



FANNIE MAE CONVENTIONAL CONFORMING

POLICY	GUIDELINE
PRODUCT TYPE & TERMS	<p><u>10, 15, 20 & 30 YEAR FIXED</u></p> <ul style="list-style-type: none"> • Not Assumable <p><u>5/1, 7/1 and 10/1 LIBOR ARM</u></p> <ul style="list-style-type: none"> • Margin = 2.25% • Caps = 5/2/5 • Index = 1 year LIBOR • No negative amortization • Non-convertible • No high-balance mortgages
THIRD PARTY FEES	<p>Third party processing fees as a separate fee paid by the borrower, property seller, or other third party is not allowed.</p>
OCCUPANCY	<ul style="list-style-type: none"> • Primary Residence • Second Home • Investment
LOAN PURPOSE	<ul style="list-style-type: none"> • Purchase • Limited Cash-out Refinancing • Cash-out Refinance
MAX LTV/CLTV/HCLTV	<p>Refer to the Conforming LTV Matrix on the TPO Connect website for maximum LTV/CLTV/HCLTV limitations. High-cost area loan limits apply to mortgage loans secured by properties designated in high-cost areas as determined by the Federal Housing Finance Agency (FHFA).</p> <p>For LTV/CLTV/HCLTV greater than 95%:</p> <ul style="list-style-type: none"> • Fixed Rate only • 1 –unit primary residence • Purchase Transaction - At least one borrower must be a first time homebuyer as indicated on the 1003 Declarations (borrower has no ownership interest in a residential property during the 3-year period preceding the date of the purchase of the security property). • Limited Cash-out Refinance Transaction – the broker must document that the existing loan being refinanced is owned/secured by Fannie Mae. Documentation can come from: <ul style="list-style-type: none"> ○ Lender’s servicing system ○ The current servicer (if the lender is not the servicer) ○ Fannie Mae’s Loan Look up tool ○ Any other source as confirmed by the broker • High Balance loans with LTV/CLTV/HCLTV greater than 95% are not permitted.
MAXIMUM LOAN AMOUNT	<p>Refer to the Conforming Loan Limits document posted on the Mortgage Tools TPO Connect webpage</p>
ELIGIBLE PROPERTY TYPES	<ul style="list-style-type: none"> • 1-4 Detached • Warrantable Condominiums and PUDs • Site Condominiums • Modular Home – built in accordance with the Uniform Building Code administered by state agencies responsible for adopting and administering building code requirements for the state in which the modular home is installed. <p>Ineligible Properties include: manufactured home; co-ops; vacant land or land development properties; properties that are not easily accessible by roads that meet local standards; agricultural properties, such as farms or ranches; on-frame modular construction (defined as having a permanent chassis, but no evidence of compliance with June 15, 1976 Federal Manufactured Home Construction and Safety Standards); boarding houses; bed and breakfast properties; and properties that are not suitable for year-round occupancy regardless of location</p>

ELIGIBLE PROPERTY TYPES (continued)	<p>Condominiums Maximum financing is permitted. The determination on the type of condo project review performed by underwriting and the documentation required for that review is based on the LTV of the loan.</p> <p><u>Limited Condominium Review</u> – is eligible for loans secured by primary residence and second home properties with LTV/CLTV/HCLTV at or below the limits listed within the chart below:</p> <table border="1" data-bbox="467 338 1390 558"> <thead> <tr> <th colspan="3">Limited Review Including 2-4 unit condo projects</th> </tr> <tr> <th>Occupancy Type</th> <th>Max LTV/CLTV/HCLTV non-Florida properties</th> <th>Max LTV/CLTV/HCLTV Florida properties</th> </tr> </thead> <tbody> <tr> <td>Primary residence</td> <td>90%/90%/90%</td> <td>75%/90%/90%</td> </tr> <tr> <td>Second home</td> <td>75%/75%/75%</td> <td>70%/75%/75%</td> </tr> <tr> <td>Investment Property</td> <td colspan="2">Ineligible for limited review</td> </tr> </tbody> </table> <p><u>Full Condominium Review</u> – is required eligible for all loans that cannot utilize the Limited Condominium Review.</p> <p>MLS will not finance a unit in a condo project that contains Condotel characteristics</p> <p>Site Condominiums Site condominiums must be coded as “detached condominiums” within Encompass. The appraisal should be on form 1073 (Individual Condominium Unit Appraisal).</p> <p>If using the 1004 form for an appraisal for units in condo projects that consist solely of detached dwellings, the appraiser must include an adequate description of the project, number of units, and number of units sold. Also, the appraiser must include information about the homeowner’s association fees and the quality of the project maintenance and if any common grounds exist. These comments MUST be within the Additional Comments section or on an Appraisal Addendum. If the information is located elsewhere, the appraisal must be amended.</p>	Limited Review Including 2-4 unit condo projects			Occupancy Type	Max LTV/CLTV/HCLTV non-Florida properties	Max LTV/CLTV/HCLTV Florida properties	Primary residence	90%/90%/90%	75%/90%/90%	Second home	75%/75%/75%	70%/75%/75%	Investment Property	Ineligible for limited review	
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ELIGIBLE BORROWERS	<ul style="list-style-type: none"> • Must have a valid US social security number • US citizen • Permanent resident alien with a valid green card • Non-permanent resident alien with an acceptable visa • Must have established credit in the US • Must be paid in US dollars • Funds to close / reserves must be in US dollars in a US depository <p>For purchase transactions with LTV/CLTV/HCLTV greater than 95%, borrower must be a first-time homebuyer. Refer to the Max LTV/CLTV/HCLTC section within this matrix for details.</p>															
NON-OCCUPANT CO-BORROWERS	<ul style="list-style-type: none"> • Permitted on primary residence transactions; • Maximum 95% LTV/CLTV/HCLTV; • DU analyzes the risk factors in the loan casefile for all borrowers on the mortgage loan. Regardless of whether an individual borrower will be occupying the property as his/her primary residence, DU will consider the income, assets, liabilities, and credit of that borrower. There will not be a separate calculation of the DTI ratio of the occupying borrower. 															
NON-ARMS LENGTH / FOR-SALE BY OWNER TRANSACTIONS	<ul style="list-style-type: none"> • Not available on Second Homes or Investment Properties. • Primary residence transactions are not eligible if the borrower is related to or has an interest in the builder, sales agent, or title/settlement agent. 															
MULTIPLE FINANCED PROPERTIES	<p>If the mortgage is secured by the borrower’s primary residence, there are no limitations on the number of properties that the borrower can currently be financing. If the mortgage is secured by a second home or an investment property, the borrower may own or be obligated on up to 4 financed properties (including his or her primary residence).</p>															

CREDIT

620 minimum score, however, if loan has mortgage insurance, a higher score may be required by the MI company. Minimum of 2 scores are required.

Traditional credit is required. Alternative credit is not permitted.

Past-Due, Collections and Charge-offs

Accounts that are reported as past due (not reported as collection accounts) must be brought current.

For one-unit principal residence properties, borrowers are not required to pay off outstanding collections or charge-offs, regardless of the amount. Note: If the broker marks the collection account "paid by close" in the online loan application, DU will issue a message in the Findings report stating that the collection must be paid.

For two-to-four unit owner-occupied and second home properties, collections and charge-offs totaling more than \$5,000 must be paid in full prior to or at closing.

For investment properties, individual 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.

Judgments, Garnishments, and Liens

Open judgments, garnishments, 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.

Documentation of the satisfaction of these liabilities, along with verification of funds sufficient to satisfy these obligations, must also be maintained in the permanent loan file.

Disputed Credit Report Tradelines

When DU issues a message stating that DU identified a disputed tradeline and that tradeline was not included in the credit risk assessment, the broker must confirm the accuracy of disputed tradelines reported on the borrower's credit report. If it is determined that the disputed tradeline information is accurate, broker must ensure the disputed tradelines are considered in the credit risk assessment by obtaining a new credit report with the tradeline no longer reported as disputed and resubmitting the loan casefile to DU.

If DU does not issue the disputed tradeline message, it is not required to

- further investigate the disputed tradeline on the credit report, or
- obtain an updated credit report (with the undisputed tradeline)

However, the broker is required to ensure that the payment for the tradeline, if any, is included in the total expense ratio if the account does belong to the borrower.

Significant Derogatory Credit

Derogatory Event	Waiting Period Requirements
Foreclosure ⁽¹⁾	7 years
Deed-in-Lieu of Foreclosure, Pre-Foreclosure sale, or Charge-off of Mortgage Account	4 years
Bankruptcy – Chapter 7 or 11	4 years
Bankruptcy – Chapter 13	2 years from discharge date 4 years from dismissal date
Multiple Bankruptcy	5 years if more than one filing within the past 7 years

⁽¹⁾When both a bankruptcy and foreclosure are disclosed on the loan application, or when both appear on the credit report, the broker may apply the bankruptcy waiting period if the broker obtains the 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.

⁽²⁾The maximum LTV ratios permitted are the lesser of the LTV ratios in this table or the maximum LTV ratios for the transaction per the Conforming LTV Matrix.

Continued on next page

CREDIT (continued)	<p>Extenuating circumstances – must be verified and documented. Extenuating circumstance is a non-recurring event that was beyond a borrower’s control that resulted in a sudden, significant, and prolonged reduction in income or extreme increase in financial obligations. Events that are unpredictable, temporary in nature, out of the borrower’s control, and unlikely to happen again. Divorce or the inability to sell the property due to a job transfer or relocation does not qualify as an extenuating circumstance. For divorce, an exception may be granted where a borrower’s loan was current at the time of his or her divorce, the ex-spouse received the property, and the loan was later foreclosed.</p> <p>Examples of documentation that can be used to support extenuating circumstances include documents that confirm the event (such as a copy of a divorce decree, medical report or bills, notice of job layoff, job severance papers, etc.) and documents that illustrate factors that contributed to the borrower’s inability to resolve the problems that resulted from the event (such as copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment, etc.).</p> <p>The broker must obtain a letter from the borrower explaining the relevance of the documentation. The letter must support the claims of extenuating circumstances; confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate the borrower had no reasonable option other than to default on their financial obligations.</p>
SOFT-PULL CREDIT REPORT – FANNIE MAE LQI	<p>Please refer to the “Tri-Merged Soft Pull Credit Report Procedures” on the TPO Connect website.</p> <p>Additional uses of the soft-pull credit report In lieu of a credit supplement, the soft-pull credit report can simultaneously be utilized as:</p> <ul style="list-style-type: none"> • a mortgage history update on a refinance loan to confirm that the mortgage is current; • document a zero balance on an account that needed to be verified; and • update a payment history that may have been outdated on the original credit report <p>Must be obtained 10 business days prior to closing.</p>
AUTOMATED UNDERWRITING SYSTEM	<p>DU Approve Eligible</p> <p>Manual underwriting is not permitted.</p>
INCOME	<p>Refer to the Income Guidelines on the Mortgage Tools on the TPO Connect webpage under Shared Services for details on documenting income.</p>
QUALIFYING RATIOS	<p>Determined by AUS system</p> <p>Fixed Rate – qualify at the Note Rate</p> <p>Adjustable Rate Mortgage</p> <ul style="list-style-type: none"> • 5/1 ARM – qualify at the greater of the fully indexed rate or the Note Rate plus 2% • 7/1 and 10/1 ARM – qualify at the greater of the fully indexed rate or the Note Rate. <p>Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower’s history of credit should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally,</p> <ul style="list-style-type: none"> • Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower’s long-term debt. • If a revolving account is to be paid off and closed, a monthly payment on the current outstanding balance does not need to be included in the borrower’s long-term debt.

Continued on next page

QUALIFYING RATIOS (continued)

Federal Income Tax Repayments

When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the monthly payment amount may be included as part of the borrower's monthly debt obligations if:

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located; *AND*
- The following is obtained:
 - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; *AND*
 - Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

Installment Debt

All installment debt that is not secured by a financial asset – including student loans, auto loans, and home equity loans – must be considered part of the borrower's recurring monthly debt obligations if there are more than 10 monthly payments remaining. However, an installment debt with fewer monthly payments remaining also should be considered as recurring debt obligations if it significantly affects the borrower's ability to meet his or her credit obligations. Underwriter has discretion to require the inclusion of an installment debt when calculating ratios when there are 10 or less months remaining on the obligation.

Deferred Installment Debt

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 broker 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 monthly obligations.

Debts Paid by Others (FNMA DU Approve Eligible Only)

Non-mortgage debts include debt such as installment loans, student loans, and other monthly debts as defined in the Guide. If the broker obtains documentation that a non-mortgage debt has been satisfactorily paid by another party for the past 12 months, then the debt can be excluded from the debt-to-income ratio. This policy applies regardless of whether the other party is obligated on the debt.

Alimony Treatment

Alimony may be deducted from income or be treated as a debt. When choosing to deduct the alimony from income, the DU message requiring the inclusion of the alimony obligation as a monthly liability may be ignored

Student Loan Payment Calculation

If a payment amount is provided on the credit report, that amount can be used for qualifying purposes. If the credit report does not identify a payment amount (or reflects \$0), the broker can use either 1% of the outstanding student loan balance, or a calculated payment that will fully amortize the loan based on the documented loan repayment terms.

Student Loan Cash-out Refinance (FNMA DU Approve Eligible Only)

Borrowers may payoff one or more student loans through the refinance transaction, potentially reducing their monthly debt payments. The loan-level price adjustment that applies to cash-out refinance transactions will be waived when all requirements have been met.

The student loan cash-out refinance feature contains elements of both a cash-out refinance and a limited cash-out refinance transaction as described in the table below.

QUALIFYING RATIOS (continued)

Student Loan Cash-out Refinance Features		
Student Loans Eligible for Payoff	<ul style="list-style-type: none"> At least one student loan must be paid off. Loan proceeds must be paid directly to the student loan servicer at closing. Only student loans for which the borrower is personally obligated can be paid through the transaction. Student loan debt must be paid in full with the proceeds – partial payments of student loan debt are not permitted. 	New policy
Eligibility	The standard cash-out refinance LTV, CLTV, and HCLTV ratios apply per the <i>Eligibility Matrix</i>	Aligns with cash-out refinance
Underwriting Method	DU only	New policy
Maximum Cash Back	Lesser of 2% or \$2k (over and above the student loan payoff)	Aligns with limited cash-out refinance
Mortgage Payoff	1 st mortgage and purchase-money seconds	Aligns with limited cash-out refinance
Other Requirements	<ul style="list-style-type: none"> Property cannot be listed for sale at time of disbursement Payoff of taxes ineligible unless escrow account is established Payoff of delinquent taxes ineligible 	Aligns with limited cash-out refinance

Current Principal Residence Pending Sale

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.

However, it will not require that the current principal residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:

- the executed sales contract for the current residence, and
- Confirmation that any financing contingencies have been cleared.
- FSBO Purchase agreements will not be eligible

Business Debt in the Borrower's Name

When a self-employed borrower claims that a monthly obligation that appears on the credit report is being paid by the borrower's business, the broker must confirm that it verified that the obligation was actually paid out of the company funds and that this was considered in the cash flow analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's individual recurring monthly debt obligations if:

- The account in question does not have a history of delinquency;
- The business provides acceptable evidence that the obligation was paid out of the company funds (such as 12 months of canceled company checks); and
- The broker's cash flow analysis of the business took payment of the obligation into consideration.

The account payment does need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of the company funds.
- If the business provides acceptable evidence of its payment of the obligation, but the broker's cash flow analysis of the business does not reflect any business expense related to the obligation (such as 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.

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QUALIFYING RATIOS (continued)	If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the broker should adjust the next income of the business by the amount of the interest, taxes, and insurance expense, if any, that relates to the account in question.
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MORTGAGE INSURANCE	<p>Coverage Requirements:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Fixed-rate, Amortization > 20 years; ARMS</th> <th style="text-align: center;">Fixed-rate, Amortization ≤ 20 years</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">95.01% - 97% = 35%</td> <td style="text-align: center;">95.01% - 97% = 35%</td> </tr> <tr> <td style="text-align: center;">90.01% - 95% = 25%</td> <td style="text-align: center;">90.01% - 95% = 25%</td> </tr> <tr> <td style="text-align: center;">85.01% - 90% = 25%</td> <td style="text-align: center;">85.01% - 90% = 12%</td> </tr> <tr> <td style="text-align: center;">80.01% - 85% = 12%</td> <td style="text-align: center;">80.01% - 85% = 6%</td> </tr> <tr> <td colspan="2" style="text-align: center;">No Reduced or Custom MI. No Financed MI</td> </tr> </tbody> </table> <p>Fannie Mae permits various mortgage insurance (MI) coverage options. However, MLS requires standard MI coverage displayed in the product matrix. Reduced and lower cost MI coverage options are not permitted.</p> <p>Eligible payment options include: monthly plans, single-premium plans, and split-premium plans. Financed MI is not permitted.</p> <p>Lender- paid mortgage insurance (LPMI) is permitted as single premium only (no monthly allowed). LPMI is not available if the LTV/CLTV/HCLTV is greater than 95%. The LPMI product for Brokers will be ordered by MLS processing and is priced to Essent’s premiums. Correspondent customers, please follow your MI contracts. *Note: LPMI is only available for primary residence and second homes</p> <p>Please review the Qualified Mortgage Points and Fees – Loan Amount Calculation procedures to ensure the MI is adequately accounted for in the calculation.</p> <p>Submission to the Mortgage Insurance Company Mortgage insurance must be ordered under the “full-file underwrite method” so that MLS is adequately covered as a broker. Mortgage insurance cannot be ordered as “express”, “rapid”, “delegated” or any other similar option.</p> <p>If a change in the credit/collateral package occurs after the MI company approval, the new information and documentation must be sent to the MI Company for review and clearance.</p>	Fixed-rate, Amortization > 20 years; ARMS	Fixed-rate, Amortization ≤ 20 years	95.01% - 97% = 35%	95.01% - 97% = 35%	90.01% - 95% = 25%	90.01% - 95% = 25%	85.01% - 90% = 25%	85.01% - 90% = 12%	80.01% - 85% = 12%	80.01% - 85% = 6%	No Reduced or Custom MI. No Financed MI	
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MINIMUM CONTRIBUTION	<p>The following table describes the minimum borrower contribution requirements for transactions that contain gifts:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">LTV, CLTV, HCLTV</th> <th style="text-align: center;">Property Type</th> <th style="text-align: center;">Minimum Contribution from the Borrower’s own funds</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">80% or less</td> <td>1-4 primary residence Second home</td> <td>A minimum borrower contribution from the borrower’s funds is not required. All funds needed to complete the transaction can come from a gift.</td> </tr> <tr> <td rowspan="2" style="text-align: center;">Greater than 80%</td> <td>1 unit primary residence</td> <td>A minimum borrower contribution from the borrower’s funds is not required. All funds needed to complete the transaction can come from a gift.</td> </tr> <tr> <td>2-4 unit primary residence Second Home</td> <td>The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs and reserves.</td> </tr> <tr> <td style="text-align: center;">Any LTV</td> <td>Investment Property</td> <td>Gifts are not permitted.</td> </tr> </tbody> </table> <p>Note: Mortgage Insurance companies may have overlays related to minimum contribution from the borrower.</p>	LTV, CLTV, HCLTV	Property Type	Minimum Contribution from the Borrower’s own funds	80% or less	1-4 primary residence Second home	A minimum borrower contribution from the borrower’s funds is not required. All funds needed to complete the transaction can come from a gift.	Greater than 80%	1 unit primary residence	A minimum borrower contribution from the borrower’s funds is not required. All funds needed to complete the transaction can come from a gift.	2-4 unit primary residence Second Home	The borrower must make a 5% minimum borrower contribution from his or her own funds. After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs and reserves.	Any LTV	Investment Property	Gifts are not permitted.
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<p>GIFTS</p>	<p>A borrower of a mortgage 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 a part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements listed in the Minimum Contribution section. Gifts are not allowed on investment properties.</p> <p>Gift Donor Eligibility A gift can be provided by a related person defined as:</p> <ul style="list-style-type: none"> • the borrower’s spouse, child or other dependent • an individual related to the borrower by blood, marriage or adoption or legal guardianship; or • a fiancé, fiancée, or domestic partner <p>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>Documentation The Gift Letter available in Encompass must be used and completed in its entirety. The Gift Letter must be signed by all parties.</p> <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> <ul style="list-style-type: none"> • a certification form 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 the driver’s license, a bill, or a bank statement. <p>The broker must verify that sufficient funds to cover the gift are either in the donor’s account or have been transferred to the borrower’s account. Acceptable documentation includes the following:</p> <ul style="list-style-type: none"> • A copy of the donor’s check and the borrower’s deposit slip, • A copy of the donor’s withdrawal slip and the borrower’s deposit slip, • A copy of the donor’s check to the closing agent, or • A settlement statement showing receipt of the donor’s check <p>When the funds are not transferred prior to closing, the broker must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier’s check, or other official check. Gifts brought to closing must be for the exact amount stated on the gift letter even if it will result in cash back to the borrower.</p> <p>Gift of Equity A “gift of equity” refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller’s equity in the property, and is transferred to the buyer as a credit in the transaction. Gift of equity is permitted for primary residence and second home purchase transactions. The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity (refer to <i>Gift Funds</i> section above for more details)</p> <p>If all of these requirements are met, the gift of equity is not subject to Fannie Mae’s interested party contribution requirements.</p> <p><u>Documentation requirements</u> The following documents must be retained in the loan file:</p> <ul style="list-style-type: none"> • A signed gift letter • The HUD-1 Settlement Statement listing the gift of equity.
<p>EARNEST MONEY DEPOSIT</p>	<p>If the amount of the EMD is less than or equal to 2% of the sales price, then:</p> <ul style="list-style-type: none"> • No verification of the EMD is needed if the amount makes sense in relation to the borrower’s income; • No verification if the money can be backed out of the most recent bank statement and the borrowers still have sufficient funds to close; and • A copy of the EMD check will be required.

EARNEST MONEY DEPOSIT (continued)	<p>In all cases the EMD should be reflected in Encompass in the Details of Transaction as a credit, unless the EMD will not be on the HUD1 and will NOT be used as a credit at closing.</p> <p>Unless notated and documented within the file, the Underwriter will always ask for the EMD to be verified. It will be up to the Processor to document and notate the situation pertaining to the file when requesting that the EMD condition be waived.</p> <p>EMD that has not been verified cannot be returned to the borrower at closing</p>								
ASSETS	<p>Cash Reserves For loan casefiles underwritten with DU, DU will determine the reserve requirements based on the overall risk assessment of the loan casefile and the minimum reserves that may be required for the transaction. Reserves may be considered a compensating factor in DU's risk analysis, and may serve to improve the underwriting recommendation.</p> <p><u>Second Home or Investment Property</u> For a mortgage loan secured by a second home or an investment property, the minimum reserve requirements are determined as follows:</p> <ul style="list-style-type: none"> For loan casefiles submitted to DU, follow the DU findings for reserve requirements. <p>Stock, Stock Options, Bonds and Mutual Funds 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 can be verified. The broker must verify the borrower's ownership of the account or asset. The value of the asset and any related documentation must meet the requirements outlined in the table below.</p> <table border="1" data-bbox="370 894 1528 1346"> <thead> <tr> <th data-bbox="370 894 646 926">Asset Type</th> <th data-bbox="646 894 1528 926">Determining the Value of the Asset</th> </tr> </thead> <tbody> <tr> <td data-bbox="370 926 646 1104">Stocks and mutual funds</td> <td data-bbox="646 926 1528 1104"> The broker must determine the value of the asset (net of any margin accounts) by obtaining either: <ul style="list-style-type: none"> the most recent monthly or quarterly statement form the depository or investment firm; or a copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application. </td> </tr> <tr> <td data-bbox="370 1104 646 1283">Stock options</td> <td data-bbox="646 1104 1528 1283"> The value of the vested stock options can be documented by: <ul style="list-style-type: none"> a statement that lists the number of options and the option price, and 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. Note: Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves. </td> </tr> <tr> <td data-bbox="370 1283 646 1346">Government bonds</td> <td data-bbox="646 1283 1528 1346"> The value of the government bonds must be based on their purchase price unless the redemption value can be documented. </td> </tr> </tbody> </table> <p>When used for the down payment or closing costs, if the value of the asset (as determined above) 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.</p> <p>When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.</p> <p>Retirement Accounts 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. The broker must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.</p>	Asset Type	Determining the Value of the Asset	Stocks and mutual funds	The broker must determine the value of the asset (net of any margin accounts) by obtaining either: <ul style="list-style-type: none"> the most recent monthly or quarterly statement form the depository or investment firm; or a copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application. 	Stock options	The value of the vested stock options can be documented by: <ul style="list-style-type: none"> a statement that lists the number of options and the option price, and 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. Note: Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves.	Government bonds	The value of the government bonds must be based on their purchase price unless the redemption value can be documented.
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ASSETS (continued)	<p>If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must Fannie Mae's requirements, for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, Fannie Mae does not require the funds to be withdrawn from the account(s).</p> <p>Business Funds If using business funds for funds to close the following is required:</p> <ul style="list-style-type: none"> • Cash Flow Analysis of the business. • Evidence that the borrower has full use of the funds with no repayment required. • Evidence that use of the funds is not an advance against future earnings/distributions. Validation that use of these funds will have no impact on the business operations.
LARGE DEPOSIT	<p>When bank statements (typically covering the most recent 2 months) are used, the broker must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Requirements for evaluating large deposits vary based on the transaction type, as shown in the table below.</p> <p>Refinance Transactions Documentation or explanation for large deposits is NOT required; however, the broker remains responsible for ensuring that any borrowed funds, including any related liability, are considered.</p> <p>Purchase Transactions</p> <ul style="list-style-type: none"> • If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the broker must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of deposit. In those instances, the broker must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The broker must place in the loan file written documentation of the rationale for using the funds. <p>Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the broker must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the broker uses a reduced asset amount, net the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes (whether the mortgage loan is underwritten manually or through DU). Note: When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit.</p> <p>Note: if the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the broker does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but there are still questions as to whether the funds may have been borrowed, the broker should obtain documentation.</p>
LIMITED CASH- OUT REFINANCE	<p>The following are acceptable in conjunction with a limited cash-out refinance transaction:</p> <ul style="list-style-type: none"> • Modifying the interest rate and/or term for existing mortgages; • Paying off the unpaid principal balance of the existing first mortgage (including prepayment penalties); • Financing 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; • Receiving cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or \$2,000; • Buying out a co-owner pursuant to an agreement;

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<p>LIMITED CASH-OUT REFINANCE (continued)</p>	<ul style="list-style-type: none"> • Paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property. The broker must document that the entire amount of the subordinate financing was used to acquire the property. <p>Documentation Requirements To treat a transaction as a limited cash-out refinance transaction, the broker must document that all proceeds of the existing subordinate lien were used to fund part of the subject property purchase price. Written confirmation must be maintained in the mortgage file.</p> <p>The following are acceptable forms of documentation:</p> <ul style="list-style-type: none"> • A copy of the HUD-1 Settlement Statement for the purchase of the property, • A copy of the title policy from the purchase transaction that identifies the subordinate financing, or • Other documentation from the purchase transaction that a subordinate lien was used to purchase the subject property. <p>Switching DU Refi Plus evaluation to Limited Cash-out Refinance evaluation When submitted through DU, some refinance transactions will be evaluated as a DU Refi Plus transaction if it is eligible. The messaging on the DU findings will indicate if it was evaluated as a DU Refi Plus. If the loan was evaluated as a DU Refi Plus but needs to be evaluated as a straight Limited Cash-out Refinance, manipulation of the Fannie Mae DU Submission screen within Encompass in the 'Borrower Summary' section and re-submission to DU will solve this problem. On the Fannie Mae DU Submission screen, in the Product Description field, click the look-up tool and select "standard LCOR" and resubmit the loan to DU.</p>
<p>CASH-OUT REFINANCE</p>	<p>The following are acceptable uses for cash-out refinance transactions:</p> <ul style="list-style-type: none"> • Paying off the unpaid principal balance of the existing first mortgage; • Financing the payment of closing costs, points, and prepaid items. The borrower can include real estate taxes in the new loan amount. Delinquent real estate taxes (taxes past due by more than 60 days) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation; • Paying off any outstanding subordinate mortgage liens of any age; • Taking equity out of the subject property that may be used for any purposes; • Financing a short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or a refinance of the short-term refinance loan within 6 months. <p>Seasoning on Cash-Out Refinances If the subject property was purchased by the borrower within 6 months preceding the application for new financing, the borrower is not eligible for a cash-out refinance except if delayed financing guidelines are met. Additionally, a borrower who inherits or was legally awarded (by divorce, separation, or dissolution of a domestic partnership) a property is exempt from the 6-month waiting period requirement that applies to cash-out refinances.</p> <p><u>Delayed Financing Exception</u> Borrowers who purchased the subject property within the past 6 months (measured from the date on which the property was purchased to the application date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met:</p> <ul style="list-style-type: none"> • The original purchase transaction was an arms-length transaction. • 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 inter vivos 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%. <p style="text-align: right;">Continued on next page</p>

CASH OUT REFINANCE (continued)	<ul style="list-style-type: none"> • The original purchase transaction is documented by a HUD-1 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 HUD-1, if a HUD-1 was not provided to the purchaser at time of sale). The preliminary title search report must confirm that there are no existing liens on the subject property. • The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property). • If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the HUD-1 for the refinance transaction must reflect that all cash-out proceeds to be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction. Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan. • 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 and closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/CLTV/HCLTV ratios for the cash-out transaction based on the current appraised value).
REFINANCING A RESTRUCTURED MORTGAGE LOAN	<p>A restricted loan is a mortgage loan in which the terms of the original transaction have been changed, resulting in absolute forgiveness of the debt or a restricted of debt through either a modification of the original loan or origination of a new loan that results in:</p> <ul style="list-style-type: none"> • Forgiveness of a portion of principal and/or interest on either the first or second mortgage, • Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness, • Conversion of any portion of the original mortgage debt to a “soft” subordinate mortgage, or • Conversion of any portion of the original mortgage debt from secured to unsecured. <p>Mortgage loans that have previously been restructured are not eligible for delivery to Fannie Mae. However, the subsequent refinance of a restructured loan may be delivered to Fannie Mae if one of the following is met:</p> <ul style="list-style-type: none"> • The borrower has made a minimum of 24 consecutive months of timely mortgage payments on the restructured loan before closing on the refinance mortgage loan. In other words, the borrower had to make at least 24 timely mortgage payments based on the terms of the loan after the loan was restructured. After this time, if the borrower chooses to refinance the restructured loan, the new refinance transaction is eligible for sale to Fannie Mae if the loan otherwise meets all limited cash-out or cash-out refinance requirements, as applicable. • The new refinance loan meets all of DU Refi Plus or Refi Plus requirements, as applicable.

APPRAISAL REQUIREMENTS and PROPERTY INSPECTIONS	<ul style="list-style-type: none"> • Form 1004 – Uniform Residential Appraisal Report (URAR) - For all single family including Site Condos. • Form 1073 – Individual Condominium Unit Appraisal Report • Form 1025 – Small Residential Income Property Appraisal report 2-4 Unit Properties • Form 1007 <ul style="list-style-type: none"> ○ Single Family Comparable Rent Schedule & Form 216 Operating Income Statement – when required by DU • MC Form 1004 is required on all appraisal reports. <p>Appraisal must be ordered via a MLS authorized appraisal portal in order to maintain HVCC/Appraiser Independence requirements. MLS will not accept a conventional loan appraisal transferred from another broker.</p> <p>High-Balance Loans The following appraisal requirement applies in addition to the standard appraisal requirements:</p> <ul style="list-style-type: none"> • A One-Unit Residential Appraisal Field Review (Form 2000) is required if the property is valued at \$1,000,000 or more and the LTV, CLTV, or HCLTV ratio is greater than 75%. A 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) should be used to calculate the LTV ratios. <p>Property Inspection Waiver (PIW)</p> <ul style="list-style-type: none"> • PIWs will be granted on eligible loan casefiles per DU and must be delivered under special feature code 801. If exercising a PIW, the borrower must execute the following 2 documents that are available in Encompass: <ul style="list-style-type: none"> ○ Notice about Appraisal of your Property ○ Property Not Listed Disclosure – which is a borrower certification that their property is not nor has been listed for sale within the last 12 months. 														
ADDITIONAL DISCLOSURES	ARM Disclosures required if the loan is an adjustable rate mortgage.														
INTERESTED PARTY CONTRIBUTIONS	<table border="1" data-bbox="440 1083 1419 1266"> <thead> <tr> <th>Occupancy</th> <th>LTV</th> <th>Maximum Contribution</th> </tr> </thead> <tbody> <tr> <td>Primary</td> <td>> 90% LTV</td> <td>3% for standard loans / 6% for HomePath properties</td> </tr> <tr> <td rowspan="2">Primary and Second Homes</td> <td>75.01% - 90%</td> <td>6%</td> </tr> <tr> <td>≤ 75%</td> <td>9%</td> </tr> <tr> <td>Investment Properties</td> <td>All LTVs</td> <td>2%</td> </tr> </tbody> </table>	Occupancy	LTV	Maximum Contribution	Primary	> 90% LTV	3% for standard loans / 6% for HomePath properties	Primary and Second Homes	75.01% - 90%	6%	≤ 75%	9%	Investment Properties	All LTVs	2%
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ESCROW WAIVERS	<p>Escrow waivers are allowed on transactions that meet the following requirements:</p> <ul style="list-style-type: none"> • The LTV is less than or equal to 80% (exception for California: if the LTV is less than or equal to 90%, an escrow waiver is permitted if all the other requirements are met); • Borrower has a minimum 700 credit score; and • Borrower has a minimum of 2 months in reserves after closing. 														
DOCUMENT AGE	<ul style="list-style-type: none"> • Credit Docs – 120 days • Appraisal – 120 days 														