

## HomeReady

***Update as of August 5<sup>th</sup>, 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.***

*These changes apply to new FNMA loan submissions starting June 8<sup>th</sup>, 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. Be able to obtain current invoices and some concrete validation, (i.e. receipts, current contracts, invoices, etc.) at the time of underwriting.
2. 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** two depository account (s) statements no older than at least two months 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.**

3. Obtain current Balance Sheet to verify the business stability, in conjunction with the profit loss statement.
4. **Not consider** Small Business Administration PPP or any other similar COVID-19 related loans or grants as **business assets**.
5. 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.



# MEGA CAPITAL FUNDING, INC.

		1 UNIT	2 TO 4 UNITS
<b>Eligibility</b>	Loan Purpose	Purchase or Limited Cash-Out Refinance	
	Occupancy and Property Type	1-unit principal residence, including eligible condos and PUD's	2-4 Unit Principal residence (No condos)
	Borrower Income Limits	<ul style="list-style-type: none"> <li>No Income limits on low-income census tracts</li> <li>100% of area median income (AMI) for all other properties</li> </ul>	
	Minimum Borrower Contribution	\$0	0% for LTV/CLTV/HCLTV of 80% or less; 3% for LTV/CLTV/HCLTV > 80%
		3% required if sweat equity is being used No minimum contribution required in connection with a limited cash-out refinance.	
	Acceptable Sources of Funds for Down Payment and Closing Costs	Gifts, Grants, and Community Seconds. Cash on hand for 1-unit properties only. Any eligible loan may have more than one Community Seconds (i.e. third lien) up to the maximum 105% CLTV	
	Product	10-, 15-, 20-, or 30- year fixed-rate mortgages (FRMs) 5/1 (2/2/5 and 2/2/6 caps only), 7/1 and 10/1 adjustable rate mortgages (ARMs)	
	Maximum LTV/CLTV And Subordinate Financing	LTV up to 95%. CLTV up to 105% with eligible Community Seconds Other subordinate financing per the <i>Fannie Mae Selling Guide</i>	
Maximum LTV/CLTV And Subordinate Financing	Purchase: DU Only- LTV to 95% (FRM); DU to 95% (FRM and ARM) LCOR: DU Only- LTV to 95% (FRM) for loans owned or securitized by Fannie Mae. DU to 95% (FRM and ARM)	Purchase or LCOR: 2- unit: 85% (FRM or ARM) 3- 4- unit: 75% (FRM or ARM)	



# MEGA CAPITAL FUNDING, INC.

		1- Unit	2- to 4- Unit
<b>Eligibility(continued)</b>	Ownership of Other Property	Occupant and non-occupant borrower(s) may have an ownership interest in other residential property at the time of closing.	
	Maximum Financed Properties	Limited to two (2) maximum financed properties including the subject property	
	Non- Occupant Borrowers	Non-occupant borrowers permitted to 95% LTV in DU. DU will determine the max DTI. Income considered as part of qualifying income and subject to income limits.	
	Interest Rate Buydowns	3-2-1 and 2-1 buydown structures permitted; buydowns on 3- t4-unit properties available in DU	
	Mortgage Insurance Coverage and Financed MI	25% MI Coverage for LTVs 90.01 or more Standard MI coverage for LTVs of 90% or less MI may be financed up to the maximum LTV for the transaction, including the financed MI.	
<b>Underwriting</b>	Desktop Underwriter	<ul style="list-style-type: none"> <li>Based on the census tract and borrower income, DU will confirm program eligibility.</li> <li>DU recommendation of Approve/Eligible required. DU will determine qualifying ratios and reserves.</li> </ul>	
	Other Income	Boarder income (relatives or non-relatives): Up to 30% of qualifying income; documentation for at least 9 of the most recent 12 months (averaged over 12 months) and documentation of shared residency for the past 12 months.	Not eligible
		Accessory dwelling unit; Rental income may be considered in qualifying the borrower per rental income guidelines.	Rental income may be used as qualifying income per the rental income guidelines.



		1- Unit	2- to 4- Unit
Underwriting (continued)	Cash on Hand	<p>Lenders may deliver purchase money mortgages for one-unit properties with cash-on-hand as an acceptable source of funds for the borrower’s down payment, funds for closing costs, and prepaid items.</p> <p><b>Note:</b> Cash-on-hand may not be used to fund the borrower’s reserve requirement, if applicable.</p> <p>The lender must verify and document the following with respect to the cash-on-hand funds:</p> <ul style="list-style-type: none"> <li>• The borrower customarily uses cash for expenses, and the amount if funds saved is consistent with the borrower’s previous payment practices.</li> <li>• The lender must verify that the funds for the down payment and closing costs exist in a financial institution account or an acceptable escrow account. Funds must be on deposit at the time of application, or no less than 30 days prior to closing.</li> <li>• The lender must obtain a written statement from the borrower that discloses the source of funds and stated that the funds have not been borrowed.               <ul style="list-style-type: none"> <li>• The borrower’s credit report and other verifications should indicate limited or no use of credit and limited or depository relationship between the borrower and a financial institution.</li> </ul> </li> </ul>	
	Reserves	<ul style="list-style-type: none"> <li>• DU will determine the reserve requirement.</li> </ul>	
	Pre-purchase Homeownership Education	<p>At least one borrower on each HomeReady <u>purchase</u> mortgage must do one of the following:</p> <ul style="list-style-type: none"> <li>• complete the Framework homeownership education course (\$75 fee paid by the borrower to Framework) prior to closing; or</li> <li>• complete a homeownership education course required by a Community Seconds or Down Payment Assistance Program that is provided by a HUD-approved agency prior to closing, if the HomeReady loan involves a Community Seconds or down payment assistance program; or</li> <li>• receive housing counseling from a HUD-approved nonprofit housing counseling agency (as evidenced by a signed Certificate of Completion of Housing Counseling (Form 1017)) <b>prior to the borrower signing a purchase contract</b>; or</li> <li>• have already completed housing counseling (as evidenced by a completed Fannie Mae Form 1017).</li> </ul> <p><b>Note:</b> Homeownership education certificate of Form 1017 must be retained in the loan file.</p>	



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<b>Homeownership Education</b>	Housing Counseling Benefits	When borrowers have received customized assistance prior to entering into a sales contract from HUD-approved nonprofit counseling agencies (as evidenced by a completed Form 1017 in the loan file), the lender will receive a loan-level price adjustment credit of \$500, when the HomeReady loan is delivered with Special Feature Code 184.
	Post-Purchase Support	To support sustainability, borrowers will have access to post-purchase homeownership support for the life of the loan through Framework's homeownership advisor service.
	Special Borrower Considerations for Online Homeownership Education	Framework's online education may not be appropriate for all potential home buyers. The presence of a disability, lack of Internet access, and other issues may indicate that a consumer is better served through other education modes (e.g., in-person classroom education, telephone conference calls, etc.). In these situations, consumers should be directed to Framework's toll-free customer service line, from which they can be directed to HUD-approved counseling agency that can meet their needs. Framework will register the consumer for potential post-purchase support. The counseling agency that handles the referral must provide a certificate of completion which must be retained in the loan file.
<b>Pricing and Committing</b>	Loan-Level Price Adjustments (LLPAs)	Standard risk-based LLPAs waived with an LTV above 80% <i>and</i> a representative credit score equal to or greater than 640; for loans outside of these parameters, standard LLPAs apply with a cap of 1.50%. (The minimum MI coverage Option LLPA is not waived or considered toward the cap if that option is used.)

**Requirements for HomeReady Transactions with CLTV, or HCLTV Ratios of 95.01-97%**

If the LTV, CLTV, or HCLTV ratio exceeds 95% for a HomeReady transaction, the following requirements apply.

<b>LTV, CLTV, or HCLTV</b>	<b>Maximum LTV to 95%, CLTV 95.01 TO 97%</b> <b>Note:</b> The CLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan.
<b>Loan Purpose</b>	Purchase transactions or limited cash-out refinances only.
<b>Existing Loan</b>	<b>For limited cash-out refinances:</b> The lender must document that the existing loan being refinanced is owned or securitized by Fannie Mae. The lender must inform DU that Fannie Mae owns the existing mortgage using the Owner of Existing Mortgage filed in the online loan application before submitting the loan to DU. <b>Note:</b> This requirement does not apply is the CLTV exceeds 95% only due to a Community Seconds loan.
<b>New Loan</b>	Texas Cash-Out refinance is not allowed.
<b>Loan Type</b>	Fixed-rate loans with terms up to 30 years. <b>Note:</b> High-balance, adjustable-rate, HomeStyle Renovation, and HomeStyle Energy loans are not permitted.
<b>Property and Occupancy</b>	One-unit principal residence. All borrowers must occupy the property.
<b>Credit Score Requirements</b>	At least one borrower on the loan must have a credit score.
<b>Paycheck Protection Program (PPP) Business Loans</b>	<ul style="list-style-type: none"> <li>No payment, estimated or otherwise, need be included in DTI at this time.</li> <li>Loan proceeds from the Small Business Administration (SBA) PPP or any other similar COVID-19 related loans or grants are not considered business assets.</li> <li>Copy of Note/PPP loan document is required for DU files. Not required on LP.</li> </ul>
<b>Underwriting Method</b>	DU only
<b>Reserves</b>	Reserves will be determined by DU.



**Other**

All other standard purchase and limited cash-out refinance and HomeReady requirements apply.

**Check property eligibility and income limits using the following lookup tool:**

<https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/Subpart-B5-Unique-Eligibility-Underwriting-Considerations/Chapter-B5-6-HomeReady-Mortgage/1736884951/B5-6-02-HomeReady-Mortgage-Loan-and-Borrower-Eligibility-04-01-2020.htm>

**More information regarding the program can be accessed at:**

[www.fanniemae.com/homeready](http://www.fanniemae.com/homeready)

**Framework homeownership education can be accessed at:**

<https://homeready.frameworkhomeownership.org/>

**Fannie Mae Loan Lookup can be accessed at:**

<https://www.knowyouroptions.com/loanlookup>