transactions, at least one (1) borrower must be a first-time home buyer. For limited cash-out refinances, Fannie Mae must be the owner of the existing mortgage. Reserves requirement will be determined by DU. All other standard Selling Guide policies apply.

² **Limit capped @ 90% max LTV/CLTV/HCLTV for Rate/Term Refinance.**

FIXED RATE PROGRAM DESCRIPTION

The DU Agency Fixed product provides for a fixed interest rate and level payments for the life of the loan. Loans may only be originated in first lien position.

PRODUCT TERM
10 Year Fixed Rate
15 Year Fixed Rate
20 Year Fixed Rate
25 Year Fixed Rate
30 Year Fixed Rate

ARM PROGRAM DESCRIPTION

A variable rate mortgage product – without negative amortization – whereby the interest rate and payment is adjusted in accordance with a specified index.

- **5/6, 7/6, & 10/6:** A fixed-to-adjustable rate product that provides for an initial fixed rate period and a variable rate with a 6 month interest rate and payment adjustments thereafter.

PRODUCTS & TERMS

Product	Term	Initial Fixed Rate Period	Rate/Adjustment After Initial Fixed Rate Period
5/6 SOFR ARM	30 year	5 years	6 month
7/6 SOFR ARM	30 year	7 years	6 month
10/6 SOFR ARM	30 year	10 years	6 month



HIGH-BALANCE PROGRAM DESCRIPTION

This is a full documentation program to be used for the origination of High-Balance loans available as a result of the Home Economic Recovery Act (HERA) of 2008 for Desktop Underwriter® (DU®) underwritten loans. The new loan amounts are applicable to high cost areas only as determined by the Federal Housing Finance Agency (FHFA). The loan amounts must be greater than the current maximum Agency Conforming Loan Limits and may not exceed the High Cost Loan Limit established by FHFA.

This fact sheet covers loans that receive an "Approved/Eligible" recommendation from DU. Fannie Mae has aligned the eligibility of high-balance mortgage loan with Fannie Mae's standard eligibility requirements with LTV, CLTV, and HCLTV ratios up to a maximum of 95%. High-balance loans must meet all standard Fannie Mae Eligibility and underwriting requirements, as outlined in Fannie Mae Selling Guide. The following guidelines apply to all high-balance mortgage loans:

- Loans must be conventional first-lien mortgages only
- Loans must meet the LTV, CLTV, and HCLTV ratios as outlined in eligibility matrix
- All borrowers must have a credit score
- All loans must be underwritten through DU
- Exceptions to policy are not permitted

Update as of August 5th, 2020.

Effective Immediately on existing pipeline and new submissions.

We still do not accept borrower with current forbearance on any mortgages.

To be able to accept the loan:

1. The borrower must be out of forbearance
2. And must resolve the missed payments outside escrow before funding the loan.
3. LTV maximum 70% and Minimum Fico 720

We will need the following:

- Credit supplement showing account has been reinstated and no longer in forbearance.
- Proof of payments confirming account is now current.
- Source of funds used to pay off the missed payments.

Note: Loan proceeds from refinance may not be used to pay off missed payments.



MEGA CAPITAL FUNDING, INC.

These changes apply to new FNMA/FHLMC loan submissions with loan application date December 14, 2020.

Requirements for borrowers using Self-employment income to qualify.

- ***Temporarily requiring additional documentation to support the self-employment income.***

QC must:

1. Be able to verify the business is still running
2. We must validate that their business has the ability to continue to provide a service while in quarantine.
3. Business phone is still being answered
4. Business does not show “closed” on a Google search. It must show that it is open.
5. If applicable, that they have a web site that is functional for ordering or requesting regular service to be performed now – not in a future time. (example: masseuse having a sale for when quarantine is over and the ability to purchase gift cards now). (that would not be an acceptable source of income).
6. Non-essential especially service industries are closed in some areas. Estheticians, hairdressers, nail technicians, massage therapists, Gyms, Day Care facilities, retail of almost all kinds, day spas, etc. CLOSED. We cannot give them income today.

Underwriters must:

1. Obtain
 - a. An audited YTD Profit & Loss statement reporting business revenue, expenses, and net income up to and including the most recent month the loan application date; **OR**
 - b. **An unaudited YTD Profit & Loss statement** signed by borrower reporting business revenue, expenses, and net income up to and including the most recent month the loan application date, **AND three business depository account (s) statements no older than at least two months (increased from two months statement)** represented on the YTD profit & loss statement. Underwriter must review the most recent depository account statements to support and/or not conflict with the information presented in the current YTD P&L statement. Otherwise, underwriter must obtain additional statements or other documentation to support the information from the current YTD P&L.

Note: The YTD P&L statement must be no older than 60 days old as of the note date.

2. **Obtain current YTD Balance Sheet to verify the business stability, in conjunction with the profit loss statement if business does not have adequate liquidity to support the withdrawal of earnings or did not passed the business liquidity ratio. Updated 01.07.2021**
3. **Not consider** Small Business Administration PPP or any other similar COVID-19 related loans or grants as **business assets**.
4. Obtain evidence of current business receipts within 10 days of the note date (payment for services performed) prior to funding.

Unemployment benefits as qualifying income.

Underwriters are being reminded that unemployment benefits **cannot be used to qualify** a borrower unless they are clearly associated with seasonal employment that is reported on the



borrower’s signed federal tax returns.

Furloughed Borrowers

A furlough is a suspension from active employment that does not typically guarantee restoration of an employee’s position when the furlough period ends. They are **ineligible** under Temporary Leave Income. Until furloughed employees actually return to work, we **can’t use borrower’s income to qualify.**

Stocks, Stock Options, and Mutual Funds

1. When used for down payment or closing costs, evidence of liquidation must be documented in all cases.
2. When used for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

PROGRAM DETAILS	
QM Status	<ul style="list-style-type: none"> • Standard QM requirements apply
Overview	<ul style="list-style-type: none"> • Min \$75,000. • LTV greater than 95% is not allowed. • Max FNMA conforming loan limit (loan limit table below) • Min FICO 640 score • Max DTI as determined by DU • Max four (4) businesses for self-employed borrower. • Subordinate financing is allowed • Higher-Priced Mortgage loans are not allowed • Community Seconds are not allowed • Property Inspection Waiver (PIW) is determined by DU Finding. • This loan program is delegated: No investor approval required. • Manual underwriting is not allowed • All conventional loans must receive an AUS Approval. • Texas Cash-Out Refinance is not allowed
Eligible States	All MCFI approved States



Program Codes	Fixed Period		
	Regular Conforming	Program	Code
		Mega Agency X	MAX30, MAX25, MAX20, MAX15, MAX10
		DU/LP AGENCY FIXED	AGN30, AGN25, AGN20, AGN15 & AGN10
			AGNP30, AGNP25, AGNP20, AGNP15 & AGNP10
		Agency Direct	CF30, CF25, CF20, CF15 & CF10
			CFD30, CFD25, CFD20, CFD15 & CFD10
	High-Balance	Mega Agency X	MAXHB30, MAXHB25, MAXHB20, MAXHB15
		DU/LP AGENCY FIXED	HB30, HB25, HB20, & HB15
			HBP30, HBP25, HBP20, & HBP15
Agency Direct		CFHB30 & CFHB15	
	CFDHB30 & CFDHB15		
Adjustable Rate Mortgage			
Regular Conforming	CONF5/6, CONF7/6, CONF10/6		
High-Balance	HB5/6, HB7/6 & HB10/6		
High LTV Conforming	HLTVC7/6, HLTVC10/6		
High LTV High-Balance	HLTVB7/6 & HLTVB10/6		
Mortgage Insurance	Standard MI coverage is required on all loans unless stated otherwise in the specific program description. Loans with MI may have higher FICO requirements than what is required by DU.		
	The LTV reflected here is for MI purposes only. Refer to the appropriate LTV matrix for the maximum LTV that applies to the occupancy and process selected.		
	LTV	Property	30 Year Term
	>90 to ≤95%	1-2 Units	30%
	>85 to ≤90%	1-2 Units	25%
>80 to ≤85%	1-2 Units	12%	
Qualifying Rate	<ul style="list-style-type: none"> 5/6 SOFR: Higher of Note Rate + 2% or Fully Indexed Rate 7/6 & 10/6 SOFR: Higher of Note Rate or Fully Indexed Rate 		
Interested Party Contributions	Occupancy	LTV/CLTV	Max Contribution
	Primary Residence or Second Home	≤75%	9%
		>75 to ≤90%	6%
		>90% to ≤95%	3%
Investment	All CLTV ratios	2%	



Note Rate Limitations	<ul style="list-style-type: none"> • <u>5/6 SOFR</u>: Note rates may not be lower than 2% below the fully indexed rate • <u>7/6 & 10/6 SOFR</u>: Note rates may not be lower than 3% below the fully indexed rate 				
Rate Caps & Margins	Product	Interest Rate Caps			Margin
		First	Subsequent	Life	
	5/6 ARM	2%	1%	5%	3.00%
7/6 & 10/6 ARM	5%	1%	5%		
Interest Rate & Payment Change Dates	The interest rate and payment adjusts every 12 months following the initial fixed rate period.				
Available Markets	<ul style="list-style-type: none"> • Refer to the Loan Limit Lookup table at https://www.fanniemae.com/singlefamily/loan-limits • Users are responsible for ensuring that individual mortgage loans do not exceed maximum county loan limits. 				
Maximum Loan Amount and County Eligibility	<ul style="list-style-type: none"> • Refer to the Loan Limit Lookup table on the following link to determine maximum loan amount and county eligibility: https://www.fhfa.gov/DataTools/Downloads/Documents/Conforming-Loan-Limits/FullCountyLoanLimitList2021_HERA-BASED_FINAL_FLAT.xlsx • The maximum High Balance loan amount is based on the property location (by city/county) and the number of units. In addition, High-Balance loan amounts are determined by high cost areas and are above the general conforming loan amounts. 				
Minimum Borrower Contribution	<ul style="list-style-type: none"> • 80% or less LTV/CLTV or HCLTV 1-4 principal residence or second home: Minimum borrower contribution from borrower's own funds is not required. All funds needed to complete the transaction can come from a gift. • Greater than 80% LTV/CLTV or HCLTV 1 unit principal residence: Minimum borrower contribution from borrower's own funds is not required. All funds needed to complete the transaction can come from gift. <p>Greater than 80% LTV/CLTV or HCLTV 2 to 4 unit principal or second home: Borrower must make a 5% minimum borrower contribution from his or her own funds. ¹After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.</p>				

¹ If the borrower receives a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancée, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.



TRANSACTION TYPES	
Loan Purpose	<ul style="list-style-type: none"> • Purchase • Rate/Term Refinance (aka Limited Cash-Out Refinance) • Cash-Out Refinance
Occupancy Types	<ul style="list-style-type: none"> • Primary Residence • Second Home • Investment Properties
Purchase	<p>A purchase money transaction is one in which the proceeds are used to finance the acquisition of and rehabilitation of a property. The minimum borrower contribution requirements for the selected mortgage loan type must be met. If all borrowers are first time homebuyers, homeownership education is required.</p>
Limited Cash-Out Transactions	<p>The transaction must be used to pay off existing first mortgage loan (including an existing HELOC in first-lien position) by obtaining a new first mortgage loan secured by the same property.</p> <p>Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exception are allowed for paying off a Property Assessed Clean Energy (PACE) loan or other debt (secured or unsecured) that was used solely for energy-related improvements.</p> <p>The subject property must not be currently listed for sale. It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrower must confirm their intent to occupy the subject property (for principal residence transactions).</p>
Cash- Out Transactions	<p>The transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have mortgage lien against it.</p> <p>If the property was purchased within the prior six (6) months, the borrower is ineligible for a cash-out transaction unless the loan meets the delayed financing exception.</p> <p>Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.</p> <p>The property must have been purchased (or acquired) by the borrower at least six (6) months prior to the disbursement date of the new mortgage loan, except if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership), OR the delayed financing requirements are met.</p>
Student Loan Cash-Out	<p>The student loan cash-out refinance feature allows for the payoff of student loan debt through the refinance transaction with a waiver of the cash-out refinance LLPA if all of the following requirements are met:</p> <ul style="list-style-type: none"> • The loan must be underwritten in DU. DU cannot specifically identify these transactions but will issue a message when it appears that only subject property liens and student loans are marked paid by closing. The message will remind lenders about certain requirements below; however, the lender must confirm the loan meets all the requirements outside of DU.



<p>Student Loan Cash-Out (continue)</p>	<ul style="list-style-type: none"> • The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply. (Refer to the LTV matrix on page 1.) • At least one (1) student loan must be paid off with proceeds from the subject transaction with the following criteria: <ul style="list-style-type: none"> ○ proceeds must be paid directly to the student loan servicer at closing ○ at least one (1) borrower must be obligated on the student loan(s) being paid off ○ the student loan must be paid in full. (Partial payments are not permitted) • The transaction may also be used to pay off one of the following: <ul style="list-style-type: none"> ○ an existing first mortgage loan (including an existing HELOC in first-lien position) or • a single-closing construction-to-permanent loan to pay for construction costs to build the home, which may include paying off an existing lot lien. • Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a PACE loan or other debt (secured or unsecured) that was used solely for energy improvements. • The transaction may be used to finance the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as long as an escrow account is established, subject to applicable law or regulation. • The borrower may receive cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or \$2,000. The lender may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations, or apply a principal curtailment. • Unless otherwise stated, all other standard cash-out refinance requirements apply. <p>As noted above, the LLPA is waived for loans that meet the student loan cash-out refinance requirements.</p>
<p>Delayed Financing</p>	<p>Borrowers who purchased the subject property within the past six (6) months (measured from date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met.</p> <ol style="list-style-type: none"> 1. The original purchase transaction was an arms-length transaction. For this refinance transaction, the borrower(s) must meet Fannie Mae's borrower eligibility requirements as described in B2-2-01: General Borrower Eligibility Requirements (07/28/2015). The borrower(s) may have initially purchased the property as one of the following: <ul style="list-style-type: none"> ○ a natural person; ○ an eligible <i>inter vivos</i> revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust; ○ an eligible land trust when the borrower is the beneficiary of the land trust; or ○ an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%. 2. The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.) The preliminary title search or report must confirm that there are no existing liens on the subject property. 3. The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).



<p>Delayed Financing <i>(continued)</i></p>	<p>4. If the source of funds used to acquire the property was an unsecured loan or a loan secured by an assets other than the subject property (such as HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining form the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.</p> <p>Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.</p> <p>5. The new loan amount can be no more than the actual documented amount of the borrower’s initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value).</p> <p>6. All other cash-out refinance eligibility requirements are met. Cash-out pricing is applicable.</p>
<p>Principal Curtailments</p>	<p>A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. Fannie Mae permits certain curtailments for the following reasons:</p> <ul style="list-style-type: none"> • The lender may apply a curtailment to refund the overpayment of fees or charges paid by the borrower, in any amount, in accordance with applicable regulatory requirements • If the borrower receives more cash back than is permitted for limited cash-out refinances, the lender can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash back requirements. The amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount of the subject loan.
<p>Ineligible Transaction Types</p>	<ul style="list-style-type: none"> • LTV/CLTV greater than 95%. • Refinance transactions where subject property is listed for sale at the time of disbursement of new mortgage loan • Loans not meeting the credit score, LTV, or loan amount guidelines or erroneous credit data • DU Refer with Caution findings • Loans that were submitted to LP and/or received a Caution or A-Minus recommendation • All products or programs not shown as eligible • Interest Only Products • Any product not listed above as eligible



BORROWER ELIGIBILITY	
Eligible Borrowers	<p>Borrower(s) must be a natural person(s) and have reached the age at which the mortgage note can be enforced in the jurisdiction where the property is located. There is no maximum age limit for the borrower.</p> <p>Exceptions to the requirement that borrower(s) be natural person(s) are:</p> <ul style="list-style-type: none"> • Inter vivos revocable trusts
Deferred Action for Children Arrivals (DACA)	<p>**Only allowed on Agency Direct (CF) program.**</p> <p>Employment Authorization Document (EAD) Borrower must have a current EAD card and if the EAD card expires within one year then borrower must provide a previous EAD renewal. A current (unexpired) EAD issued by USCIS may be provided in lieu of a Visa. If the EAD will expire within one year, one of the following must be provided:</p> <ul style="list-style-type: none"> • Documentation of one previous EAD renewal. • If there are no prior EAD renewals, documentation from the USCIS confirming the likelihood of renewal. <p>All standards for determining stable monthly income, adequate credit history, and sufficient liquid assets must be applied in the same manner to each borrower including borrowers who are nonpermanent resident aliens.</p>
Non-Occupant Co-Borrower	<p>Per DU / FNMA Policy: Allows blended ratio Non-Occupant co-borrowers not allowed when LTV/CLTV is 90-95% or Cash Out Refinances when LTV/CLTV is 85.01-90%</p>
Ineligible Borrowers	<ul style="list-style-type: none"> • Foreign Nationals • Inter Vivos Revocable (aka living) Trusts • Persons with Diplomatic Immunity



INCOME	
Debt-to-Income	<ul style="list-style-type: none"> • DU determines the maximum allowable DTI ratio based on the overall risk assessment of the loan casefile. • The mortgage insurance company may have lower debt to income ratio requirements (refer to the Mortgage Insurance section of this fact sheet for details as well as the individual MI companies' guidelines).
Income Documentation	<p>General Income Documentation Requirements DU indicates the minimum income verification required. However, the level of documentation may not be adequate for every borrower and every situation. Mega will determine whether additional documentation is warranted.</p> <p>Base Pay (Salary or Hourly) Income</p> <ul style="list-style-type: none"> • Regardless of DU Findings, VOE only income documentation is not acceptable. • The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. <p>Bonus and Overtime Income Borrowers relying on overtime or bonus income for qualifying purposes must have a history of no less than 12 months to be considered stable.</p> <ul style="list-style-type: none"> • A completed Written Verification of Employment (WVOE), or • The borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. <p>Commission Income A minimum history of two (2) years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.</p> <ul style="list-style-type: none"> • Commission income < 25% of borrower's total annual employment: <ul style="list-style-type: none"> - A completed WVOE (Form 1005) - The borrower's most recent paystub and IRS W-2 forms covering the most recent two (2) year period. • Commission income ≥ 25% of borrower's total annual employment: <ul style="list-style-type: none"> - A completed WVOE or the borrower's most recent paystub and IRS W-2 forms covering the most two (2) year period <p>Secondary Employment Income Verification of a minimum history of two (2) years of uninterrupted secondary employment income is recommended. However, income that has been received for a shorter period of time (no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.</p> <ul style="list-style-type: none"> • When the second job is not from self-employment, DU will require the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. <p>Self-Employment Income For DU loan casefiles where two (2) years of the most recent signed personal and two (2) years of the most recent signed business federal income tax returns are required, business tax returns do not have to be provided unless the business is a corporation, an S corporation, a limited liability company, or a partnership and borrower has ≥25% ownership in the entity. Under certain conditions, the requirements for business tax returns may be waived. Note that for DU loan casefiles, only the most recent year of tax returns may be required. Applications with >1 Business (up to 4 maximum) will be labelled under the AGNP (Agency Portfolio) program series.</p>



<p>IRS 4506-T</p>	<p>Wage Earner Borrower A signed IRS Form 4506-T is required on all loans, regardless of documentation type. All borrowers must sign the IRS Form 4506-T at application and closing. If tax returns are used to calculate borrower income, the Form 4506-T must be processed prior to loan approval.</p> <p>Self-Employed Borrower Fully executed business 4506-T form required for all 1120, 1120S, 1065 businesses where borrower has > 25% ownership in addition to personal 4506-T.</p>
<p>Tax Transcripts</p>	<p>W-2 Transcripts W-2 transcripts will be required when using only non-self-employed base wages to qualify.</p> <p>1040 Transcripts 1040 Transcripts will be required when borrower is self-employed or using income calculated from tax returns to qualify, such as rental income, capital gains, interest/dividend.</p> <p>Note: The years' requirement is determined by the qualifying income and tax returns required per DU findings.</p>
<p>Tax Returns</p>	<p>Determining the Need for Federal Income Tax Returns Borrower's signed federal income tax returns filed with the IRS for past two (2) years must be provided for the following source of income or employment</p> <ul style="list-style-type: none"> • Is employed by family members (two (2) years' returns) • Is employed by interested parties to the property sale or purchase • Receives rental income from an investment property • Receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman • Receives income from capital gains, royalties, real estate, or other miscellaneous non-employment earnings reported on IRS Form 1099 • Receives income that cannot otherwise be verified by an independent and knowledgeable source • Uses interest and dividends income to qualify • Uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify • Receives income from sole proprietorships, limited liability companies, partnerships, or corporation, or any other type of business structure in which the borrower has 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed <p>Note: If a borrower's income is validated by the DU validation service, lenders are not required to determine if the borrower is employed by a family member or interested party to the property sale or purchase.</p>
<p>Employment Verification</p>	<p>Verification of Employment (VOE)</p> <ul style="list-style-type: none"> • Wage Earner: Verbal Verification of Employment within 10 business days of prior to Note date • Self-Employed: Documented verification of existence of borrower's business through directory assistance no more than 120 days prior to loan closing date • Military Personnel: Military Leave and Earnings Statement dated within 30 calendar days prior to the Note date, Or VOE through the Defense Manpower Data Center (https://mla-ap.dmdc.osd.mil/mla/#/home)



Rental Income	<p>Eligible Properties If the rental income is derived from the subject property, the property must be one of the following:</p> <ul style="list-style-type: none">• A two-to four-unit principal residence property in which the borrower occupies one of the units, or• A one- to four- unit investment property. <p>If the income is derived from a property that is not the subject property, there are no restrictions on property type. For example, rental income from a commercial property owned by the borrower is acceptable if the income otherwise meets all other requirements.</p> <p>Ineligible Properties Rental income from borrower's principal residence or second home cannot be used to qualify the borrower.</p> <p>General Requirements for Documenting Rental Income If the borrower has a history of renting the subject property or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the subject property or if the tax returns do not accurately reflect the ongoing income and expenses of the property, fully executed lease agreements may be used. Examples of scenarios that justify a lease agreement are</p> <ul style="list-style-type: none">• Purchase transactions• Refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing OR• Refinance transactions of a property that experienced significant rental interruption such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income). <p>When the subject property will generate rental income, one of the following Fannie Mae forms must be used to support the income-earnings potential of the property:</p> <ul style="list-style-type: none">• For once-unit properties: <i>Single-Family Comparable Rent Schedule (Form 1007)</i> provided in conjunction with the applicable appraisal report, OR• For two- to four-unit properties: <i>Small Residential Income Property Appraisal Report (Form 1025)</i>. <p>Calculating Monthly Qualifying Rental Income (or Loss) To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing a two (2) to four (4) unit principal residence or one (1) to four (4) unit investment, the lender must consider the following:</p>
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<p>Other Sources of Income</p>	<p>Schedule K-1 Income For borrowers who have less than 25% ownership of a partnership, S Corp, or LLC, ordinary income, net rental real estate income, and other net rental income reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 may be used in qualifying the borrower provided the lender can confirm the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.</p> <p>The following tab provides verification of income requirements for Schedule K-1</p> <table border="1" data-bbox="483 533 1461 1115"> <tr> <td data-bbox="483 533 1461 569"> <p>Verification of Schedule K-1 Income</p> </td> </tr> <tr> <td data-bbox="483 569 1461 703"> <p>If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The schedule K-1 income may then be included in the borrower's cash flow</p> </td> </tr> <tr> <td data-bbox="483 703 1461 840"> <p>If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm the business has adequate liquidity to support the withdrawal of earnings. The lender may use discretion in the method used to confirm the business has adequate liquidity.</p> </td> </tr> <tr> <td data-bbox="483 840 1461 1115"> <p>If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the borrower's cash flow</p> <p>Note: an exception to the two-year requirement of receiving "guaranteed payments to the partner" is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, the lender may rely on the borrower's guaranteed compensation. This must be evidenced by the borrower's partnership agreement and further supported by evidence of current year-to-date income.</p> </td> </tr> </table> <p>borrowers with less than 25% ownership of a partnership, an S corporation, or an LLC.</p> <p>Documentation Requirements The borrower must provide the most recent two years of signed individual federal income tax returns and the most recent two years of IRS Schedule K-1.</p>	<p>Verification of Schedule K-1 Income</p>	<p>If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The schedule K-1 income may then be included in the borrower's cash flow</p>	<p>If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm the business has adequate liquidity to support the withdrawal of earnings. The lender may use discretion in the method used to confirm the business has adequate liquidity.</p>	<p>If the borrower has a two-year history of receiving "guaranteed payments to the partner" from a partnership or an LLC, these payments can be added to the borrower's cash flow</p> <p>Note: an exception to the two-year requirement of receiving "guaranteed payments to the partner" is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, the lender may rely on the borrower's guaranteed compensation. This must be evidenced by the borrower's partnership agreement and further supported by evidence of current year-to-date income.</p>
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<p>Multiple Financed Properties</p>	<p>For all occupancies: A maximum of 6 financed and 10 total (including commercial) properties are permitted. Borrowers of second homes or investment properties who own up to six (6) financed properties are subject to additional reserve requirements. Fannie Mae's standard eligibility policies apply (for example, LTV ratios and minimum credit scores). Applicants with greater than 2 financed properties are eligible under the AGNP.</p> <p>The financed property limit:</p> <ul style="list-style-type: none"> • Applies to the number of one to four residential properties where the borrower is personally obligated on the mortgage(s); • Applies to the total number of properties financed, not to the number of mortgages on the property or the number of mortgages sold to FNMA; • Includes the borrower's principal residence if it is financed; and is cumulative for all borrowers (though jointly financed properties are only counted once). <p>The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage on the property:</p> <ul style="list-style-type: none"> • Commercial real estate, • Multifamily property consisting of more than four (4) units, • Ownership in a timeshare, • Ownership in a vacant lot (residential or commercial), or • Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home). 				



<p>Multiple Financed Properties <i>(continued)</i></p>	<p>Reserve Requirements Additionally, reserve requirements apply based on the number of financed properties the borrower will have. The borrower must have sufficient assets to close after meeting the minimum reserve requirements.</p> <p>Calculation of Reserves for Multiple Financed Properties If the borrower owns other financed properties, additional reserves must be calculated and documented for financed properties other than the subject property and the borrower's principal residence by applying 2% to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The aggregate UPB calculation does not include mortgages and HELOCs that are on:</p> <ul style="list-style-type: none">• The subject property• The borrower's principal residence• Properties that are sold or pending sale• Accounts that will be paid by closing (or omitted in DU on the loan application) <p>Note: DU will also include in the UPB calculation open mortgages and HELOCs on the credit report that are not disclosed on the loan application.</p> <p>Simultaneous Second Home or Investment Property Transactions If multiple second home or investment property applications are being processed simultaneously, the same assets may be sued to satisfy the reserve requirement for both mortgage applications. Reserves are not cumulative for multiple applications.</p>
<p>Unacceptable Income</p>	<p>Unacceptable income sources include the following:</p> <ul style="list-style-type: none">• Income based on future earnings• Draw Income• Capital withdrawals• VA Education Benefits• Illegal Income/Income not listed on Tax Returns• Any income that cannot be documented and verified• Room/boarder rent from subject property• Trailing Co-Borrower• Any income derived from transactions in or related to the sale or production of marijuana/hemp or any cannabis products or derivatives, such as CBD products.



CREDIT	
Paycheck Protection Program (PPP) Business Loans	<ul style="list-style-type: none"> No payment, estimated or otherwise, need be included in DTI at this time. Loan proceeds from the Small Business Administration (SBA) PPP or any other similar COVID-19 related loans or grants are not considered business assets. Copy of Note/PPP loan document is required for DU files. Not required on LP.
Eligible Credit Requirements	<p>At least one borrower has no credit score and another borrower has a credit score.</p> <p>If one (or more) borrower(s) has a credit score and at least one borrower does not have a credit score, then DU will apply the following requirements:</p> <ul style="list-style-type: none"> The property must be a one-unit, principal residence, and all borrowers must occupy the property. The transaction must be a purchase or limited cash-out refinance. The loan amount must meet the general loan limits—high-balance mortgage loans are not eligible. Reserves may be required as determined by DU. If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, the lender is not required to document a nontraditional credit history for the borrower(s) without a credit score. If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, the lender must document a nontraditional credit history for each borrower without a credit score.
Past-Due, Collections, Charge-Offs of Non-Mortgage Accounts, Judgements, and Liens	<p>Delinquent credit, including taxes, judgments, charge-offs of non-mortgage accounts, tax liens, mechanics' or materialmen's liens, and liens that have the potential to affect Fannie Mae's lien position or diminish the borrower's ability - must be paid off at or prior to closing.</p> <p>Delinquent federal income taxes that are approved to be paid by a monthly installment agreement with the IRS must be paid in full at or prior to closing if there is any indication that a Notice of Federal Tax Lien has been recorded against the borrower in the county in which the subject property is located.</p> <p>Accounts that are reported as past due (not reported as collection accounts) must be brought current.</p> <ul style="list-style-type: none"> For one-unit, principal residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs—regardless of the amount. <p>Note: If the lender marks the collection account Paid By Close in the online loan application, DU will issue a message in the DU Underwriting Findings report stating that the collection must be paid.</p> <ul style="list-style-type: none"> For two to four unit owner-occupied and second home properties, collections and non-mortgage charge-offs totaling more than \$5,000 must be paid in full prior to or at closing. For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than \$250 and accounts that total more than \$1,000 must be paid in full prior to or at closing. <p>Open Judgments and all outstanding liens that are in the Public Records section of the credit report will be identified in the Underwriting Findings report, and must be paid off at or prior to closing.</p>



Omitted Accounts	<p>Supporting documentation is required when a credit report with a balance greater than zero is omitted from the loan application. For example, evidence the account is paid in full at or prior to closing.</p> <p>If duplicate accounts or accounts that do not belong to the borrower were copied to the loan application and included in the DTI ratio, they may be omitted from Liabilities. Debts that are omitted will not be counted in the DTI.</p>
Installment Debt	<p>All installment debt that is not secured by a financial asset—including student loans, automobile loans, personal loans, and timeshares—must be considered part of the borrower’s recurring monthly debt obligations if there are more than ten monthly payments remaining. However, an installment debt with fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the borrower’s ability to meet his or her credit obligations.</p> <p>Note: A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).</p>
Lease Payments	<p>Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.</p>
Loans Secured by Financial Assets	<p>When a borrower uses his or her financial assets (life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.) as security for a loan, the borrower has a contingent liability.</p> <p>The lender is not required to include this contingent liability as part of the borrower’s recurring monthly debt obligations provided the lender obtains a copy of the applicable loan instrument that shows the borrower’s financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the lender must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.</p>
Open 30-Day Charge Accounts	<p>Open 30-day charge accounts require the balance to be paid in full every month. For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.</p> <p>Note: DU will include the balance of the 30-day charge accounts on the loan application in the Reserves Required to be Verified amount shown on the DU Underwriting Findings report. However, for transactions that do not require the verification of reserves, the balance of 30-day charge accounts in the Reserves Required to be Verified amount will be reduced by any cash out the borrower will receive through the transaction.</p> <p>If the borrower paid off the account balance prior to closing, the lender may provide proof of payoff in lieu of verifying funds to cover the account balance.</p>



Revolving Charge / Lines of Credit	<p>Revolving charge accounts and unsecured lines of credit are open-ended and should be treated as long-term debts and must be considered part of the borrower's recurring monthly debt obligations. These trade lines include credit cards, department store charge cards, and personal lines of credit. Equity lines of credit secured by real estate should be included in the housing expense.</p> <p>If the credit report does not show a required minimum payment amount and there is no supplemental documentation to support a payment of less than 5%, the lender must use 5% of the outstanding balance as the borrower's recurring monthly debt obligation.</p> <p>For DU loan casefiles, if a revolving debt is provided on the loan application without a monthly payment amount, DU will use the greater of \$10 or 5% of the outstanding balance as the monthly payment when calculating the total debt-to-income ratio.</p>
Social Security Number	<p>Each borrower must have a valid Social Security number (in addition to meeting existing legal residency and documentation requirements).</p> <p>If DU indicates Social Security number appears to be invalid, lender will verify Social Security Number directly with Social Security Administration using Form SSA-89 (Authorization for the Social Security Administration to Release Social Security Number Verification). If the Social Security number cannot be validated, the loan is not eligible for approval by Mega.</p>
Bankruptcy	<p>Chapter 7 or Chapter 11 A four (4) year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.</p> <p>Chapter 13 A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows:</p> <ul style="list-style-type: none">• Two (2) years from the discharge date, or• Four (4) years from the dismissal date <p>The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completions of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete Chapter 13 plan and received a dismissal will be held to a four (4) year waiting period.</p> <p>**Exceptions for Extenuating Circumstances is not allowed**</p>
Multiple Bankruptcy Filings	<p>For a borrower with more than one (1) bankruptcy filing within the past seven (7) years, a five (5) year waiting period is required, measured from the most recent dismissal or discharge date.</p> <p>Note: The presence of multiple bankruptcies in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies.</p> <p>For example, if the borrower has one bankruptcy and the co-borrower has one bankruptcy this is not considered a multiple bankruptcy.</p> <p>**Exceptions for Extenuating Circumstances not allowed**</p>



<p>Foreclosure</p>	<p>A seven (7) year waiting period is required and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by borrower.</p> <p>Note: When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the bankruptcy waiting period will be applied if appropriate documentation to verify that the mortgage loan in question was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting period must be applied.</p> <p>DU identifies prior foreclosures for mortgage accounts including first and second liens, home improvement loans, HELOCs, and mobile homes loans as a foreclosure with Remarks Code in the credit report associated with the trade-line OR a Current Status or Manner of Payment (MOP) code "8".</p> <p>**Exceptions for Extenuating Circumstances not allowed**</p>
<p>Deed-in-Lieu of Foreclosure, Pre-foreclosure / Short Sale, and Charge-Off of a Mortgage Account</p>	<p>A four (4) year waiting period is required from the completion date of the deed-in-lieu of foreclosure, pre-foreclosure sale, or charge-off as reported on the credit report or other documents provided by the borrower.</p> <ul style="list-style-type: none">• A deed-in-lieu of foreclosure is a transaction in which the deed to real property is transferred back to servicer. These are typically identified on the credit report through Remarks Codes such as "Forfeit deed-in-lieu of foreclosure."• A pre-foreclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as "Settled for less than full balance."• A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status and is identified on the credit report with a manner of payment (MOP) code of "9." <p>**Exceptions for Extenuating Circumstances not allowed**</p>
<p>Home Equity Lines of Credit</p>	<p>When the mortgage that will be delivered to FNMA also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount.</p>



Debts Paid by Others	<p>Certain debts can be excluded from the borrower's recurring monthly obligations and the DTI ratio:</p> <ul style="list-style-type: none">• When a borrower is obligated on a non-mortgage debt -- but is not the party who is actually repaying the debt -- the lender may exclude the monthly payment from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance.• When a borrower is obligated on a mortgage debt- but is not the party who is actually repaying the debt- the lender may exclude the monthly housing expense (PITIA) from the borrower's recurring monthly obligations if:<ul style="list-style-type: none">○ The party making the payments is obligated on the mortgage debt,○ There are no delinquencies in the most recent 12 months, and○ The borrower is not using rental income from the applicable property to qualify. <p>In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the lender must obtain the most recent 12 months' cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.</p>
Alimony / Child Support / Separate Maintenance Payments	<p>When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement – and those payments must continue to be made for more than ten (10) months – the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. A copy of divorce decree, separation agreement, court order, or equivalent documentation confirming the amount or the obligation must be obtained and retained in the loan file.</p>



Business Debt in Borrower's Name	<p>When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.</p> <p>The account payment does not need to be considered as part of the borrower's individual recurring monthly debt obligations if:</p> <ul style="list-style-type: none">• the account in question does not have a history of delinquency,• the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks),• the lender's cash flow analysis of the business took payment of the obligation into consideration. <p>The account payment must be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:</p> <ul style="list-style-type: none">• If the business does not provide sufficient evidence that the obligation was paid out of company funds.• If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.• If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.
Garnishments	<p>All garnishments with more than ten (10) months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes.</p>
Court Ordered Assignment of Debt	<p>When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability. The lender is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.</p> <p>The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The lender cannot disregard the borrower's payment history for the debt before its assignment.</p>
Deferred Installment Debt	<p>Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations. For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the lender must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.</p> <p>For information about deferred student loans, see Student Loans below.</p>



Student Loans	<p>If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.</p> <p>If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.</p> <ul style="list-style-type: none">• If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is \$0. The lender may then qualify the borrower with a \$0 payment.• For deferred loans or loans in forbearance, the lender may calculate<ul style="list-style-type: none">○ a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment), or○ a fully amortizing payment using the documented loan repayment terms.
Disputed Credit Report Tradelines	<p>When the credit report contains tradelines disputed by the borrower, DU will first assess the risk of the loan casefile using all trade lines, including those disputed. If DU issues an Approve recommendation using the disputed tradelines, no further documentation or action is necessary. DU will issue a message specific to this scenario.</p> <p>If DU does not issue an Approve recommendation when including the disputed tradelines, DU will re-assess the risk without using the disputed tradelines. If DU is then able to issue an Approve recommendation, the lender must investigate the tradelines to determine whether the borrower is responsible for the accounts or if the account information is accurate or complete.</p> <ul style="list-style-type: none">• If the borrower is not responsible for the disputed accounts, the lender must obtain supporting documentation and may deliver the loan as a DU loan. No further action is necessary regarding the disputed tradelines.• If the borrower is responsible for the disputed account, the lender must investigate the information, including determining the aspect of the tradeline that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as canceled checks), the lender may deliver the loan as a DU loan.• If the borrower is responsible for the disputed account, the lender must investigate the information, including determining the aspect of the tradeline that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as canceled checks), the lender may deliver the loan as a DU loan. <p>The monthly payments for the disputed tradelines must be included in the DTI ratio if the accounts belong to the borrower.</p> <p>Note: Tradelines reported as medical debt are not shown in the disputed tradeline message. Therefore, lenders are not required to investigate disputed medical tradelines.</p>
Ineligible Credit Standards	<ul style="list-style-type: none">• Non-traditional credit or borrowers with no Fico score• Borrower has invalid Social Security number• Mortgage/Rental Delinquency: More than 0x60x12 months late on any mortgage or rental payment• Borrower is a party to lawsuit <p>Bankruptcy, Foreclosure, Deed-in-Lieu of Foreclosure, Pre-foreclosure/Short Sale, and Charge-Off of a Mortgage Account seasoning requirement not met.</p>



ASSETS	
Asset Documentation	<p>Depository Accounts Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts may be sued for the down payment, closing costs, and financial reserves. The funds must be verified. Unverified funds are not acceptable for the down payment, closing costs, or financial reserves.</p> <p>Business Assets Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves when a borrower is self-employed and the individual federal income tax returns have been evaluated, including, if applicable, the business federal income tax returns for that particular business (non-Schedule C). The borrower must be listed as an owner of the account.</p> <p>Evaluating Large Deposits When bank statements (typically covering the most recent two months) are used, large deposits will be evaluated (defined as a single deposit that exceeds 50% of the total monthly qualifying income) for the loan.</p> <p>Request for Verification of Deposit When a Verification of Deposit (VOD) is used and depository activity is not included, verification of the source of funds for:</p> <ul style="list-style-type: none">• Accounts opened within the last 90 days of the application date• Account balances that are considerably greater than the average balance reflected on the VOD.
Reserve Requirements	<p>Liquid financial reserves are those liquid or near liquid assets that are available to a borrower after the mortgage closes. Liquid financial reserves include cash and other assets that are converted to cash by the borrower by:</p> <ul style="list-style-type: none">• Drafting or withdrawing funds from an account,• Selling an asset,• Redeeming vested funds, or• Obtaining a loan secured by assets from a fund administrator or an insurance company. <p>Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (PITIA) that a borrower could pay using his or her financial assets.</p> <p>Minimum required reserves vary depending on:</p> <ul style="list-style-type: none">• The transaction• The occupancy status and amortization type of subject property• The number of units in the subject property, and• The number of other financed properties the borrower currently owns. <p>DU will determine the reserves requirements based on the overall risk assessment of the loan, the minimum reserve requirement that may be required for the transaction, and whether the borrower has multiple financed properties. If a borrower has multiple financed properties and is financing a second home or investment property, DU will base the reserve calculations for the other financed properties on the number of financed properties determined by DU.</p>



Gift Funds	<p>A borrower of a mortgage loan secured by a principal residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements below. Gifts are not allowed on investment property.</p> <p>Acceptable Donors are a gift can be provided by:</p> <ul style="list-style-type: none">• A relative, defined as a borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption or legal guardianship; or• A fiancé, fiancée, or domestic partner.
Gift Funds (continued)	<p>Note: The donor may not be, or have any affiliation with the builder, the developer, the real estate agent, or any other interested party to the transaction.</p> <p>Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:</p> <ul style="list-style-type: none">• specify the dollar amount of the gift;• specify the date the funds were transferred;• include the donor's statement that no repayment is expected; and• indicate the donor's name, address, telephone number, and relationship to the borrower. <p>When a gift from a relative or domestic partner is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:</p> <p>A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence. Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.</p>
Retirement Account	<p>Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(K) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. Ownership of the account must be verified and confirmation that the account is vested and allows for withdrawals regardless of current employment status is required. When funds from retirement accounts are used for reserves, funds are not required to be withdrawn from the account(s).</p>



<p>Stocks, Stock Options, Bonds, and Mutual Funds</p>	<p>Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value and borrower’s ownership of account can be verified.</p> <ul style="list-style-type: none"> • When used for the down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower’s actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower’s actual receipt of funds realized from the sale or liquidation must be documented. • When used for reserves, 100% of the value of these assets may be considered and liquidation is not required. <p>The value of the asset and any related documentation must meet the requirements:</p> <p>Stocks and Mutual Funds</p> <ul style="list-style-type: none"> • Most recent monthly or quarterly statement from depository or investment firm • A copy of the stock certificate, accompanied by the newspaper stock list that is dated as of or near the date of the loan application <p>Stock Options</p> <ul style="list-style-type: none"> • A statement that lists the number of options and the option price • Using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock <p>Note: Non-vested stock options are not an acceptable source of funds for the down payments, closing costs, or reserves.</p> <p>Government Bonds</p> <p>The value of government bonds must be based on their purchase price unless the redemption value can be documented.</p>
<p>Unacceptable Sources of Reserves</p>	<ul style="list-style-type: none"> • Funds that have not been vested. • Funds that cannot be withdrawn under circumstances other than the account owner’s retirement, employment termination, or death. • Stock held in an unlisted corporation • Non-vested stock options and non-vested restricted stock • Personal unsecured loans • Interested party contributions (IPCs) • Any amount of a lender contribution • Cash proceeds from a cash-out refinance transaction on the subject property.





PROPERTY	
Eligible Property Types	<ul style="list-style-type: none"> • 1-Unit (including Condominiums, & PUDs) • 2-4 Unit (including 2-unit PUDs)
Age of Appraisal	<ul style="list-style-type: none"> • Appraisal Recertification of Value with two additional comparable required 90 days from original report date and it is good for additional 90 days. The appraisal value is good for a total of 180 days.
Field Review (High-Balance)	<p>A Field Review is required in addition to DU recommended appraisal</p> <ul style="list-style-type: none"> • If the property is valued at \$1MM or more with an LTV, CLTV, or HCLTV ratio greater than 75%. <p>Field review is required to ensure that the appraisal is an accurate representation of value. If the Field Review results in a different opinion of value than the appraisal, the lowest of the original appraised value, the Field Review value, or the sales price (for purchases) will be used to calculate the LTV ratios.</p>
Appraisal Transfers	<p>Acceptable under CF & AGN program series only with the following</p> <ul style="list-style-type: none"> • Fully executed Appraisal Transfer Letter • Appraisal Report in XML format • Appraisal Invoice and Appraiser Independence Certification • MCFI will verify appraiser is not listed on exclusionary list
Eligible Transactions	<p>The PIW offer will be considered for the following transactions:</p> <ul style="list-style-type: none"> • One-unit properties, including condos; • Principal residence, second home, and investment property transactions; • Certain limited cash-out and cash-out refinance transactions; and • DU loan casefiles that receive an Approve/Eligible recommendation.
Ineligible Property Types	<ul style="list-style-type: none"> • Leasehold properties • Vacant land or land development properties • Properties that are not readily accessible by roads that meet the local standards • Agricultural properties, such as farms or ranches • Units of condo or co-op hotels • Houseboats • Boat slips • Timeshare • Boarding houses • Bed and breakfast properties • Manufactured homes • Modular, prefabricated, panelized or sectional homes • Mixed Use Properties • Rural properties • Properties with more than 20 acres • Condo-hotel • Motel conversion • Co-operatives



COMPLIANCE

Escrow Account	<p>Fannie Mae does not require an escrow deposit for property or flood insurance premiums for an individual unit in a condo, or PUD when the project in which the unit is located is covered by a blanket insurance policy purchased by the homeowners' association.</p> <p>FNMA advocates the establishment of an escrow account for the payment of taxes and insurance, particularly for borrowers with blemished credit history or first-time homeowners.</p>
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<p>Mega Agency X (improved pricing & turn-times for eligible AGENCY FIXED submissions)</p>	<p>Mega Agency X is a Fannie Mae or Freddie Mac eligible transaction that has the following loan characteristics:</p> <ul style="list-style-type: none"> • 640 minimum (qualifying) fico score • 95% Max LTV/CLTV • Minimum \$75,000 loan amount • Wage earner* and Fixed Income Only – No self-employed** • 2 max REOs (including subject and non-subject REOs) • Occupancy: Primary residence only • 2 units maximum • Conforming and High-Balance fixed • Must have either <ul style="list-style-type: none"> ○ DU (Approve/eligible) or LP (Accept/eligible) findings ○ Appraisal Waivers from both DU/PIW or LP/ACE acceptable. <p>*Regardless of the quantity of W-2s</p> <p>**No self-employed income:</p> <ul style="list-style-type: none"> ○ K-1 income with less than 25% ownership, is acceptable if income is not being used to qualify. ○ No schedule C, K-1 income, LLC, Partnership, regardless of the amount of S/E income for all borrowers are allowed. <p>Program codes</p> <ul style="list-style-type: none"> • Conforming: MAX30, MAX25, MAX20, MAX15 & MAX10 • Hi-Balance: MAXHB30, MAXHB25, MAXHB20 & MAXHB15
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