



Conforming Underwriting Guide

Chapter 1A Conforming Eligibility

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1A.1 Overview

The purpose of credit and property underwriting is to ensure that each loan meets Newrez quality standards. A loan meets Newrez underwriting quality standards if the credit, character, capacity, and collateral are consistent with the Loan Program under which the loan is sold to Newrez. The likelihood of timely repayment is expected to be commensurate with the credit quality of the Loan Program and the represented value of the subject property is expected to accurately reflect its market value.

This Underwriting chapter sets out underwriting standards that apply to all Conforming Loan Programs. Generally, underwriting standards that vary from one Loan Program to another are described in our Product Profiles. In most cases, differences will not be referenced in this chapter. In addition, guidelines contained in this chapter are applicable to loans underwritten by Fannie Mae's Desktop Underwriter (DU) and Freddie Mac's Loan Product Advisor (LPA), unless otherwise specified. **Manual underwriting is not permitted.**

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

All Newrez overlays will be highlighted in yellow.

1A.2 Excluded Parties

Newrez's Exclusionary List must be checked to confirm eligibility for the borrower and all participants involved in the transaction and must be evidenced in the loan file.

The borrower and other parties to the transaction may not be on the Newrez Exclusionary List.

Other parties to the transaction include but are not limited to:

- Seller (except when selling the primary residence)
- Listing and selling real estate agent
- Builder
- Developer
- Loan originator
- Loan processor
- Underwriter



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- Appraiser
- Closing agent
- Title company
- Notaries
- Insurance agents
- Trustees on deed
- All other licensed professionals contracted to provide certifications for the transaction (wood infestation and mechanical certifications such as termite companies, heating, plumbing, roofing, and electrical companies)

See the Client Guide Chapter 1C, Representations, Warranties and Covenants, C102.AT Exclusionary List guidance.

1A.3 Loan Application

The loan application must be complete, including a full two-year history of employment and residency and all personal information for each borrower (social security number, date of birth, address, and education). If a borrower's employment history includes unemployment, the application must reflect at least two years of employment, therefore covering a longer period of time. All declaration questions must be marked indicating the method of taking the application: face-to-face, by telephone, or by mail.

The final application for closing must adhere to the requirements above, including the borrower's complete and accurate financial information relied upon by the underwriter, and be signed and dated by all borrowers. All debt incurred during the application process and through loan closing must be disclosed on the final application. See Credit Chapter [1F.5](#) Inquiries and Undisclosed Liabilities for more information.

All transactions are reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims, and the overall financial picture of the borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the loan file.

A loan application may not be retaken for a borrower where misrepresentations are identified, such as under reported income to the IRS, fraudulent W-2s or paystubs. Due diligence must be exercised when determining whether to allow an application to proceed due to a change of borrower and occupancy representation.



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All documents in the origination file relevant to underwriting are reviewed for signs of alteration or fabrication.

Any available technology may be used to produce copies of the documents in the loan file, such as a photocopier, fax machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and provided to the Client/Newrez via email or other electronic means.

1A.4 Identity Verification

The identity must be confirmed for each borrower whose credit is used for loan qualification prior to extension of credit.

The closing agent, notary public or signing attorney, as appropriate, must provide evidence that the identification document has been confirmed for each borrower. Acceptable forms of identification include:

- Valid state driver's license with photo;
- Military photo ID;
- Permanent Resident Card with photo;
- Valid state non-driver's license with photo;
- Military dependents photo ID;
- Department of Public Welfare photo ID; and
- US passport with photo.

1A.5 Social Security Number Validation

Evidence of a valid social security number is required for all borrowers. Any social security number discrepancies that are identified must be resolved. If social security number inconsistencies cannot be resolved, the social security number must be validated with the Social Security Administration (SSA) using one (1) of the following options:

- Authorization for Social Security Administration to Release Social Security Number Verification (Form SSA-89); or
- Electronic Consent Based Social Security Number Verification (eCBSV) Service.

If using a third-party vendor, the vendor must go directly to the SSA to validate the social security number using one (1) of the above options.



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If the social security number cannot be validated with the SSA, the loan is not eligible.

1A.6 Documentation Age

| Topic | Fannie Mae DU | Freddie Mac LPA |
|-------------------------|---|---|
| Age of Credit Documents | All documents must not be more than four (4) months old as of the Note date. | All documents must not be more than 120 days old as of the Note date. |
| | Documents whose validity for underwriting purposes is not affected by time, such as divorce decrees, is not subject to a document expiration date. | |
| Age of Appraisal | The effective date of the appraisal report must not be more than twelve months prior to the date of the Note and Mortgage. | |
| | When the effective date of the appraisal report is more than four (4) months but less than 12 months old on the date of the Note and Mortgage, regardless of whether the property was appraised as proposed or existing construction. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D/442). The appraisal update must occur within four (4) months prior to the Note date and Mortgage. | When the effective date of the appraisal report is more than 120 days old prior to the date prior to the Note and Mortgage, regardless of whether the property was appraised as proposed or existing construction. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D/442). The appraisal update must occur within 120 days prior to the Note date and Mortgage. |
| Desktop Appraisal | The age of a Desktop Appraisal report is four months. When the effective date of the original Desktop Appraisal report is more than four months from the date of the Note and Mortgage, a new appraisal is required. | |
| Age of Appraisal Waiver | The age of the appraisal waiver is good for 120 days. If the offer is more than 120 days old as of the note date, a resubmission to DU or LPA is required to determine the ongoing appraisal waiver eligibility. | |
| New Appraisal | A new appraisal is required when: | |

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| | <ul style="list-style-type: none"> • The effective date is more than one year from the Note date (with or without an update); or • The appraiser indicates in an Appraisal Update that the property value has declined. <p>Loans purchased more than 100 days after closing (Note date to purchase date) require an Appraisal Update (<u>Form 1004D/442</u>) or a new appraisal supporting the original appraised value. If an Appraisal Update indicates that the value has declined, a new appraisal must be obtained and support the original appraised value. The effective date of the Appraisal Update or New Appraisal must be within 60 days of the date that Newrez purchases the loan.</p> | |
| Re-use of an Appraisal for a Subsequent Transaction | <p>When an appraisal is required for a subsequent transaction secured by the subject property, the prior appraisal report may be used if an appraisal update is obtained, and all of the following are met:</p> <ul style="list-style-type: none"> • The new transaction must be a rate and term refinance transaction; • The borrower(s) and the lender/client must be the same on the original and new transaction; • Since the effective date of the prior appraisal report, the subject property must not have undergone any substantial rehabilitation or renovation or have been affected by disaster to the extent that the improvement or deterioration of the property would affect marketability or value; and | <p>When an appraisal is required for a subsequent transaction secured by the subject property, the prior appraisal report may be used if an appraisal update is obtained, and all of the following are met:</p> <ul style="list-style-type: none"> • The new transaction must be a rate and term refinance transaction; • The borrower(s) and the lender/client must be the same on the original and new transaction; • The refinance transaction may not pay off secondary financing; • Since the effective date of the prior appraisal report, the subject property must not have undergone any substantial rehabilitation or renovation or have been affected by disaster to the extent that the improvement |

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| | <ul style="list-style-type: none"> The appraisal report from the prior transaction must meet all of the following requirements: <ul style="list-style-type: none"> The effective date of the appraisal report from the prior transaction must not be more than 12 months prior to the note date of the subsequent transaction; If the appraisal report is greater than four months old as of the Note date, an appraisal update is required; and The appraisal update must reflect the current transaction information (current borrowers, transaction type, owner of record, lender/client, etc.). | <p>or deterioration of the property would affect marketability or value; and</p> <ul style="list-style-type: none"> The appraisal report from the prior transaction must meet all of the following requirements: <ul style="list-style-type: none"> The effective date of the appraisal report from the prior transaction must not be more than 12 months prior to the note date of the subsequent transaction; If the appraisal report is greater than four months old as of the Note date, an appraisal update is required, and The appraisal update must reflect the current transaction information (current borrowers, transaction type, owner of record, lender/client, etc.). |
| Effective Date of Title Policy | The effective date of the title insurance policy must be no earlier than the date on which the security instrument was recorded, and final title insurance policy must be dated within 45 days of loan closing. | |

1A.7 Occupancy Types

The feasibility of a borrower occupying the subject property must be considered when the borrower indicates the property will be their primary residence. On refinance transactions, compare the current address reported on the loan application to the addresses listed on the credit report and other documentation that may be in the loan file (e.g., paystubs, W-2s, bank statements, tax returns, etc.). A full explanation is required for any red flags or inconsistencies noted in the last 12 months.



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1A.7(a) Primary Residence

A primary residence is a property that at least one borrower occupies as their primary residence and typically occupies or will occupy for the majority of the year. The property location is generally convenient to the borrower's principal place of employment.

At least one (1) borrower must occupy the property within 60 days of closing and continue to occupy the subject property for at least one(1) year.

Property address of record can be documented by, but is not limited to:

- Individual income tax returns;
- Driver's license; or
- Occupational licensing.

For 1-, 2-, 3-, or 4-unit owner-occupied refinances, the loan must meet **all** of the following requirements:

- The credit documentation must show the subject address as the borrower's mailing address.
- The hazard insurance policy must show that the mailing address and subject property address are the same. If the borrower uses a P.O. Box, occupancy must be supported through other documents (i.e. appraisal, tax certification, asset or income documentation)
- The appraisal must indicate that the borrower occupies the property.

A borrower who will retain ownership of the current primary residence is eligible to purchase another primary residence if all of the following is met for financing a property for a disabled child or elderly parent.

1A.7(b) Financing for a Disabled Child or Elderly Parent

The subject property may be considered a primary residence even when the borrower does not occupy the property.

The borrower must provide a detailed explanation identifying the situation and need for financing. Exercise caution when the borrower owns investment properties or is doing a cash-out refinance transaction.

| Fannie Mae DU | Freddie Mac LPA |
|---|---|
| A borrower may be considered an occupying borrower if the property is occupied as a primary | A borrower may be considered an occupying borrower if the property is occupied as a primary |



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| residence in the following situations: <ol style="list-style-type: none">1. Parents or legal guardian wanting to provide housing for their handicapped or disabled adult child who is unable to work or does not have sufficient income to qualify for the loan may be considered an owner/occupant; or2. A child wanting to provide housing for their parent who is unable to work or does not have sufficient income to qualify may be considered an owner/occupant. | residence by an individual(s) who: <ol style="list-style-type: none">1. Is the borrower's parent(s); or2. Has a disability and the borrower is the individual(s)'s parent or legal guardian. |
|---|---|

1A.7(c) Second Home

A second home is a one-unit property that the borrower occupies for some portion of the year in addition to their primary residence.

All of the following applies:

- The subject property must be suitable for year-round occupancy (see below for Freddie Mac Exception);
- The borrower must have exclusive control over the property;
- The subject must not be a rental property or a timeshare agreement; and
- Cannot be subject to any agreements that give a management first control over the occupancy of the property.

Reporting rental income on the borrower's individual income tax returns does not contradict second home status but must be minimal and may not be used for qualification. The hazard insurance policy may not contain any coverage for loss.

Transactions where the property is being purchased for occupancy by someone other than the borrower will be considered an investment property. If the property is tenant occupied, it must be vacant at closing.

1A.7(d) Freddie Mac LPA Exception to Year-Round Occupancy

The second home must be suitable for year-round occupancy with the following exception:



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- A second home with seasonal limitations on year-round occupancy (e.g., lack of winter accessibility) is eligible provided the appraiser includes at least one comparable sale with similar seasonal limitations to demonstrate the marketability of the subject property; and
- The borrower must keep the property available primarily as a residence for personal use (i.e., for more than half of the calendar year).

See Chapter 1B Transactions for non-arm's length transaction requirements.

1A.7(e) Investment Property

An investment property is owned but not occupied by the borrower, regardless of revenue generation. The property must be suitable for year-round rental and occupancy.

See Chapter 1B Transactions for non-arm's length transaction requirements and Chapter 1I Employment and Income Analysis and Documentation for instructions on proper documentation and qualifications for investment properties.

1A.8 Borrower Eligibility

There is no maximum age for a borrower. The borrower must have reached the minimum age at which the Note can be legally enforced in the jurisdiction in which the property is located.

Any person signing an application for a loan is a borrower.

- All borrowers must sign the Note;
- All borrowers must have a social security number;
 - Any social security number discrepancies that are identified must be resolved. If social security number inconsistencies cannot be resolved, the social security number must be validated with the Social Security Administration (SSA) using one of the following methods:
 - Form SSA-89 (*Authorization for Social Security Administration to Release Social Security Number Verification*); or
 - Electronic Consent Based Social Security Number Verification (eCBSV) Service.
 - If the social security number cannot be validated with the SSA, the loan is not eligible.
- An Individual Tax Identification Number (ITIN) is not permitted; and
- Each borrower must be an individual;
 - Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts are not eligible. Living trusts may be eligible.



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Refer to the Loans to Trusts section in this chapter. In addition, if title is currently held in the name of a limited liability company (LLC) or land trust the loan may be eligible provided the borrower is a member of the LLC or land trust and title is transferred to the borrower's name at closing.

U.S. citizenship is not required for mortgage eligibility; however, all borrowers must have lawful residency in the U.S. Non-U.S. citizens without lawful residency in the U.S. are not eligible.

1A.8(a) U.S. Citizen

A citizen of the United States or of a United States Possession or Territory are eligible borrowers.

1A.8(b) Permanent Resident Alien

A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. Document legal residency with one (1) of the following:

- A copy of a valid, current, unexpired Permanent Resident card *INS Form I-551*, Green Card/*Alien Registration Receipt*;
- A copy of *INS Form I-551*, *Conditional Alien Registration Receipt*, with an unexpired date on the front. *I-551 Forms* due to expire within three (3) months must be accompanied with a copy of United States Citizenship and Immigration Services (USCIS) *Form I-751* (Petition to Remove Conditions on Residence) or USCIS *Form I-829* (Petition to Remove Conditions) filing receipt; or
- Passport with an unexpired stamp reading “processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until____. Employment authorized.” This evidences that the holder has been approved for, but not issued, a Permanent Resident card.

See United States Citizenship and Immigration Services (USCIS) for more information.

1A.8(c) Non-Permanent Resident Alien

A non-permanent resident alien is a non-U.S. citizen who lawfully enters the U.S. for specific time-periods under the terms of a Visa. All non-permanent resident aliens must provide acceptable evidence documenting that they are legally present and eligible to work in the U.S.

Expiring Visas: If the authorization for temporary residency status will expire within one (1) year after the Note date and a prior history of residency status renewals exist, continuation may be assumed. If

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there are no prior renewals, the likelihood of renewal must be determined, based on information from USCIS.

The borrower may be eligible with verification of one (1) of the following eligible Visas.

| Eligible Visa Types | | |
|---------------------|--|-----------------------|
| Visa Type | Visa Description | EAD (I-766) Required? |
| A-1 | Official foreign government (ambassador, public minister, career diplomat) Diplomatic immunity must be officially waived in writing by the holder's country | No |
| A-2 | Official foreign government (other foreign government official, military) Full-time employee working only at a foreign embassy or consulate in the U.S., to perform duties which take place at an embassy Diplomatic immunity must be officially waived in writing by the holder's country | No |
| A-1 & A-2 | Spouse or child of A-1, A-2 Diplomatic immunity must be officially waived in writing by the holder's country | Yes |
| E-1 | Treaty trader - employee, spouse, and/or child | Yes, for spouse |
| E-2 | Treaty investor - employee, spouse, and/or child | Yes, for spouse |
| E-3 | "Specialty occupation" - Australia | Yes, for spouse |
| E-3D | Spouse or child of E-3 | Yes |
| G-1 | Mission member - designated international organization Diplomatic immunity must be officially waived in writing by the holder's country | Yes, for spouse |
| G-2 | Representative of a recognized or member foreign government Diplomatic immunity must be officially waived in writing by the holder's country | No |
| G-3 | Representative of non-recognized or non-member government Diplomatic immunity must be officially waived in writing by the | Yes, for spouse |

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| | holder's country | |
| G-4 | Appointment - designated international organization Diplomatic immunity must be officially waived in writing by the holder's country | Yes, for spouse |
| G-5 | Employee of G-1, G-2, G-3, or G-4 Diplomatic immunity must be officially waived in writing by the holder's country | Yes, for spouse |
| H-1B | Specialty Occupation | No |
| H-1B1 | Specialty Occupation - Chile or Singapore | No |
| H-1B2 | Specialty Occupation - U.S. Department of Defense | No |
| H-1B3 | Fashion model of distinguished merit and ability | No |
| H-1C | Registered nurse - U.S. Department of Labor | No |
| H-4 | Spouse or child of H-1B | Yes |
| L-1A | Intracompany transfer - managerial or executive | No |
| L-1B | Intracompany transfer - specialized knowledge | No |
| L-2 | Spouse or child of L-1A or L-1B | Yes |
| O-1A | Individuals with an extraordinary ability in the sciences, education, business, or athletics (not including the arts, motion pictures, or television industry) | No |
| O-1B | Individuals with an extraordinary ability in the arts or extraordinary achievement in motion picture or television industry | No |
| R-1 | Temporary Religious Worker – These visas are for persons who want to enter the United States to work temporarily in religious capacities | No |
| R-2 | Spouse or child of R-1 | Yes |
| TN | Professionals Under the North American Free Trade Agreement (NAFTA), also known as a TN (Treaty NAFTA) visa, for citizens of Canada and Mexico, under the terms of the NAFTA. | No |

1A.8(c)(i) Borrowers without an Acceptable Visa or EAD

If the borrower does not have an acceptable Visa from the list above, one (1) of the following may be used to establish lawful residency:

- A valid passport, letter from employer/sponsor and an *Arrival/Departure Record* I-94



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proving work authorization.

- Refugee or asylee status granted by the USCIS (EAD categories A03, A05, and C08) and Temporary Protected Status (EAD category A12). These statuses are automatically eligible to work in the U.S.
 - USCIS *Notice of Action* (Form I-797) indicating approval of a USCIS *Application for Asylum and for Withholding of Removal* (Form I-589), substantiating the refugee or asylee status may be used as evidence of lawful residency.

1A.8(c)(ii) Ineligible Non-Permanent Resident Alien Statuses

The following is an U.S. immigration policy and not a visa type. A person with any of the following statuses is not eligible:

- Deferred Action for Childhood Arrivals (DACA) EAD (C33);
- Deferred Enforced Departure (EAD category C18);
- Diplomatic Immunity;
- Humanitarian Parole (EAD category A04 and C11);
- Withholding of Removal or Withholding of Deportation (EAD Category A10); and
- A student, a spouse of student and a dependent child of a student (EAD Category C03, C04, C05, and C06).

Transitional Status (change of status/categorization) (EAD category C09 and C09P) is ineligible unless the loan file contains acceptable documentation to evidence the borrower's residency in the U.S. is likely to continue.

Verification that the borrower does not have diplomatic immunity can be determined by reviewing the Visa, passport, or the [U.S. Department of State page](#).

| Ineligible Visa Types | |
|-----------------------|--|
| Visa Type | Visa Description |
| B-1 | Business visitor |
| B-2 | Pleasure, tourism, medical treatment visitor |
| BCC | Border crossing card: Mexico |
| C-1 | Transit to the United States |
| C-2 | Transit to the United Nations |

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| C-3 | Transit to the United States (Foreign Government officials) |
| C-4 | Transit - Department of Homeland Security |
| C-1/D | Transit - Certified crew member combination |
| CR1/CR6 | Spouse of a U.S. Citizen - married for less than two (2) years Given while waiting for Green Card/permanent resident card |
| D-1 | Certified crew member - sea or air |
| D-2 | Certified crew member - fishing vessel |
| F-1 | Academic student Academic study at a private elementary school, high school, college or university, seminary, conservatory, academic institution including language training program |
| F-2 | Spouse or child of F-1 |
| F-3 | Academic commuter - Canada or Mexico |
| H-2A | Temporary or seasonal agricultural worker |
| H-2B | Temporary non-agricultural worker |
| H-3 | Trainee other than medical or academic |
| I | Foreign media outlet (press, radio, film, or other) |
| IR1 | Spouse of a U.S. citizen – married two years or more; Given while waiting for Green Card/permanent resident card |
| J-1 | Student - exchange visitor |
| J-2 | Spouse or child of J-1 |
| K-1 | Fiancé(e) - purpose of marriage |
| K-2 | Child of K-1 |
| K-3 | Spouse of a U.S. citizen |
| K-4 | Child of K-3 |
| M-1 | Vocational student |
| M-2 | Spouse or child of M-1 |
| M-3 | Vocational student - Canada or Mexico |
| NATO-1 | Official staff - NATO |
| NATO-2 | Adviser - NATO |
| NATO-3 | Clerical staff - NATO |

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| NATO-4 | Member - NATO |
| NATO-5 | Expert - NATO |
| NATO-6 | Civilian - NATO - "Status of Forces" |
| NATO-1 through NATO-6 | Spouse or child of NATO 1 through NATO-6 |
| NATO-7 | Employee of NATO-1 through NATO-6 |
| O-2 | Assistant to O-1 |
| O-3 | Spouse or child of O-1 or O-2 |
| P-1A | Internationally recognized athlete |
| P-1B | Internationally recognized entertainer (artist) |
| P-2 | Performer (artist) - reciprocal exchange program |
| P-3 | Entertainer (artist) - culturally unique program |
| P-4 | Spouse or child of P1A, P-1B, P-2, or P-3 |
| Q-1 | International cultural exchange program |
| S-1/S-2 (also coded as S-5 and S-6) | Informant |
| S-7 | Spouse or child of S-5 or S-6 |
| T-1 | Victim - human trafficking |
| T-2 | Spouse of T-1 |
| T-3 | Child of T-1 |
| T-4 | Child of T-1; Parent of an under age 21 T-1 |
| TD | Spouse or child of TN |
| U-1 | Victim of criminal activity |
| U-2 | Spouse of U-1 |
| U-3 | Child of U-1 |
| U-4 | Parent of an under age 21 U-1 |
| WB | Business visitor - visa waiver program |
| WT | Tourist visitor - visa waiver program |



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1A.9 Non-Occupant Borrower, Guarantor, and Co-Signer

1A.9(a) Non-Occupant Borrower

Non-occupant borrowers are credit applicants on a primary residence transaction who:

- Do not occupy the subject property;
- May or may not have an ownership interest in the subject property as indicated on the title;
- Sign the Mortgage or Deed of Trust Note;
- Have joint liability for the Note with the occupant borrower; and
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or real estate broker.

1A.9(b) Guarantor or Co-Signer

Guarantors or co-signers are credit applicants who:

- Do not have ownership interest in the property as indicated on the title;
- Sign the Mortgage or Deed of Trust;
- Has joint liability for the Note with the occupant borrower; and
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or real estate broker.

1A.10 Homebuyer Education and Counseling

Below are requirements for Fannie Mae transactions. For Freddie Mac transactions, refer to the Product Summaries.

High-quality homeownership education and housing counseling can provide the borrower with the information and resources to make informed decisions that support long-term homeownership sustainability. Programs that are aligned with the National Industry Standards (NIS) for Homeownership Education and Counseling or the U.S. Department of Housing and Urban Development (HUD) Counseling Program or provided by a HUD-approved counseling agency are eligible to provide homebuyer education and counseling.

1A.10(a) Defining Homeownership Education

Education with an established curriculum and instructional goals, provided in a group, classroom setting, or via other formats, which covers homeownership topics such as the homebuying process,



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how to maintain a home, budgeting, and the importance of good credit.

1A.10(b) Defining Housing Counseling

One-on-one assistance that addresses unique financial circumstances and housing issues and focuses on overcoming specific obstacles to achieve housing goals. Counseling includes topics such as repairing credit, locating cash for a down payment, recognizing predatory lending practices, understanding fair lending and fair housing requirements, avoiding foreclosure, and resolving a financial crisis. All housing counseling involves the creation of a budget and a written action plan and includes a homeownership education component.

1A.10(c) Transactions that Require Homeownership Education

Refer to our Product Summaries for transactions requiring homeownership education/housing counseling, including landlord education.

1A.10(d) Meeting the Homeownership Education Requirement

To satisfy the homeownership education requirement, any qualified third-party provider, independent of Newrez, may administer homeownership education, including a mortgage insurance company (even if they don't provide MI for transaction). The provider's content must be aligned with NIS or HUD standards.

The education may be delivered in various formats (in-person, Internet, telephone, or a hybrid format).

In lieu of homeownership education, the borrower may receive housing counseling. The course content must be aligned with NIS or HUD standards and a copy of the certificate of course completion must be retained in the loan file.

1A.10(e) Housing Counseling

If a borrower opts to work with a housing counselor, completion of housing counseling prior to closing will satisfy the homeownership education requirement. Housing counseling must be provided by a HUD-approved agency and meet HUD standards.

Note: References to the use of a HUD-approved agency include affiliated agencies (as defined in the HUD Housing Counseling Program Handbook) participating in a HUD program through a HUD-



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approved intermediary or State Housing Finance Agency.

1A.10(f) Eligible Homeownership Education Providers

| Fannie Mae DU | Freddie Mac LPA |
|--|--|
| <p>Document certificate of course completion. The following types of homeownership education are acceptable:</p> <ul style="list-style-type: none">• Third Party provider content aligned with the <u>National Industry Standards (NIS) for Homeownership Education and Counseling</u>• Fannie Mae's free, online homeownership education course, HomeView, Modules 1 through 7• Programs provided by HUD approved counseling agencies, Housing Finance Agencies or Community Development Financial Institutions• Community Seconds program or other down payment assistance (DPA) requirement for completion of homeownership education or counseling provided by a <u>HUD-approved counseling agency</u>. Housing counseling must have been completed prior to closing. | <p>Document certificate of course completion. The following types of homeownership education are acceptable:</p> <ul style="list-style-type: none">• Freddie Mac's free financial literacy curriculum, CreditSmart Homebuyer U-with Certificate, provided:<ul style="list-style-type: none">○ Borrower completes on-line <u>CreditSmart Homebuyer U- With Certificate</u> that includes modules 1 through 6○ CreditSmart is not provided by an interested party to the transaction, the Client or Newrez• Programs provided by HUD approved counseling agencies, Housing Finance Agencies or Community Development Financial Institutions• Programs provided by mortgage insurance companies or other providers programs that meet the standards of the <u>National Industry Standards for Homeownership Education and Counseling</u> |

1A.10(g) Homeownership Education and Housing Counseling Options

| Topic | Homeownership Education | Housing Counseling |
|----------------|------------------------------------|------------------------------------|
| Course Content | Course content must align with NIS | Course content must align with HUD |



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| | | |
|------------------------------|---|---|
| | or HUD standards | standards |
| Method of Delivery | Any method offered by an eligible provider | Any method offered per HUD standards |
| Date Required for Completion | Prior to loan closing | Prior to loan closing Note: There may be an additional incentive for HomeReady loans when housing counseling is completed prior to the execution of the sales contract. |
| Required Documentation | Certificate of course completion from the provider must be retained in the mortgage file. | <ul style="list-style-type: none">• If after execution of the sales contract but prior to closing, certificate of course completion from the provider.• If prior to execution of the sales contract (HomeReady loans) <u>Form 1017</u> signed by both the counseling recipient (borrower) and the HUD counselor. |

Refer to our Product Summaries for transactions that require homeownership education.

1A.11 Multiple Financed Properties

When the subject property is a primary residence, there are no limitations on the number of financed properties owned by the borrower. When the subject property is a second home or investment property, there are limit on the number of financed properties owned by the borrower(s). Refer to our Product Summaries for limits.

1A.11(a) Ownership Defined

Ownership is defined as:

- Partial or joint ownership is considered the same as total ownership in the property;
- One- to four-unit residential properties, where the borrower is personally obligated on the mortgage(s), including any properties the borrower owns outside of the United States;
- Applies to the total number of financed properties, not to the number of mortgages on the



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property; and

- Is cumulative for all borrowers (though jointly financed properties are counted once).

1A.11(b) Property Subject to Limitations

| Type of Property Ownership | Subject to Limitations |
|--|------------------------|
| Ownership in 1-4 unit residential properties where borrower is personally obligated on the Note | Yes |
| Ownership of a manufactured home and the land on which it is titled as real property | Yes |
| Ownership in commercial real estate | No |
| Ownership of a multi-family property consisting of more than four dwelling units | No |
| Ownership in a timeshare | No |
| Ownership of a vacant (residential) lot | No |
| Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home) | No |
| <p>Examples</p> <ol style="list-style-type: none"> 1. The borrower is personally obligated on mortgages securing two investment properties and the co-borrower is personally obligated on mortgages securing three other investment properties, and they are jointly obligated on the primary residence mortgage. The borrower is refinancing the mortgage on one of the two investment properties. In this example, the borrowers have six financed properties. 2. The borrower and co-borrower are purchasing an investment property and they are already jointly obligated on the mortgages securing five other investment properties. In addition, they each own their own primary residence and are personally obligated on the mortgages. The new property being purchased is considered the borrowers' eighth financed property. 3. The borrower is purchasing and financing two investment properties simultaneously. The borrower does not have a mortgage lien against the primary residence but does have a financed second home and is personally obligated on the mortgage, two existing financed investment properties and is personally obligated on both mortgages, and a financed building lot. In this example, the borrower will have five financed properties because the financed building lot does not need to be included in the property count. | |



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1A.11(c) Simultaneous Submissions

All new loans submitted for the same borrower must be underwritten simultaneously as the impact of each transaction upon the other needs to be evaluated.

1A.12 Ownership Interests

The borrower must hold title to the property as a fee simple estate. However, mortgages secured by a Leasehold Estate as described in the Leasehold Estates section below may be eligible.

1A.12 (a) Life Estate

A life estate is an estate whose duration is limited to the life of the party holding it, or some other person, upon whose death the right reverts to the grantor or his heirs. Properties vested in a life estate are not permitted.

1A.12 (b) Leasehold Estate

A Leasehold Estate is an estate or interest in real property held by virtue of a lease or sublease. Leasehold estates are eligible in areas in which this type of property ownership has received market acceptance.

The Leasehold Estate Checklist is available for use when reviewing eligibility for a leasehold estate.

| Fannie Mae DU | |
|-------------------------------|--|
| Leasehold Estate Requirements | <p>Review the lease to ensure that the lease meets all of the following requirements:</p> <ul style="list-style-type: none">• The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land;• The leasehold estate and the improvements must constitute real property;• The leasehold estate must be insured by a title policy;• The lease must be valid, in good standing, and in full force and effect in all respects;• The leasehold estate and mortgage must not be impaired by any merger of title between the lessor and lessee or by any default of a sublessor. In the event the mortgage is secured by a sublease of a leasehold estate, the |

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| | |
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| | documents must provide that a default under the leasehold estate will not by such default result in the termination of the sublease. |
| Lease Provisions | <ul style="list-style-type: none"> • The term of the lease must run for at least five (5) years beyond the maturity date of the mortgage, unless fee simple title will vest in borrower or HOA association at an earlier date; • The lease must provide assignments, transfers, mortgaging, and subletting of the leasehold unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, or mortgagee, or sublessee; • The lease must provide for the borrower to retain voting rights in any homeowners' association; • The lease must provide that in addition to the obligation to pay lease rents, the borrower must pay all taxes, insurance and homeowners' association dues and any taxes on improvements; • The lease must not contain default provisions allowing forfeiture or termination of the lease, except for nonpayment of the lease rents; • The lease must include provisions to protect the mortgagee's interest in the event of condemnation; • The lease must provide lenders with: <ul style="list-style-type: none"> ○ The right to receive at least 30 days' notice of any default by the borrower; and ○ The option to either cure the default or take over the borrower's rights under the lease. <p>The Leasehold Estate Checklist is available for use when reviewing eligibility for a leasehold estate.</p> |
| Prior to Closing Requirements | <ul style="list-style-type: none"> • All rents, other payment, or assessments that have come due must be paid; and • The borrower must not be in default under any other provision of the lease, nor may the lessor have claimed such a default. |
| Lease with Option to | If the lease provides for an option for the borrower to purchase the fee simple interest in the land, the purchase must be at the borrower's sole option, there |

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| Purchase | <p>can be no time limit within which the option must be exercised, and both the lease and the option must be assignable.</p> <p>The lease may include an option for the borrower to purchase the fee interest in the land. If exercised, the mortgage becomes a lien on the title in the same lien priority it had on the leasehold.</p> <p>The purchase price of the land is established based on the status of the property improvements.</p> <ul style="list-style-type: none"> • If the property improvements exist at the time the lease is executed, the purchase price is the appraised value of the land on the date the lease was executed. • If the property improvements exist at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI), the initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. <p>Note: The purchase price may be adjusted annually during the term of the lease to reflect the percentage of increase or decrease from the prior year. Leases may be offered with or without a limitation on increases or decreases in the rent payments.</p> <ul style="list-style-type: none"> • If the improvements will be constructed after the lease is executed, the purchase price should be the lower of the following: <ul style="list-style-type: none"> ○ The current appraised value of the land, or ○ The result of the following: $\text{Appraised Land Value alone} \div \text{Original Total Appraised Value} = \% \times \text{Current Total Appraised Value}$ <p>Example: Assume that the total original appraised value for a property was \$160,000, and the land alone was valued at \$40,000 (thus representing 25% of the total appraised value). If the current appraised value were \$225,000, \$50,000 for the land and \$175,000 for improvements, the purchase price would be \$50,000 (current appraised value of the land, since it is less than 25% of \$225,000).</p> |
|----------|---|



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| | Note: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements. |
| Ineligible Property Types | <p>The following are ineligible:</p> <ul style="list-style-type: none"> • Manufactured housing |

| Freddie Mac LPA | |
|------------------------------|---|
| Leasehold Estate Requirement | <p>Review the lease to ensure that the lease meets all of the following requirements:</p> <ul style="list-style-type: none"> • The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land; • The leasehold estate and the improvements must constitute real property; • The leasehold estate must be insured by a title policy; • The lease (and any sublease including any amendments) must be recorded in the appropriate land records; • The lease must be in full force and effect; • The lease must be binding and enforceable against the lessor (and sublessor); • The leasehold estate and mortgage must not be impaired by any merger of the fee interest and leasehold interest in the event the same person or entity acquires both interests. |
| Lease Provisions | <ul style="list-style-type: none"> • The term of the leasehold estate must run for at least five (5) years beyond the maturity date of the mortgage unless the fee simple title vests at an earlier date; • The lease must provide the borrower to retain voting rights in the homeowners' association, if applicable. • The lease must permit assignments, transfers, mortgaging, and subletting of the leasehold (or sub-leasehold) estate, including any improvements on the leasehold estate; • The lease must provide that for a notice of lessee's default (monetary or non-monetary) to be valid, the lessor must send written notice of the |

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| Freddie Mac LPA | |
|---------------------------|--|
| | <p>lessee's default to the leasehold mortgagee not more than 30 days after such default;</p> <ul style="list-style-type: none"> • The lease must provide for the right of the leasehold mortgagee, in its sole discretion, to cure a default for the lessee's (or sublessee, if applicable) account within the time permitted to lessee or take over the rights under the lease (sublease); • The lease must provide for protection of the mortgagee's interests including an insurable interest in the subject property unless otherwise required by law, and interest in the lease, ground lease community and leasehold estate; • The lease may, but is not required to, include an option for the borrower to purchase the fee interest; provided, however, there can be no time limit on when the option must be exercised, and the lease and option to purchase must be assignable. |
| Prior to Closing | <ul style="list-style-type: none"> • All basic rent and amounts due (for taxes, insurance, utilities and use fees or operating expenses) relating to the land and improvements must be current ;and • The borrower must not be in default under any provision of the lease, nor may the lessor have claimed such default. |
| Ineligible Property Types | <p>The following are ineligible:</p> <ul style="list-style-type: none"> • Manufactured housing |

1A.13 Loans to Trust

For Non-Delegated Clients, all trust requests must be approved, in writing, by Newrez legal as early as practical, but should be submitted prior to loan approval.

It is unacceptable to instruct the borrower to deed the subject property out of a trust into his/her personal name for the purposes of obtaining financing and avoiding Newrez Trust approval.

If the borrower wants to remove the property from the trust in order to facilitate closing, we will require a signed written statement in the borrower's handwriting to the effect that (i) they made the decision to deed the property out of the trust of their own accord, (ii) they were not advised to take



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this action by any party to the loan transaction (lender, broker, escrow/settlement agent), (iii) this action is not intended to influence the lending process in any way, and (iv) they understand the legal implications of this decision.

1A.13 (a) Inter Vivos Revocable Trust

An inter vivos revocable trust (living trust) is a trust:

- Created by an individual during his or her lifetime;
- Becomes effective during its creator's lifetime; and
- Can be changed or canceled by its creator at any time, for any reason, during his or her lifetime.

1A.13 (b) Trust and Trustee Requirements

Review the trust agreement (or the summary or certification of the trust agreement if applicable) to ensure that the living trust meets all the requirements below:

- One or more natural persons establish the trust, solely or jointly. The person establishing the trust is known as the “Settlor,” “Trustor,” or “Grantor” (referred to below as “Settlor”);
- The Settlor is the primary beneficiary of the Trust. If there is more than one Settlor, there can be more than one primary beneficiary.
- The income or assets of at least one individual establishing the trust must be used to qualify for the loan;
- The trustee(s) must include either:
 - The individual establishing the trust (or at least one of the individuals, if there are two or more); or
 - An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
- The trustee has the power to mortgage the subject property for the purpose of securing a loan to the party (or parties) who are the borrowers on the Note;
- In the event the originally named trustee is unable or unwilling to serve, and the trust instrument has a mechanism for appointment of a successor trustee, the trust can properly act through the successor trustee;
- For a property that is the borrower’s primary residence, at least one individual establishing the trust must occupy the security property and sign the loan documents;
- There is no unusual risk or impairment of lenders’ rights, such as distributions required to be made in specified amounts other than net income; and



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- The trust is valid under law.

1A.13 (c) Certification of Trust

For properties in California, a CA Trust Certification completed by the borrower or the borrower's attorney is acceptable in lieu of the full trust documents. The title commitment is still required.

Should any portion of the trust certificate be found inaccurate or in disagreement with the title report, *this exception cannot be applied*, and the complete trust documents must be provided. This exception to trust documentation is ONLY for properties located in California.

1A.13 (d) Title and Title Insurance Requirements

The title insurance policy for the subject property may not list any exceptions arising from the trust ownership of the property. Full title to the property must be vested either:

- In the trustee of the inter vivos revocable trust;
- Jointly in the trustee of the inter vivos revocable trust and in the name of an individual borrower; or
- In the trustee of more than one inter vivos revocable trust.

If title will be vested in the trustees of more than one inter vivos revocable trust, the terms of the two revocable inter vivos trust documents must complement each other and may not be in conflict with one another.

1A.13 (e) Legal Documents and Riders

See the Fannie Mae [Selling Guide](#) B8-5-02 for the following Riders and documents:

- *Revocable Trust Rider* (Sample Language)
- Signature Requirements for Mortgages to Inter Vivos Revocable Trusts
 - Signature Requirements for California
 - Use of a Signature Addendum to Note for Mortgages to Inter Vivos Revocable Trusts
 - Form of Signature Required on Mortgage Note for an Institutional Trustee and for an Individual Trustee Who is Not Both a Settlor and a Credit Applicant
 - Form of Signature Requirement on Mortgage Note for an Individual Trustee Who is Both a Settlor and a Credit Applicant
 - Form of Signature Required on Security Instrument for All Trustees
 - Form of Settlor/Credit Applicant's Signature Acknowledgment Required on Security



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Instrument

- Optional Limitation on Trust Liability

1A.13 (f) Ineligible Trusts

- Blind Trusts
- Community Land Trusts
- Irrevocable Trusts
- Land Trusts

1A.14 Ineligible Programs

The following programs are not eligible for delivery to Newrez:

- Fannie Mae HFA Preferred program
- Fannie Mae High LTV Refinance
- Fannie Mae HomePath
- Fannie Mae Homestyle Renovation
- Fannie Mae Rural High-Needs Appraisal Waiver
- Freddie Mac Enhanced Relief Refinance
- Freddie Mac GreenCHOICE
- HFA Programs
- Leaseholds secured by Indian/Tribal land

| Revision History | Date |
|---|------------|
| Removed for Fannie Mae loans (DU Only) A valid employment authorization document (EAD) card may be used to establish lawful residency if borrower does not have an Acceptable VISA or EAD | 01.30.2025 |



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Chapter 1B Conforming Transactions

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1B.1 Purchase Mortgage

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. The proceeds from the transaction must be used to:

- Finance the acquisition of the subject property;
- Convert an interim construction loan or term note into permanent financing; or
- Pay off the outstanding balance on the installment land contract or contract for deed.

Complete purchase agreements, including all addenda, are required for all purchase transactions. All sales contract terms must be considered in the underwriting decision. Any evidence of undisclosed conditions of the transaction must be investigated. Examples of undisclosed conditions are evidence of straw buyers (changes in purchaser on the purchase agreement) or possible undisclosed seller concessions, such as making mortgage payments on behalf of the borrower for the first few months of the loan.

Purchase transactions do not allow for cash back to the borrower at closing other than the following:

- Reimbursement for the borrower's overpayment of fees, including refunds that may be required in accordance with certain federal laws or regulations. The Closing Disclosure must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund;
- Costs paid by the borrower in advance (e.g., sales contract deposit, appraisal, and credit report fees); and
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program.

Note: If the borrower receives cash back for an allowable purpose as listed above, confirm that the minimum borrower contribution requirements have been met. Reimbursements or refunds permitted above may also be applied as a principal curtailment. A pro-rated real estate tax credit is not an interested party contribution, and it cannot be considered when determining if the borrower has sufficient assets for the transaction.

Within limitations imposed by applicable state laws, closing costs may not be financed as part of a purchase transaction (with the exception of mortgage insurance).

1B.1(a) Owner of Record and Chain of Title

The property must be purchased from the owner of record and documentation to verify ownership must



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be obtained.

- Documentation may include, but is not limited to, one of the following:
 - A property sales history report;
 - A copy of the recorded deed from the seller;
 - A copy of the seller's Closing Disclosure;
 - A 36-month sales history from the appraisal (provided the appraisal shows the most recent sale of the property occurred at least one year ago); or
 - A property tax bill or title commitment/binder that demonstrates the seller's ownership of the property and the date it was acquired.
- If there is any conflicting information reflected in the documentation, the discrepancy must be resolved, and the loan filed documented accordingly;
- Transactions involving any sale or assignment of the sales contract are not permitted;
- Transactions involving a double escrow are not permitted.
- When the transaction is part of a corporate relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract.

1B.1(b) Non-Arm's Length Transactions

Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property.

- These transactions include, but are not limited to:
 - Family sales or transfers;
 - Corporate sales or transfers;
 - Borrowers employed in the real estate or construction trades who are involved in the construction, financing, or sale of the subject property;
 - Some transactions involving principals or a lender or other vendor (such as an appraiser, settlement agent, or title company) who is involved in the lending process of the subject property.
- If the borrower is purchasing from a builder who is buying his or her existing residence, the transaction is not eligible for financing.
- If the seller is a corporation, partnership, or any other business entity, ensure the borrower is not an owner of the business entity selling the subject property.
- Non-arm's length transactions, where the borrower has a relationship or business affiliation (any ownership interest or employment) with the builder, developer, or seller of the property, is permitted for new construction properties when the subject property is a primary residence; and



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- Transactions must be fully disclosed as non-arm's length and require close examination to ensure the equity position is not compromised.
- A non-arm's length transaction is not permitted if the subject property is in foreclosure, or a Notice of Default has been filed.
- The file must include all of the following documentation:
 - Copy of the cancelled earnest money check to verify payment to the seller.
 - Verification that the borrower is not now on title and has not been on title within the past 24 months.
 - Payment history for the existing mortgage (verification of seller's mortgage) on the subject property must be obtained. It must show that the loan is paid current and has no pattern of delinquency within the past 12 months.
 - Payment history for the existing mortgage is not required when the relationship is purely tenant/landlord, and no other relationship exists.
 - The borrower must provide written explanation stating the relationship to the seller and the reason for purchase.
 - The transaction must make sense.
 - A full appraisal must be obtained regardless of the AUS findings. The appraiser must be informed of the non-arm's length transaction and address whether or not the market value has been affected by the relationship of the parties.

1B.1(c) Dual Capacity

Parties acting in multiple roles in a single mortgage transaction are not eligible. For example, the real estate agent (selling agent or buyer's agent) for the subject property may not act as the loan officer for the borrowers purchasing the same subject property or a loan officer may not take their own application.

1B.1(d) Purchasing a Short Sale Property

A borrower purchasing a property from a seller who is selling their home for less than the amount owed to the lender is considered a short sale.

Borrowers may pay additional fees, assessments, or payments in connection with acquiring a short sale property that are typically the responsibility of the seller or another party. Examples of additional fees, assessments, or payments include, but are not limited to, the following:

- Short sale processing fees (also referred to as short sale negotiation fees, buyer discount fees,



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short sale buyer fees); However, this fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction;

- Payment to a subordinate lienholder; and
- Payment of delinquent taxes or delinquent HOA assessments.

When the borrower has elected to pay additional fees or payments, the following requirements apply:

- The borrower (buyer) must be provided with written details of the additional fees, assessments, or payments and the additional necessary funds to complete the transaction must be documented;
- The servicer that is agreeing to the short sale must be provided with written details of the fees, assessments, or payments and has the option of renegotiating the payoff amount to release its lien; and
- All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees, assessments, or payments. This can be accomplished by using the “Request for Approval of Short Sale” or “Alternative Request for the Approval of Short Sale” forms published by the U.S. Treasury Supplemental Directive 09–09 or any alternative form or addendum.

1B.1(e) Auctioneer’s Fees

The auctioneer's fee may be added to the accepted bid to determine the total purchase price when a property is purchased at auction and may be used to determine LTV/CLTV/HCLTV. There must be the final written purchase contract for the subject property that includes all applicable information for the transaction, including but not limited to:

- Final bid price by the purchaser;
- Auctioneer fee (AKA buyer's premium); and
- Total purchase price which includes the final bid amount and the auctioneer fee.

All of the documentation for the transaction should reflect the total purchase price as referenced in the written purchase contract, including the settlement statement, any legal documents filed in conjunction with the transaction and the sales price referenced on the appraisal.

1B.1(f) Redemption Periods

Properties with unexpired redemption periods have unacceptable title defects. See Chapter 10 of the Operations Guide for Title Defect-Unexpired Redemption Periods.



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1B.2 Rate and Term Refinance Mortgage

A rate and term refinance transaction represents a loan that is used to pay off an existing loan by obtaining a new first mortgage secured by the same property.

Title must be held in the name of at least one borrower at closing. See [1B.7 Inherited Properties and Ownership Interest](#) below for exceptions.

When borrowers wish to refinance their property recently owned by an individual with whom they have a direct relationship and the borrower has been on title less than six months from date of application, the payoff demand from the purchase transaction must reflect that the mortgage was current at the time the borrower purchased the property.

Refer to our Product Summaries for properties that have recently been listed for sale, subordination of secondary financing and length of ownership requirements.

1B.2(a) Fannie Mae DU

At least one borrower of the new loan must be a current owner of the subject property (on title) at the time of the initial loan applications, except for the following situations:

- The borrower acquired the property through an inheritance or was legally awarded the property via a legal settlement or a divorce decree; or
- The property was previously owned by an *inter vivos* revocable trust and the borrower is the primary beneficiary of the trust;
- The borrower on the new loan is currently financially obligated on the loan being paid off but not on the title. This includes loans where the property is currently owned by a (LLC) limited liability corporation that is majority owned or controlled by the borrower(s). Ownership must be transferred into the name of the individual borrower(s) (as shown in Newrez Ch.1A.8 Borrower Eligibility); or
- The borrower is paying off an installment land contract that was executed more than 12 months before the date of the loan application.

1B.2(b) Freddie Mac LPA

One of the following must be met:

- At least one (1) borrower on the refinance mortgage was a borrower on the mortgage being



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refinanced; or

- At least one (1) borrower has held title to and resided in the property for the last 12-months with evidence that the borrower has been making timely mortgage payments, including payments for secondary financing, for the most recent 12-months.
- At least one borrower recently inherited or was legally awarded the property (divorce or separation). See [1B.7](#) Inherited Properties.

Refer to our Product Summaries for properties that have recently been listed for sale, subordination of secondary financing and length of ownership requirements.

1B.2(c) Use of Funds

The following are acceptable in conjunction with a rate and term refinance transactions:

- Paying off the unpaid principal balance of the existing first lien, regardless of age, (including an existing HELOC in first-lien position) plus any required per diem interest;
- Pay a deferred balance resulting from a previous loss mitigation
- Allowing proceeds to be used to satisfy any shared appreciation due based on the terms of a shared appreciation agreement when the subordinate lien is a Community Second loan. (Fannie Mae DU)
- Paying off a subordinate lien that was used in whole to acquire the subject property.
Documentation must be provided to evidence that all proceeds of an existing subordinate lien were used to fund part of the purchase price of the subject property. Paying down the second lien is acceptable. Any remaining balance must be subordinated to the new loan. The following are acceptable forms of documentation:
 - A copy of the Closing Disclosure for the purchase of the property;
 - A copy of the title policy from the purchase transaction that identifies the subordinate financing;
 - Other documentation from the purchase transaction that indicates that the subordinate lien was used to purchase the subject property.
 - If the purchase money second lien was refinanced with a new second lien, it may be paid off. The balance of the existing second lien must be equal to the outstanding principal balance of the purchase money second.
 - If the existing second lien is a HELOC, the HELOC may not have been used for any reason except to pay off the purchase money second lien. If the HELOC has been paid down since the refinance of the purchase money second lien, funds cannot have been redrawn. The draw history and Closing Disclosure must be provided from both transactions;



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purchase money transaction and refinance of the purchase money second lien transaction.

- Receiving incidental cash back (see the Product Summaries for incidental cash back amount). Incidental cash back may be used to pay delinquent taxes;
- Maximum cash back to the borrower (or any other payee) is limited to the greater of 1% or the new refinance mortgage or \$2,000 (LPA transactions)
- Prepayment penalties and late fees associated with the payoff of the existing mortgage;
- Funds required to be paid by the borrower of \$500 or less do not need to be verified (Freddie Mac LPA);
- Pay closing costs, points, and prepaid items. See below table for restrictions:

| Fannie Mae DU | Freddie Mac LPA |
|---|---|
| <p>Past due real estate taxes are those taxes that are more than 60 days delinquent and may not be included in the loan amount.</p> <p>Real estate taxes that may be financed in the new loan amount as:</p> <ul style="list-style-type: none">• The real estate taxes must be paid full through the transaction; and• Payment for the taxes must be disbursed to the taxing authority through the closing transactions, with no funds used for the taxes disbursed to the borrower. | <p>Past due real estate taxes are those taxes that are past due and/or delinquent, as defined by the taxing authority, may not be paid with the proceeds of the refinance transaction, except if the amount is within the incidental cash back limit.</p> |

1B.2(d) Ineligible Transactions

- No outstanding first lien on the subject property;
- The proceeds are used to pay off a subordinate lien that was not used to purchase the property;
- Real estate taxes that are more than 60 days delinquent and financed in the loan amount; and
- Freddie Mac LPA
 - Paying off the unpaid principal balance of the existing first lien, originated as a rate and term refinance transaction, with a Note date less than 30 days prior to the Note date of the new rate and term refinance.
- Fannie Mae DU



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- Paying off the unpaid principal balance of the existing lien, originated as a cash-out refinance transaction, with a Note date 30 days or less prior to the application date of a new refinance secured by the same property.
- Refinance transaction that:
 - Combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage;
 - Any refinance of the combined loan within six (6) months.

Closing Disclosure, credit report, title commitment from prior transactions are required to determine eligibility. If the above cannot be met, the loan is eligible as a cash-out refinance transaction only.

1B.3 Cash-out Refinance Mortgage

Cash-out refinance transactions are loans used to remove equity from the subject property. Funds received from a cash-out refinance loan is not limited to a specific purpose.

1B.3(a) Use of Funds

A cash-out refinance may be used to:

- Pay off the unpaid principal balance;
- Pay off any outstanding subordinate mortgage liens of any age;
- Finance reasonable and customary loan costs or fees, including prepaid items within limitations imposed by applicable laws;
- Real estate taxes may be included in the new loan amount. Delinquent real estate taxes (past due by more than 60 days) can be included however, an escrow account must be established, subject to applicable law or regulation;
- Take equity out of the subject property that may be used for any purpose; and
- Finance a mortgage loan that combines a first mortgage and non-purchase money subordinate mortgage into a new first mortgage (or subsequent refinance of that loan used to correct the combined loan if originated as a rate and term refinance)

1B.3(b) Eligible Transactions

1B.3(b)(i) Fannie Mae DU

Cash-out refinance transactions must meet the following:

- Pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that has no mortgage lien secured against it;



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- Seasoning Requirements:
 - The first mortgage being refinanced must be seasoned for at least 12 months (measured from the Note date of the mortgage being refinanced to the Note date of the new loan).
 - The original Note date may be validated by the credit report, original Note, documentation from Insight/Servicing, or the title commitment.
- At least one(1) borrower must have held title to the subject property for at least six (6) months preceding the Note date of the new loan:
 - Time held in a limited liability company (LLC) may be included in the borrower's six (6) month ownership provided:
 - At least one (1) borrower controls or is majority owner; and
 - Title must be transferred out of the LCC and into the name of the individual borrower(s).
 - If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.
 - If none of the borrowers have held title to the subject property for at least six (6) months prior to the Note date, the following may be eligible:
 - The borrower was legally awarded the property (divorce, separation, dissolution of a domestic partnership) or acquired the property through an inheritance. See [Inherited Properties](#); or
 - The subject property was purchased by the borrower within the six (6) months preceding the Note date and [Delayed Financing](#) guidelines are met.
 - Delinquent real estate taxes (past due by more than 60 days) may be included in the loan amount; however, an escrow account must be established.

1B.3(b)(ii) Freddie Mac LPA

Cash-out refinance transactions must meet the following:

- Pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that has no mortgage lien secured against it;
- All borrowers must occupy the property secured by a primary residence.
- Seasoning Requirement:
 - The first mortgage being refinanced must be seasoned for at least 12 months (measured from the Note date of the mortgage being refinanced to the Note date of the new loan).
 - The original Note date may be validated by the credit report, original Note,



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documentation from Insight/Servicing, or the title commitment.

- The seasoning requirement does not apply for the following cash-out refinance transactions:
 - Loan proceeds for a Special Purpose Cash-out Refinance (buy out of a co-owner's interest); or
 - The first lien mortgage being refinanced is a Home Equity Line of Credit (HELOC); or
 - Loan proceeds for a Construction Conversion or
 - A manufactured home is being converted to a legally classified real property under state law.
- At least one (1) borrower must have held title to the subject property for at least six (6) months preceding the Note date of the new loan, with the following exceptions:
 - If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.
 - The property is a leasehold estate, at least one (1) borrower must have been lessee on the ground lease or lease agreement of the subject leasehold estate for at least six (6) months;
 - When the property is a cooperative unit, at least one (1) borrower must have held cooperative shares for the cooperative unit and loan for at least six (6) months;
 - Time held in a limited liability company (LLC), or Limited Partnership (LP) may be included in the borrower's six (6) month ownership provided:
 - At least one (1) borrower must have been the majority owner or had control of the LLC or LP since the date the property was acquired by the LLC or LP; and
 - Title must be transferred from the LLC or LP and into the individual borrower(s) name on or prior to the Note date.
- If none of the borrowers have held title to the subject property for at least six (6) months prior to the Note date, the following may be eligible:
 - The borrower was legally awarded the property (divorce, separation, dissolution of a domestic partnership) or acquired the property through an inheritance. See Inherited Properties below; or
 - The subject property was purchased by the borrower within the six (6) months preceding the Note date and Delayed Financing guidelines are met.
- Delinquent real estate taxes (past due by more than 60 days) may be included in the loan amount; however, an escrow account must be established.



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1B.3(c) Ineligible Transactions

The following are not eligible as cash-out refinance transactions:

- The subject property was purchased by the borrower within the six (6) months preceding the Note date of the new loan, except where [Delayed Financing](#) guidelines are met;
- Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract;
- The new loan amount includes the financing of real estate taxes that are more than 60 days delinquent, and an escrow account is not established, unless requiring an escrow account is not permitted by applicable law or regulation; and
- Loans closed using a Power of Attorney (Fannie Mae) but is permitted for Freddie Mac.

1B.4 Student Loan Cash-Out Refinance (Fannie Mae DU)

The student loan cash-out refinance allows for the payoff of student loan debt through a refinance transaction that contains elements of both a cash-out refinance and a rate and term refinance transaction. Unless otherwise stated below, all other standard cash-out refinance requirements, including LTV/CLTV/HCLTV ratios apply.

| Topic | Requirements |
|-----------------------------------|---|
| 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;• At least one borrower must be obligated on the student loan(s) being paid off; and• Student loan debt must be paid in full with the proceeds; partial payments are not permitted. |
| Underwriting | <ul style="list-style-type: none">• DU Approve Eligible. DU will issue a message when it appears that the subject property liens and student loans are marked “paid at closing.”• LPA not permitted. |
| Maximum Cash Back | The borrower may receive incidental cash back not to exceed the lesser of 2% of the balance of the new loan or \$2000 (over and above the student loan pay off). |
| Loan Amount | The loan may be used to pay off: <ul style="list-style-type: none">• Existing first mortgage, including an existing HELOC in first-lien position),• Purchase-money second mortgage, (an exception is allowed for paying off a PACE loan or other debt (secured or unsecured) that was used solely for energy improvements); and |



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| | <ul style="list-style-type: none"> 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. <p>Closing cost and prepaid items may be included in the loan amount.</p> |
| Pricing | The loan is locked as a cash out loan. Contact the Registration Desk so Newrez can apply an LLPA credit to cover the Agency cash out adjustment. |

1B.5 Buyout of an Owner's Interest

A refinance transaction that results in a buyout of the interest of another owner may be eligible (e.g., divorce settlement, or buyout of a sibling, etc.) provided the following is met:

| Fannie Mae DU | Freddie Mac LPA (Special Purpose Cash-Out Refinance) |
|--|---|
| <ul style="list-style-type: none"> All parties must provide a signed, written agreement that states the terms of the property transfer and the disposition of the proceeds (divorce decree or separation agreement, buy-out agreement). If the property was inherited, a copy of the will or probate document must be provided, along with the buy-out agreement signed by all beneficiaries; The borrower who acquires sole ownership of the property is limited to incidental cash back of the lesser of 2% of the loan amount or \$2,000 All parties must have jointly owned the subject property for 12 months preceding the Note date (must be documented). Parties who inherit an interest in the property do not have to satisfy this requirement; and The transaction is underwritten and closed as a rate and term refinance. | <ul style="list-style-type: none"> All parties must provide a signed, written agreement that states the terms of the property transfer and the disposition of the proceeds (divorce decree or separation agreement, buy-out agreement). If the property was inherited, a copy of the will or probate document must be provided, along with the buy-out agreement signed by all beneficiaries; The borrower who acquires sole ownership of the property may receive no cash-out from the proceeds of the refinance; All parties must have jointly owned the property for a minimum of 12 months prior to the loan application (must be documented). Parties who inherited an interest in the property do not have to satisfy this requirement; and The transaction is underwritten and closed as a cash-out refinance but is not assessed LLPA for a cash-out refinance. |



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1B.6 Delayed/Technical Financing

Borrowers who purchased the subject property within the past six (6) months (measured from the 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.

| Fannie Mae DU | Freddie Mac LPA |
|---|--|
| <ul style="list-style-type: none">• The original purchase transaction is documented by the Closing Disclosure (CD), 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 the trustee may be substituted for a CD if a CD 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;• The original purchase transaction was an arm's length transaction;• The source of funds used for the purchase transaction must be documented;• If the source of funds to acquire the subject property was an unsecured loan or HELOC secured by another property, the new CD must reflect that all cash proceeds 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 DTI ratio for the refinance transaction;• Funds received as a gift and used to purchase the property may not be reimbursed with the proceeds;• The new loan amount must not be more than the | <ul style="list-style-type: none">• The original purchase transaction is documented by the Closing Disclosure (CD), 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 the trustee may be substituted for a CD if a CD 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;• The original purchase transaction was an arm's length transaction;• The source of funds used for the purchase transaction must be documented;• If funds were borrowed to purchase the subject property:<ul style="list-style-type: none">○ Cash-out proceeds must be used to pay off or pay down the borrowed funds, as reflected on the Settlement/Closing Disclosure Statement for the refinance transaction;○ Additional cash-out is permitted only when all borrowed funds are paid in full; and○ The payment on any remaining outstanding balance of the borrowed funds must be included in the DTI ratio.• The new loan amount must not be more than the actual documented amount of the borrower's |



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| actual documented amount of the borrower's initial investment in purchasing the property plus the financing costs, prepaid items, and points; <ul style="list-style-type: none">• All other cash-out refinance eligibility requirements are met; and cash-out pricing is applied; and• Manufactured housing singlewide not eligible. | initial investment in purchasing the property plus the financing costs, prepaid items, and points, less any gift funds used to purchase the subject property; <ul style="list-style-type: none">• All other cash-out refinance eligibility requirements are met, and cash-out pricing is applied; and• Manufactured housing singlewide not eligible. |
|---|---|

1B.7 Inherited Properties

The six-month requirement for holding title is waived when the borrower inherited the subject property and wishes to remove equity from the property. The loan file must document that the borrower has clear title or a copy of probate showing that the borrower was awarded the property.

If the borrower wishes to buyout a co-owner beneficiary and receive no cash back from the transaction, see [1B.5 Buyout of a Co-Owner's Interest](#). Refer to our Product Summaries for product restrictions.

1B.8 Installment Land Contract

A land contract is an agreement to transfer title to a property once conditions of the contract have been fulfilled. A copy of the executed land contract must be in the loan file.

| Contract Execution | >12 months | ≤ 12 months |
|---------------------------|--|--|
| LTV Calculation | Appraised value | Lower of appraised value or total acquisition cost |
| Pay History Documentation | Canceled checks, bank statements or money order receipts | |
| Cash-out | No | No |
| Financing | Rate & Term Refinance | Purchase |

Total acquisition costs are those costs incurred by the borrower for rehabilitation, renovation, refurbishment, or energy conservation improvements.

1B.9 Texas Equity Refinance

Loans secured by a first mortgage on homestead property in Texas that comply with Article XVI, Section



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50(a)(6) and 50(g) of the Texas Constitution (Texas Equity Loans) are eligible for purchase by Newrez. Second mortgage Texas Equity Loans are not eligible for purchase. The Texas Equity Loan first mortgage may be the only outstanding Texas Equity Loan that is secured by the homestead property and at least 12 months must have elapsed since any previous Texas Equity Loan secured by the homestead property was closed.

The proceeds from a Texas Equity Loan first mortgage must not be used to acquire or improve the homestead if a mortgage for that purpose could have been made under authority of Article XVI, Sections 50(a)(1) through 5(g) of the Texas Constitution.

A first mortgage cash-out refinance or rate and term refinance secured by the borrower's homestead are Texas Equity Loans and must meet the requirements of Article XVI, Section 50(a)(6) and 50(g) of the Texas Constitution if the borrower receives any amount of cash at closing. Reasonable closing costs may be included in the loan amount, but any cash back to the borrower makes the transaction a Texas Equity Loan.

Article XVI, Section 50(e) of the Texas Constitution provides that if a refinance loan secured by homestead property includes the advance of more money than is necessary to pay off the existing debt, the lien is not valid unless:

- The loan is treated as a Texas Equity Loan;
- The additional funds are for “reasonable costs necessary to refinance” the debt being paid off; or
- The additional funds are for another purpose authorized by the Constitution.

All other requirements contained in this Underwriting Guide, including the requirements in our Product Profiles apply to Texas Equity Loans unless limited by the Texas Constitution or the requirements in this Texas Equity Loans section.

The following documents are required for Texas Section 50(a)(6) Equity Refinance transactions:

- A Texas Equity Loan may not be closed before the 12th calendar day after the later of (i) the date that the owner submits a loan application to a lender, or (ii) the date that each owner signs the *Notice Concerning Extensions of Credit* disclosure. Each loan file must contain the *Notice Concerning Extensions of Credit* disclosure that is signed by each owner within the required time frame. Newrez defines receipt as the date the borrower signs the document.
- The owners and the lender must sign a written acknowledgment as to the fair market value of the homestead on the date the Texas Equity Loan is made. An appraisal must be attached to the written acknowledgment.
- Borrower must sign *Borrower’s Certification of Receipt of Settlement Statement and Accuracy Thereof*



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at closing.

- Both spouses must execute the mortgage. However, both spouses are not required to be parties to the promissory note. All individuals on title and their spouses (including non -titled spouses) must sign the Security Instrument, Loan Estimate (TIL), Right of Rescission, if applicable, and the *Texas Notice Regarding Extension of Credit*.
- The borrower must be provided with a copy of all documents at closing and sign the Acknowledgement of Receipt of Copies. The documents may not contain any blank spaces.
 - All loans must contain a Texas Attorney Representation letter as evidence that the closing documents were prepared or reviewed by a licensed Texas attorney prior to closing.
 - Loan must be closed only at the office of the lender, an attorney or title company. All borrowers must attend the closing and execute the documentation person at the closing location. No closings by mail or phone.
- Title insurance must be written on Texas Land Title Association forms (Standard or short) and supplemented by:
 - Equity Loan Mortgage Endorsement (Form T-42), which must include optional coverage provided by Paragraph 2(F); and
 - Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1).

Deletions or exceptions to the endorsement are not permitted. Title insurance policy cannot include language that:

- Excludes coverage for a title defect that arises because financed origination expenses are held not to be "reasonable costs necessary to refinance;" or
- Defines the "reasonable costs necessary to refinance" requirements as a "consumer credit protection" law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consume credit protection laws.
- If the borrower or co-borrower owns any adjacent land, the loan file must contain a survey that shows the homestead property is a separate parcel that does not exceed the acreage permitted under the Texas Constitution.

1B.9(a) Rate and Term Refinance

A first mortgage rate and term refinanced originated to pay off a Texas Section 50(a)(6) Home Equity Loan may be refinanced as either a Texas 50(a)(6) or Texas 50(a)(4).

| | |
|----------------------------------|--|
| Rate and Term Refinance Texas | A Texas Section 50(a)(6) Rate and Term Refinance transaction is used to: |
|----------------------------------|--|



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| Section 50(a)(6) | <ul style="list-style-type: none"> • Payoff of the outstanding principal balance of: <ul style="list-style-type: none"> ○ Existing first loan subject to Texas Section 50(a)(6) plus any required per diem interest; ○ Existing subordinate lien, not subject to Texas Section 50(a)(6), that was used in whole to acquire the subject property. • Finance reasonable and customary loan costs, including prepaid items within limitations imposed by applicable laws. Delinquent taxes/escrow shortage and late fees cannot be included in the loan amount; borrower must pay using own funds; and • Cash-out limited to the lesser of 2% of the principal amount of the new loan or \$2,000. <p>The subject loan is considered a cash-out refinance if the existing first mortgage transaction combined a first and non -purchase money subordinate lien into a new first within the last six months (Note date to Note date). A subsequent refinance of that lien within six months (Note date to Note date) is also considered a cash-out refinance. Provide Closing Disclosure from prior transaction.</p> |
| Rate and Term Refinance Texas Section 50(a)(4) | <p>A first mortgage rate and term refinance originated to pay off an existing Texas 50(a)(6) Home Equity Loan may be refinanced as a Texas 50(a)(4) Non-Home Equity Loan if the following conditions are met:</p> <ul style="list-style-type: none"> • Loan must be seasoned for 12 months from the date the loan closed; • No additional funds are advanced other than the funds advanced to refinance a debt under Texas Constitution Art. XVI, Section 50(a)(1) through (a)(7) or actual costs and reserves required to refinance the debt; • The principal amount of the refinance, when added to the aggregate total of the outstanding principal balances of all valid encumbrances of record against the homestead, does not exceed 80% of the homestead's fair market value on the date of the refinance; and • The owner is provided with and must receive the written notice prescribed in the Constitution on a separate document within three business days of the application and at least 12 days before the date the refinance is closed. |



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1B.9(b) Owelty Liens–Texas Only

On loans where one owner wants to buy out the property interest of another owner(s), an owelty of partition lien may be created to complete the transaction.

With an owelty lien, borrowers do not have to do a Texas Home equity 50(a)(6) loan. Instead, the Texas Constitution provides an alternative means to establishing a valid lien on the homestead property under Section 50(a)(3):

50(a)(3) an owelty partition imposed against the entirety of the property by a court order or a written agreement of the parties to the partition, including a debt of one spouse in favor of the other spouse resulting from a division or award of a family homestead in a divorce proceeding.

The payoff of an owelty lien may be treated as a no cash-out refinance transaction, unless there is an existing Texas Home Equity Section 50(a)(6) lien. If there is an existing 50(a)(6) lien, the loan will be subject to either Section 50(a)(6) or 50(a)(4).

1B.10 Conversion of Construction-to-Permanent Financing

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower obtained to fund the construction of a new residence.

A single disbursement to a builder for the purchase of a completed property is not considered a conversion of construction-to-permanent financing transaction. This is considered a standard purchase transaction.

Loans that combine construction and permanent financing into a single transaction cannot be pooled or delivered to Newrez until the construction is completed and the terms of the construction loan have been converted to the permanent financing.

Construction-to-permanent (CTP) financing can be structured as a transaction with one closing or a transaction with two separate closings. The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction.

All construction work, including any work that could entitle a party to file a mechanic's or materialmen's lien, must be completed and paid for, and all mechanic's liens, materialmen's liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered or



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purchased by Newrez.

The following must be retained in the loan file:

- The appraiser's certificate of completion and a photograph of the completed property.
- A certificate of occupancy or an equivalent form from the applicable government authority when a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the lot,

Fannie Mae's uniform mortgage instruments to document the permanent mortgage must be used.

The following property types are eligible for construction to permanent financing:

- Site-built housing (one- to four-units)
- Manufactured home that has never been attached to a foundation

Self-built homes and attached units in a condo project are ineligible for construction-to-permanent financing.

1B.10(a) Single-Closing Construction-to-Permanent Transactions (Delegated Clients only)

Single-closing transactions may be used for both the construction loan and the permanent financing if the borrower wants to close on both the construction loan and the permanent financing at the same time.

The construction loan will automatically convert to a permanent long-term mortgage upon completion of the construction as the loan documents specify the terms of the permanent financing.

1B.10(a)(i) Fannie Mae DU

| Fannie Mae DU Single-Closing Transactions | |
|---|---|
| Loan Purpose | Purchase Transactions <ul style="list-style-type: none">• Borrower is not the owner of the lot at the time of the first advance of interim construction financing.• Borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.• For a manufactured home, acquire the manufactured home and pay construction costs, including costs to install and anchor the |



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| | <p>manufactured home on a permanent foundation system.</p> <p>Rate and Term Refinance Transactions</p> <ul style="list-style-type: none">• The borrower must have held legal title to the lot before receiving the first advance of interim construction financing.• The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property.• This type of transaction is not a “true” limited cash-out refinance whereby the borrower refinances a loan(s) that was used to purchase a completed property; however, all other requirements for limited cash-out refinances apply.• For a manufactured home, acquire the manufactured home and pay construction costs, including costs to install and anchor the manufactured home on a permanent foundation system on land owned by the borrower. <p>Cash-out refinance transactions are not permitted.</p> |
| Purchase LTV Calculation | <p>Purchase</p> <p>The borrower is not the owner of record of the lot at the time of the first advance of interim construction financing, divide the loan amount of the construction-to-permanent financing by the lesser of:</p> <ul style="list-style-type: none">• The purchase price (sum of the cost of construction and the sales price of the land*); or• The “as completed” appraised value of the property (the lot and improvements). <p>Manufactured Home</p> <p>Value of a manufactured home is the lesser of:</p> <ul style="list-style-type: none">• The purchase price of the manufactured home, plus the lowest purchase price at which the land was sold during the most recent 12-month period*; or• The “as completed” appraised value of the property (the land and improvements). |



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| | <p>* If the borrower acquired the land as a gift or by inheritance, the value of the land as reported on the appraisal may be used in lieu of the purchase price of the land. Any item that is included in the calculation of cost to construct the home must be commonly and customarily included in the cost to construct other homes in the area where the subject property is located. The cost to construct must not include items such as furniture, electronic and home entertainment equipment, or other personal items.</p> |
| Refinance LTV Calculation | <p>The borrower is the owner of record of the lot at the time of the first advance of interim construction financing, divide the loan amount of the construction-to-permanent financing by the “as completed” appraised value of the property (the lot and improvements).</p> |
| Down Payment | <p>The borrower must use his or her own funds to make the minimum borrower contribution unless:</p> <ul style="list-style-type: none"> • The LTV/CLTV/HCLTV $\leq 80\%$; or • The borrower is purchasing a one-unit primary residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower’s minimum contribution. |
| Underwriting | <p>Underwrite a single-closing CTP loan based on the terms of the permanent financing.</p> <p>If the permanent financing terms are modified, and no longer reflect the terms on which the underwriting was based, the loan must be re-underwritten, subject to certain re-underwriting tolerances.</p> <p>The loan data at delivery must match the data in the final submission of the loan casefile to DU.</p> <p>Re-underwriting tolerances may be applied if the interest rate or loan amount was modified. All other modifications require re-underwriting</p> <p>All Newrez product guidelines and overlays apply at modification.</p> |
| Age of Credit Documents | <ul style="list-style-type: none"> • All credit documents must be no more than four months old on the Note date (of the construction loan). • All income, employment, and credit documents must be no more than |



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| | <p>four months old at the time of conversion to permanent financing. As an exception, these documents may be more than four months but no more than 12 months old at the time of the conversion to permanent financing if all of the following are met at the time of the original closing of the construction loan:</p> <ul style="list-style-type: none">○ Maximum 95% LTV/CLTV/HCLTV;○ Minimum 700 credit score; and○ DU Approve/Eligible. <p>If any of the above are not met or an eligible loan term was modified subsequent to the last DU submission:</p> <ul style="list-style-type: none">• Obtain updated income, employment, and credit report documents no more than four months prior to conversion; and• Requalify the borrower at time of conversion to permanent financing if:<ul style="list-style-type: none">○ The LTV increased due to a decline in property value;○ Updated credit documents were obtained; or○ As otherwise required per the modified loan term in the re-underwriting tolerances. <p>Updated asset document documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification either of the following applies:</p> <ul style="list-style-type: none">• More reserves are required than were required at the time of original qualification (the full amount of reserves must then be reverified); or• The borrower chooses to bring additional funds to the transaction (the additional funds must come from an eligible source and be documented). <p>Impact on Validation through DU Validation Service</p> <p>If updated credit documents are required to be obtained after the original closing of the construction loan, any validation of income, employment, or assets is no longer applicable. Updated validation reports must be obtained, and the loan casefile resubmitted to DU and the loan must convert to permanent financing by the Close By Date stated in the DU validation message in order for validation and the associated waiver of enforcement</p> |
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| | <p>relief of representations and warranties to apply.</p> <p>Requalification Requirements</p> <p>Requalification of the borrower(s) is required at the time of conversion to permanent financing if:</p> <ul style="list-style-type: none"> • The LTV ratio increased due to a decline in property value; • Updated credit documents were obtained; or • As otherwise required per the modified loan term in the table above. <p>The loan must retain an Approve/Eligible recommendation after resubmission to DU.</p> <p>When requalification is required:</p> <ul style="list-style-type: none"> • The LTV ratio must be adjusted based on the updated appraisal; • If applicable; if credit documents exceed the four (or 12) month age of documentation requirement; • The updated income, credit, and liability information must be considered; and • The loan data at delivery must match the data considered in the final requalification of the loan. |
| Age of Appraisal | <p>Age of Appraisal Documents</p> <p>The effective date of the appraisal must be no more than four months prior to the Note date (of the construction loan).</p> <p>At the time of completion of construction, an <i>Appraisal Update and/or Completion Report</i> (Form 1004D) must be completed in its entirety including the appraisal update and certification of completion. If the appraiser indicates on Form 1004D that the property value has declined, a new appraisal must be obtained.</p> <p>A final inspection evidencing that the property is 100% complete, with photographs, is required prior to delivery and purchase by Newrez.</p> <p>For a Manufactured Home, the installation must be fully complete, including permanent utility connections and construction of any site-built</p> |



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| | improvements such as garages, decks, or porches, before the loan is eligible for purchase as evidenced by a satisfactory completion report. |
| Terms of Construction Loan | <p>For all single-closing construction-to-permanent transactions, the construction loan must be structured as a temporary loan exempt from the ability to repay requirements under Regulation Z.</p> <p>https://singlefamily.fanniemae.com/media/25856/display</p> <p>The construction loan period for single-closing construction-to-permanent transactions may have:</p> <ul style="list-style-type: none"> • No single period of more than 12 months and the total period may not exceed 18 months. • When needed to complete the construction, an extension may be provided to the original period to total no more than 18 months, but the documents may not indicate an initial construction period or subsequent extension of more than 12 months. • After conversion to permanent financing, the loan must have a loan term not exceeding 30 years (disregarding the construction period). <p>Examples of structuring the construction loan period as follows:</p> <ul style="list-style-type: none"> • Three 6-month periods, one 12-month period and one 6-month period, or • Six 3-month periods. <p>Exceptions to the 12-month and 18-month periods will not be granted.</p> |
| Modifications | <p>If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified to reflect the new terms if it meets all of the following criteria:</p> <ul style="list-style-type: none"> • The modification must take place prior to or at the time of conversion. • The following loan terms may be modified in a single-closing transaction: <ul style="list-style-type: none"> ○ Interest rate ○ Loan term ○ Loan amount: increases to the loan amount are permitted only as necessary to cover documented increased costs of construction of the property. All standard title insurance requirements. In addition, an endorsement to the title insurance policy must be obtained: |



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| | <ul style="list-style-type: none"> ▪ That extends the effective date of the coverage to the date of the recording of the modification agreement; ▪ Increases the amount of the policy to the original loan amount, as increased; and ▪ Confirms that the lien of the mortgage, as modified, continues to be a first lien. <ul style="list-style-type: none"> ○ Amortization type: the only amortization change permitted is from an adjustable-rate amortization to a fixed-rate amortization. Changes made to any other loan terms will require a two-closing construction-to-permanent transaction. <ul style="list-style-type: none"> • The loan must be underwritten based on the terms of the loan as modified and delivered to NewRez. If the final (modified) terms of the loan do not match the last submission to DU, the loan must be resubmitted to DU (subject to the re-submission tolerances in Chapter D Resubmission Tolerances). <p>Note: Both the original construction loan amount at closing and the final modified loan amount must meet the loan limits currently in effect.</p> <ul style="list-style-type: none"> • The original construction loan must be documented on Fannie Mae uniform instruments or substantially similar documents, subject to the non-standard document representations and warranties. • The modification must be documented on one of the following: <ul style="list-style-type: none"> ○ <i>Loan Modification Agreement</i> (Providing for Fixed Interest Rate) (Fannie Mae Form 3179); ○ <i>Loan Modification Agreement</i> (Providing for Adjustable Interest Rate) (Fannie Mae Form 3161); or ○ A substantially similar document, subject to the non-standard document representations and warranties. |
| Loan Conversion Documentation Options | <p>The construction loan may be converted into a permanent mortgage loan in either of the following ways:</p> <p><u>Option 1</u></p> <p>A construction loan rider must be used to modify Fannie Mae’s uniform instrument that will be used for the permanent mortgage. The rider must state the construction loan terms, and the construction-related provisions of</p> |



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| | <p>the rider must become invalid at the end of the construction period and before the permanent mortgage is sold to Newrez. Because the permanent mortgage cannot be sold before it is scheduled to begin amortizing, a lender will need to amend the construction loan rider, and the accompanying uniform instrument, if the construction is completed other than when originally anticipated. The amendment(s) should provide the new dates on which amortization for the permanent mortgage will begin and end. The lender also will need to record the amended documents before the permanent mortgage is sold.</p> <p><u>Option 2</u></p> <p>A separate modification agreement must be used to convert the construction loan into permanent financing. This agreement must be executed and recorded in the applicable jurisdiction before the permanent mortgage is delivered to Fannie Mae. The lender must include the applicable conversion document in its loan submission package. When amended documents are recorded in connection with a construction loan rider, the lender also must include a copy of the original documentation that the borrower signed.</p> |
| Other Required Documents | <ul style="list-style-type: none">• Original Closing Disclosure showing the final disbursement and escrow collection and interest for permanent loan• Original Note dated for the start of the construction• Copy of the old Mortgage• Construction Closing Documents• Original and final credit documents• Notice of Right to Cancel is not required |

1B.10(b) Two-Closing Construction-to-Permanent Transactions

Two-closing construction-to-permanent mortgage transactions use two separate loan closings with two separate sets of legal documents. A modification may not be used to update the original Note; a new Note must be completed and signed by the borrower(s). The first closing is to obtain the interim construction financing (and may include the purchase of the lot), and the second closing is to obtain the permanent financing upon completion of the improvements.



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Newrez does not purchase construction loans (the first closing); however, Newrez does purchase loans that were used to provide the permanent financing. Underwrite the loan based on the terms of the permanent mortgage.

1B.10(b)(i) Loan Purpose and LTV/CLTV Calculation

The transactions must be closed as:

- Rate and Term Refinance; or
- Cash-out Refinance.

Two-closing construction-to-permanent mortgages are subject to the rate and term and cash-out refinance maximum LTV/CLTV/HCLTV ratios based on the property type, as applicable.

For rate and term refinance transactions, cost overruns may be included in the new loan amount with documentation of the cost overruns that were incurred outside of the interim construction lien. Construction cost overruns must be paid directly to the builder at the time of permanent loan closing.

For a cash-out refinance transaction, the borrower must have held legal title to the lot for at least six (6) months prior to the closing of the permanent mortgage. All other standard cash-out refinance eligibility and underwriting requirements apply.

Two-close cash-out refinance transactions are not permitted on a manufactured homes.

| Revision History | Date |
|--|------------|
| <p>Fannie Mae SEL2024-08 updates for Limited Cash Out Refinance transactions are:</p> <ul style="list-style-type: none">• The borrower is currently financially obligated on the title being paid off but not on the title. This includes loans where the property is currently owned by a (LLC) limited liability corporation that is majority owned or controlled by the borrower(s). Ownership must be transferred into the name of the individual borrower(s) (as shown in Newrez Ch.1A.8 Borrower Eligibility); or• The borrower is paying off an installment land contract that was | 01.30.2025 |



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| executed more than 12 months before the date of the loan application. | |
| <ul style="list-style-type: none">• Updated Owner or record and Chain of Title requirements to add an overlay: Transactions involving a double escrow are not permitted under LPA transactions• Clarified maximum cash back on Rate and Term Refinance transactions applies to the borrower (or any other payee) which is limited to the greater of 1% or the new refinance mortgage or \$2,000 (LPA transactions) | 02.27.2025 |
| <ul style="list-style-type: none">• Clarified for Cash Out Transactions - Ineligible Transactions to identify: Loans closed using a Power of Attorney (Fannie Mae) but is permitted for Freddie Mac. | 05.22.2025 |



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Chapter 1C Conforming Financing

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1C.1 Determining Amount to be Financed

For any loan, the eligible amount of financing is determined by factors specific to that loan, including, but not limited to the type of financing, loan-to-value (LTV) ratio, loan amount, property type, and income determination.

1C.1(a) Determining Value

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| Purchase | Value in a purchase transaction is generally defined as the lesser of the purchase price or appraised value of the subject property. |
| No Cash-out Refi | Value in a no cash-out or cash-out refinance transaction is generally defined as the appraised value of the subject property. See our Product Profiles for specifics in determining value based on product, property type, and length of title held. |
| Cash-out Refi | |
| Conversion of Construction Financing to Permanent Mortgage | Determine LTV/CLTV/HCLTV according to the transaction type and ownership seasoning established in the Permanent Financing for New Construction section in Chapter <u>1B</u> Transactions. |
| Contract for Deed/Land Contract | Determine LTV/CLTV/HCLTV according to the type of contract and ownership seasoning established in the Contract for Deed/Land Contracts section in Chapter <u>1B</u> Transactions. |

1C.2 Calculating Loan-to-Value Ratios

1C.2(a) Loan-to-Value (LTV) Ratios

The LTV ratio is obtained by dividing the first mortgage amount by the value. See Determining Value section of this chapter.

1C.2(b) Combined Loan-to-Value (CLTV) Ratio

The CLTV ratio is obtained by dividing the sum of the first mortgage amount plus the current principal balance of subordinated closed-end second liens and/or the disbursed amount of the HELOC plus any other secondary financing by the value, as defined in the Determining Value section in this chapter.



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1C.2(c) Home Equity Combined Loan-to-Value (HCLTV) Ratio

The HCLTV is obtained by dividing the sum of the first mortgage amount plus the current principal balance of subordinated closed-end second liens and/or the total HELOC credit line limit plus any other secondary financing by value, as defined in the Determining Value section in this chapter.

1C.2(d) Permanently Modified HELOC

- If a HELOC has been permanently modified and the outstanding unpaid principal balance (UPB) is less than the permanently modified HELOC, the modified HELOC amount must be used when calculating the CLTV/HCLTV. The CLTV may not exceed the HCLTV, if applicable.
- The permanently modified HELOC must be documented with the one of the following:
 - Modified and recorded Note;
 - Recorded subordination agreement stating the credit line was permanently reduced; or
 - Letter from the subordinate lien holder indicating a HELOC has been permanently reduced, in lieu of a recorded modification agreement. The letter must:
 - Be on the lien holder's letterhead;
 - State the permanently reduced HELOC amount; and
 - Include the date of the HELOC reduction.

A comment on the credit report stating that the HELOC is permanently modified is not sufficient.

1C.3 Temporary Interest Rate Buydowns

Interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage. At closing, an escrow account is established. Each month, the servicer draws down an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

Temporary buydowns may be permitted for certain products. Refer to our Product Summaries for eligibility.

The borrower must be qualified based on the Note rate without consideration of the bought-down rate. If reserves are required, the reserves must be calculated using the Note rate.

The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event may the buydown plan change the terms of the mortgage Note.



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The terms of the buydown must be disclosed to the MI provider and the property appraiser, if applicable.

1C.3(a) Buydown Agreement

The borrower must agree in writing that the buydown funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest to the extent provided under the subsidy buydown agreement.

- The buydown plan must be a written agreement between the party providing the buydown funds and the borrower.
- All of the terms of the buydown plan must be disclosed to all parties, including the mortgage insurer, and the property appraiser.
- The buydown agreement must provide that the borrower is not relieved of his or her obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available.
- The buydown agreement may include an option for the buydown funds to be returned to the borrower or to the Company, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied.
- A copy of the buydown agreement must be included in the file and must clearly show the calculations of the total cost of the temporary subsidy buydown, any interested party contribution and the annual percentage increase in the borrower's monthly principal and interest payment.

Refer to Chapter 1G Assets, 1G.4(c) Temporary Interest Rate Buydowns for determining interested party contribution calculations.

1C.3(b) Terms of the Buydown

No limit is placed on the total dollar amount of an interest rate buydown.

The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.

An interest rate buydown plan must provide for:

- A buydown period not greater than 36 months; and
- Increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.



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1C.3(c) Buydown Account and Funds

- The buydown may be funded by the:
 - Seller;
 - The Client (not Newrez);
 - Borrower (must come **from an acceptable source** and assets must be documented); or
 - Any other interested party.
- A split buydown is permitted when the buydown funds are paid by the lender, seller and/or third parties. **A split buydown is not permitted when the borrower pays for any portion of the funds;**
- Buydown accounts must be established and fully funded by closing;
- Funds for buydown accounts must be deposited into custodial bank accounts. Note: Buydown funds cannot be included in accounts with the Company corporate funds;
- The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the Note;
- Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied;
- Buydown funds cannot be used to pay past-due payments; and
- Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.

1C.4 Subordinate Financing

Mortgages subject to subordinate or secondary financing have guidelines for LTV/CLTV/HCLTV ratios, terms, and disclosures of the second mortgage. Subordinate financing terms must be disclosed to Newrez, the appraiser, and the mortgage insurer. Refer to our Product Summaries for LTV/CLTV/HCLTV guidelines and eligibility.

Subordinate liens must be:

- Evidenced by a promissory note;
- Reflected in a recorded mortgage, deed of trust, or other security instrument; and
- Clearly subordinate to the first mortgage lien.

1C.4(a) Subordinate Financing Terms



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Fannie Mae DU

Acceptable Subordinate Financing Terms

- The terms of any subordinate financing must be fully disclosed, documented, and comply with the following:
 - Variable payment terms that does not qualify as an eligible Community Seconds if the following are met:
 - The monthly payment remains constant for each 12-month period over the term (excluding HELOCs), and the monthly payments cover at least the interest due so there is no negative amortization;
 - Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur;
 - Mortgages with deferred payments in connection with employer subordinate financing (see Chapter 6G Assets); and
 - Mortgage terms that require interest at a market rate.

Unacceptable Subordinate Financing Terms

- Mortgages with negative amortization, with exception of employer subordinate financing that has deferred payments;
- Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five (5) years after the Note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments). May be acceptable when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile.

Except as described in Acceptable Subordinate Financing above or in the Community Seconds section below, no other type of recorded instrument documenting or securing the borrower's obligation to pay an amount in connection with funds advanced to the borrower in relation to the first mortgage is permitted, unless those funds have been advanced to the borrower by a co-owner of the subject property. Regardless of whether it qualifies as financing, eligible subordinated or unsecured PACE structures are permitted; refer to [1C.5](#) Property Assessed Clean Energy Loans.

Freddie Mac LPA

Acceptable Subordinate Financing Terms

- The terms of any secondary financing originated concurrently with the new first mortgage must

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be fully disclosed, documented, and comply with the following:

- The maturity date or amortization of the junior lien must not be less than five years after the note date of the new first mortgage, unless the junior lien is fully amortizing or a HELOC;
- The mortgage must not contain a call provision within the five-year period, unless it is a HELOC;
- Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur;
- The junior lien has regular payments that cover at least the interest due so that negative amortization does not occur; and
- Existing secondary financing (including HELOCs) that are not paid from the proceeds of the refinance are acceptable provided that:
 - There is evidence of subordination of the secondary financing; and
 - The subordinate lien has regular payments that cover at least the interest due so that negative amortization does not occur.

1C.4(b) Employer Provided Secondary Financing

See Chapter [1G](#) Assets for Employer Assistance Benefits.

1C.4(c) Community Seconds (Fannie Mae DU)

A Community Second mortgage is a second lien typically made by a federal, state, or local government agency, a nonprofit organization, and Federal Home Loan Bank under one of its affordable housing programs.

Funds received from a Community Seconds mortgage may be used to fund all or part of the down payment and closing costs. The funds may not be provided by the property seller or any other interested party to the transaction.

The following Community Seconds are not permitted:

- Those that allow for a provider's share in appreciation in value (equity sharing); and
- Those that have reporting requirements for the servicing the loan.



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The Community Second must be approved by Newrez when Newrez is underwriting the loan for Non-Delegated Clients.

1C.4(c)(i) Eligible Community Seconds Providers

The following are eligible Community Seconds Providers:

- A federal agency, municipality, state, county, state or local housing finance agency, a nonprofit organization, a regional Federal Home Loan Bank, or an employer (see Employer Provided Subordinate Financing);.
- Any city, town, village, or borough of a state that:
 - has a local government and that has been created by a special legislative act;
 - has been otherwise individually incorporated or chartered pursuant to state law; or
 - is recognized as such under the constitution or by the laws of the state in which it is located.
- A housing finance agency as defined in 24 C.F.R. §266.5;
- A nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;
- A regional Federal Home Loan Bank under one of its affordable housing programs;
- An employer where a borrower is an employee;
- An Indian tribe on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. §5131;
- Repayment: Financing may be structured in any of the following ways:
 - Fully amortizing;
 - Level monthly payments;
 - Deferred payments for some period changing to fully amortizing;
 - Deferred payments over the entire term, unless the mortgage is paid off or the property is sold before the maturity date of the mortgage; or
 - Forgiveness of the debt over time.
- Additional Repayment Requirements
 - When the borrower's employer is the provider of the Community Seconds mortgage, the financing terms may provide for the employer to require full repayment of the debt should an employee's employment terminate (either voluntarily or involuntarily, for reasons other than those related to disability) before the maturity date of the Community Seconds mortgage. See Employer Provided Subordinate Financing;



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- When repayment is deferred for five (5) years or more, a monthly payment does not need to be included in the DTI calculation. Where repayment is deferred for fewer than five years, the monthly payment amount that will be required after the end of the deferral period must be included in the DTI calculation;
- The interest rate may not be more than 2% higher than the interest rate of the first mortgage. Interest that is imposed as a penalty should the mortgage be declared in default and called due and payable under its terms is not subject to this interest rate cap; and
- The Community Seconds mortgage may not provide for negative amortization. However, because negative amortization will occur if the interest rate is greater than zero and the payment of interest is deferred for a period of time, negative amortization will otherwise be acceptable as long as one of the following exists:
 - Interest is accrued on a simple-interest basis at a rate that is not more than 75% of the rate of the first mortgage, and the accrued interest is fully deferred until one of the following:
 - Sale or transfer of the property;
 - The mortgage loan is refinanced or other full repayment of the first lien loan; or
 - Declaration of an event of default under the subordinate Note or the Security Instrument.
 - The accrued interest is assessed only as a penalty upon declaration of an event of default under the subordinate note or the security instrument.

Refer to the HomeReady product summary for lender-funded grants eligible for HomeReady only.

1C.4(d) Affordable Seconds (Freddie Mac LPA)

An Affordable Second is a second lien typically made by a federal, state, or local government agency, a nonprofit organization, and Federal Home Loan Bank under one of its affordable housing programs.

The Affordable Second must be approved by Newrez when Newrez is underwriting the loan for Non-Delegated Clients.

The following Affordable Seconds are not permitted:



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- Those that allow for a provider's share in appreciation in value (equity sharing); and
- Those that have reporting requirements for the servicing the loan.

Affordable Seconds must meet the following Freddie Mac guidelines:

- An Affordable Second must be provided by an agency under an established, ongoing, documented secondary financing or financial assistance program.
- The agency:
 - Must not be the lender; and
 - Must not be affiliated with, under contract to, or financed (directly or indirectly) by the lender or any party that participated in the origination process such as the property seller, builder, developer, or real estate agent.
- "Affiliated with" means that the agency and lender or party are related to each other as a consequence of one entity directly or indirectly controlling the other party, being controlled by the other party or being under common control with that party.

1C.4(d)(i) Eligible First Lien Mortgages

The first lien loan must be:

- Fixed Rate;
- ARM with an initial fixed-rate period of five years or greater;
- Purchase or rate and term refinance; and
- One- to four-unit primary residence.

1C.4(e) Maturity Date

The terms of the Affordable Second cannot require a balloon payment due before the maturity or payment in full of the first mortgage. If the Affordable Second is an Employer Assisted Homeownership (EAH) Benefit, the terms of the secondary financing may not require repayment in full unless:

- The borrower terminates his or her employment for any reason; or
- The employer terminates the borrower's employment for any reason other than long-term disability, the elimination of the employee's position or reduction-in-force.

1C.4(f) Scheduled Payments

All of the following apply:

- The interest rate of the Affordable Second must be not more than 2% higher than the interest rate



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of the first lien;

- Interest accruals, which are added to principal, may not increase the CLTV ratio beyond the maximum CLTV ratio allowed for the first mortgage at any time during the term of the first mortgage; and
- If monthly payments on the Affordable Second are required and begin before the 61st monthly payment under the first mortgage, such monthly payments must be included in the borrower's monthly housing expense-to-income ratio and monthly DTI ratio. If monthly payments on the Affordable Second begin on or after the 61st monthly payment under the first mortgage or if repayment of the entire Affordable Second amount is due only upon sale or default, the amount of the Affordable Second monthly payment may be excluded from both ratios.

1C.4(g) Financing Structure

The Affordable Second financing cannot be a HELOC.

1C.4(h) Documentation Requirements

All of the following documentation is required:

- Note or other evidence of terms for the Affordable Second;
- Closing Disclosure or alternative form required by law that evidences the fees and costs paid by the borrower at closing; and

Subordination of an existing Affordable second, if applicable.

1C.5 Property Assessed Clean Energy (PACE) and PACE-like Obligations

PACE (or PACE-like) programs are energy retrofit lending programs made by localities to finance residential energy improvements. PACE financing enables homeowners to install energy efficiency, renewable energy, and water efficiency upgrades. In general, the loans are repaid through the homeowner's real estate tax bill.

The terms of the Fannie Mae/Freddie Mac Uniform Security Instruments do not permit loans to have senior lien status to a first mortgage.

If the terms of the PACE loan program provide for lien priority over the first mortgage lien, the loan may be ineligible.

If the PACE loan originated on or after July 6, 2010, the PACE loan must be paid off, and be treated as a cash-



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out refinance.

If the PACE loan was originated prior to July 6, 2010, this restriction may be waived if the existing first mortgage has a Note date prior to March 1, 2010. The PACE program terms and conditions must be documented.

For delivery and tracking purposes, an exception is required prior to closing.

| Fannie Mae DU | |
|---|---|
| Sufficient Equity to Pay Off the PACE Loan | Insufficient Equity to Pay Off PACE Loan |
| The following requirements apply to borrowers with loans that are owned by Fannie Mae who obtained a PACE loan prior to July 6, 2010. | |
| <p>Loan must be paid in full with either a rate and term or a cash-out refinance transaction.</p> <p><u>Rate and term refinance</u></p> <ul style="list-style-type: none">• Standard refinance guidelines apply;• Document PACE loan originated before July 6, 2010, and has first lien priority over first mortgage;• PACE loan must be paid in full;• Proceeds may be used to pay off the PACE loan even though it was not a purchase money transaction;• Loan being refinanced must be owned by Fannie Mae; and• An Ineligible decision is permitted for the cash back exceeding 2% or \$2000 if due to paying off the PACE loan. <p><u>Cash out Refinance</u></p> <ul style="list-style-type: none">• Standard refinance guidelines apply; and• PACE loan must be paid in full. | <p>The existing PACE loan may remain in place with first lien priority.</p> <ul style="list-style-type: none">• The transaction must be a rate and term refinance;• Document PACE loan originated before July 6, 2010 and has first lien priority over first mortgage;• The monthly payment must be included in the DTI;• The PACE loan is not included in the CLTV ratio;• Loan being refinanced must be owned by Fannie Mae; and• Subordination agreement is not required. |



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| Freddie Mac LPA | |
|--|---|
| The following requirements apply to borrowers with loans that are owned by Freddie Mac. | |
| Sufficient Equity to Pay Off the PACE Loan | Insufficient Equity to Pay Off PACE Loan |
| <p>Loan must be paid in full with either a rate and term or cash-out refinance transaction.</p> <p><u>Rate and Term Refinance</u></p> <ul style="list-style-type: none">• Standard refinance guidelines apply;• PACE loan must be paid in full;• Proceeds may be used to pay off the PACE loan even though it was not a purchase money transaction;• Loan being refinanced must be owned by Freddie Mac; and• Must receive an LPA Accept decision. <p><u>Cash-out Refinance</u></p> <ul style="list-style-type: none">• Standard refinance guidelines apply; and• PACE loan must be paid in full. | <p>The transaction is not eligible unless the borrower brings sufficient funds to closing to pay off the PACE obligation.</p> |
| If the PACE or PACE-like obligation is secured by the subject property but does not result in or provide for a first lien priority lien over the first mortgage and the lien holder will execute a subordination agreement a loan exception may be requested to allow for subordination of the obligation. | |

1C.6 Premium Pricing/Lender Credits

Premium pricing exists when a borrower elects to pay a higher interest rate on a mortgage loan in exchange for a lender credit provided at closing.

Lender credit may be used provided all of the following are met:

- The amount of the lender credit must:
 - Be derived from an increase in the interest rate (premium pricing); or
 - Be funded directly by the lender.
- The lender credit must not require repayment;



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- The lender must not use funds from a third party to provide a lender credit;
- Lender credit may only be used as a credit towards the borrower's closing costs, including prepaids. In the event the lender credit exceeds the amount of the closing costs:
 - The lender credit must be reduced so it does not exceed the amount of the closing costs; or
 - The amount of lender credit that exceeds the closing costs must be applied as a principal curtailment and must be clearly reflected on the Closing Disclosure.
- The lender credit cannot be used to fund any portion of the borrower's down payment or be used to meet reserve requirements.

A lender credit derived from premium pricing is not considered an interested party contribution even if the lender is an interested party to the transaction.

1C.7 Principal Curtailments

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the loan and may be applied for the following reasons:

- 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 a rate and term refinance, a principal curtailment may be applied to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement.
 - The maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount for the subject loan.
For example, if the borrower received \$3,500 cash back at closing on a loan amount of \$200,000, a \$1,500 curtailment may be made. This would result in "net cash back" to the borrower of \$2,000, meeting the rate and term incidental cash back requirement.

Principal curtailments cannot be used to solve eligibility issues such as excessive contributions or LTVs.

| Fannie Mae DU | Freddie Mac LPA |
|--|---|
| If the curtailment is applied at closing, the amount must be documented on the Closing Disclosure. If the curtailment is applied after closing, but prior to | The curtailment must be applied at closing and the amount must be documented on the Closing Disclosure. |



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| | |
|--|--|
| delivery, the loan file (or servicing file) must be documented with the amount of the curtailment and the reason or source of the curtailment. | |
|--|--|

1C.8 Escrow for Impounds

Escrow for impounds is defined as all funds collected by Client and/or Servicer to cover expenses of the borrower that are required to be paid under the Security Instrument. The funds may include, but are not limited to, taxes, special assessments, ground rents, water, sewer, and other governmental impositions or charges that are or may become liens on the subject property prior to that of the loan, as well as property, and mortgage insurance premiums.

Non-supplemental states have taxing authorities that wait to revise tax amounts due until the normal billing cycles. In the case of supplement tax states, taxes are based on the reasonable estimate of the improvement value, not the supplemental value.

1C.8(a) Escrow/Impounds

An escrow of funds for the payment of mortgage insurance, property taxes, and property insurance, wind, earthquake, and HO-6 premiums are generally required.

An escrow of funds for the payment of flood insurance and mortgage insurance (unless single-premium or lender-paid) is always required. Property tax and/or property insurance, including hazard, wind, earthquake, and HO-6 insurance escrows may be waived based on the table below.

1C.8(b) Escrow Waiver Eligibility

| Escrow Waiver Eligibility | | |
|--|--|-----------------------|
| Primary Residence | Second Homes | Investment Properties |
| LTV ≤ 80% <ul style="list-style-type: none">California: LTV ≤ 90%New Mexico: LTV < 80% | LTV ≤ 80% <ul style="list-style-type: none">California: LTV ≤ 90%New Mexico: LTV < 80% | LTV ≤ 80% |



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1C.8(c) Escrow Waiver Terms

| |
|---|
| Fannie Mae (DU Transactions) |
| <p>Fannie Mae advocates the establishment of an escrow account for the payment of taxes and insurance, particularly for borrowers with blemished credit histories or first-time homeowners.</p> <p>Unless required by law, escrow account requirements may be waived for an individual first mortgage, provided the standard escrow provision remains in the mortgage loan legal documents. An escrow account may not be waived for certain refinance transactions (as shown in sections above) or for the payment of premiums for borrower-purchased mortgage insurance (if applicable). When the requirement for an escrow account is waived, lender must retain Fannie Mae's right to enforce in appropriate circumstances.</p> <p>A written policy must be in place governing the circumstances under which escrow accounts may be waived. When an escrow waiver is permitted, subject to the mortgage documents and applicable law, the written policy must provide that the waiver not be based solely on the LTV of a loan, but also on whether the borrower has the financial ability to handle the lump sum payments of taxes, insurance, and other items described above.</p> |
| Freddie Mac (LPA Transactions) |
| <p>When a mortgage is sold without Escrow accounts, a written policy must be maintained for determining when Escrow accounts are not required. An evaluation must be completed that Escrow Accounts are not required for a Mortgage must be based on the Borrower's ability to make all payments for the expenses to be paid under the Mortgage as they become due. These expenses include, but are not limited to:</p> <ul style="list-style-type: none">• Taxes,• Special assessments,• Ground rents,• Other changes that are or may become First Liens on the Mortgaged premises, and• Property Insurance premiums. <p>Waivers for the requirement of escrow accounts is not permitted with respect to collection of Borrower-paid mortgage insurance and when Escrows are required by law.</p> <p>Escrow accounts are encouraged for the following mortgages:</p> <ul style="list-style-type: none">• Mortgages to Borrowers who are First-Time Homebuyers• HomePossible Mortgages• HomeOne Mortgages• Mortgages secured by 2-to4-unit properties• Mortgages secured by Manufactured Homes• Second home Mortgages• Investment Property Mortgage• Mortgages where the Borrower has less than six months of reserves |



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- Refinance Mortgage where taxes were past due on the Mortgage being refinanced

1C.8(d) Ineligible for Escrow Waiver

Escrows may not be waived for the following (unless requiring an escrow account is not permitted by applicable law):

- Credit report shows recent signs of delinquency;
- No Cash-out Refinance when prepaid real estate taxes are included in the loan amount;
- Cash-out Refinance when delinquent real estate taxes are included in the loan amount;
- Private mortgage insurance unless a single premium or lender-paid mortgage insurance was obtained. See the Mortgage Insurance section in Operations Guide 5A Insurance & Survey Requirements for more information;
- Flood insurance; and
- HPML loans.

| Revision History | Date |
|---|------------|
| Escrow Waiver Eligibility: <ul style="list-style-type: none">• Removed First-Time Homebuyer requirements and overlay• Created new section titled: Escrow Waiver Terms to reflect Fannie Mae (DU and Freddie Mac (LPA) requirements | 01.30.2025 |
| Ineligible for Escrow Waiver Removed First time homebuyers are ineligible, unless the loan meets the requirements listed in Section 8(a) Escrow/Impounds | 04.29.2025 |
| | |



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Chapter 1D Conforming Property Types

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1D.1 Eligible Property Types

1D.1(a) Single-Family Residence

A detached, semi-detached, or attached single-family dwelling, including town homes and row homes.

1D.1(b) Modular Home

A modular home is a factory built home constructed to the state, local or regional building codes where the home will be located. A modular home is constructed in two or more three-dimensional sections, including interior and exterior finish, plumbing, wiring and mechanical systems.

Upon completion, the modular home is transported to the property site and then joined together on a permanent foundation. A modular home may be transported on a steel undercarriage, but that is not a permanent structural component of the improvements, and it is usually removed at the time the house is attached to the foundation. The modular home assumes the characteristics of a site-built home.

1D.1(c) Two- to Four-Unit Property

A two- to four-unit property is a residential structure with more than one (1) unit but not more than four (4) units.

1D.1(d) Condominiums

A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas.

A condominium project is created according to local and state statutes. The structure is two or more units with the interior airspace individually owned. The balance of the property (land and building) is owned in common by the individual unit owners.

For additional insurance requirements, see the Condominium Insurance Section in Operations Guide Chapter 5A, Insurance and Survey Requirements.

For complete guidelines, classification information, and approval procedures, see the Project Review Department (PRD) [Project Review | Newrez Correspondent](#). If not addressed, follow agency posted



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guidelines.

The following are agency guide links for project approval requirements:

- **Fannie Mae**
 - [Fannie Mae Standards and Requirements for Project Standards - Fannie Mae Ch.B4-2.1-01](#)
 - This section includes information for:
 - Project Risk Overview
 - Required Documents
 - Condominium Project Questionnaire
 - Project Types
 - Review Methods
 - Waiver information for Project Reviews
 - Applicable requirements for all Properties: Condo, Co-op or PUD Project
 - Priority of Common Expense Assessments
 - Warranty Review
 - Requirements for Properties in a Condo, Co-op or PUD Project
 - Project Review Expiration information
- **Freddie Mac topics are:**
 - [Freddie Mac Condo Requirements - Freddie Mac 5701.2](#)
 - [Project Review and General Eligibility Requirements](#)
 - [Freddie Mac Ineligible Projects](#)
 - [Eligible Condominiums with Shared Amenities \(h\)](#)
 - [Streamlined Reviews](#)
 - [Established Condo Projects](#)
 - [New Condo Projects](#)
 - [Exempt From Review](#)
 - [Reciprocal Project Reviews](#)
 - [Condo Project Advisor-Project Assessment Request \(PAR\)](#)
 - [Condo Project Advisor - Project Waiver Request \(PWR\)](#)

1D.1(e) Cooperatives

A co-op is a unit in a cooperative project.

A cooperative project is a residential or mixed-use building wherein a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals



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who, in turn, receive a proprietary lease as evidence of title.

A cooperative share loan is a loan secured by a co-op unit that finances (or refinances) the purchase of an ownership interest and the accompanying occupancy rights in a co-op housing corporation. It is secured by an assignment of the occupancy agreement and a pledge of the co-op shares.

A cooperative corporation is a business trust entity that holds title to a co-op project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements.

For complete guidelines, classification information, and approval procedures, see the Project Review Department (PRD) [Project Review | Newrez Correspondent](#). If not addressed, follow agency posted guidelines.

1D.1(f) Planned Unit Development (PUD)

A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all the following requirements must be met:

- Each unit owner holds title to the lot and the improvements on the lot;
- The HOA holds title to the common elements;
- The unit owners have a right to the use of the common elements; and
- The unit owners pay a fee to the HOA to maintain the common elements for their benefit.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in project or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects.

These projects:

- Have no common property and improvements,
- Do not require the establishment of and membership in an HOA; and
- Do not require payment of assessments.

For additional insurance requirements, see the PUD Insurance section in Chapter 5A, Insurance and Survey Requirements located in the Operations Guide.



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For complete guidelines, classification information, and approval procedures, see the Project Review Department (PRD) [Project Review | Newrez Correspondent](#). If not addressed, follow agency posted guidelines.

1D.1(g) HOA Dues Priority Lien (Condominium or PUD)

Fannie Mae DU

Allows a limited amount of HOA fees to have priority over Fannie Mae's mortgage lien for mortgage loans secured by units in a condo or PUD project. This applies if the condo or PUD project is in a jurisdiction that enacted any of the following:

- Uniform Condominium Act
- Uniform Common Interest Ownership Act, or
- A similar statute providing for unpaid assessments to have priority over first mortgage liens.

The table below describes the permitted priority of common expense assessments for purposes of determining the eligibility of a mortgage loan secured by a unit in a condo or PUD project.

| If the Condo or PUD project... | Then... |
|--|---|
| is located in a jurisdiction that enacted a law on or before January 14, 2014, that provides regular common expense assessments will have priority over Fannie Mae's mortgage lien for a maximum amount greater than six months, | the maximum number of months of regular common expense assessments permitted under the applicable jurisdiction's law as of January 14, 2014, may have priority over Fannie Mae's mortgage lien, provided that if the applicable jurisdiction's law as of that date referenced an exception for Fannie Mae's requirements, then no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien. |
| is located in any other jurisdiction, | no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien, even if applicable law provides for a longer priority period. |

Freddie Mac LPA

| If the Condo or PUD project has... | Then... |
|---|--|
| A mortgage with a Note Date on or after February 14, 2014 | If applicable State law creates a lien priority over the Mortgage lien for condominium, HOA or PUD assessments, or for leasehold estates or ground rent payments assessed before the foreclosure sale date, then Freddie Mac will reimburse the Servicer for its payment of regular condominium, HOA or PUD assessments and/or ground rent |



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| | |
|--|---|
| | <p>payments assessed prior to the foreclosure sale date, in an amount equal to the lesser of the actual amount advanced or:</p> <ul style="list-style-type: none"> ○ For Mortgages secured by property in the State of Florida – no more than 12 months (or any lesser amount provided by State statute) ○ For Mortgages secured by property in the State of Connecticut – no more than nine months (or any lesser amount provided by State statute) <p>For Mortgages secured by property in all other States (including States that provide an exception for Freddie Mac Mortgages) – no more than six months (or any lesser amount provided by State statute)</p> |
|--|---|

Priority Lien States and Requirements

| State | State Requirements |
|-----------------------------|--|
| Alabama | Priority limited to 6 months dues on 1 st liens for Condominium association dues. |
| Alaska | Priority limited to 6 months dues on 1 st liens. |
| Colorado | Priority limited to 6 months dues on 1 st liens. |
| Connecticut | Priority limited to 9 months dues plus special assessments for 1 st and 2 nd liens. |
| Delaware | Priority limited to 6 months dues for 1 st liens and notice of lien must be recorded. |
| District of Columbia | Priority limited to 6 months dues for 1 st and 2 nd liens recorded after 3/7/1991. |
| Illinois | Priority limited to 6 months dues; collectable from lender's purchaser at a judicial FCL sale and the FCL lender itself is not liable for super-priority amounts |
| Maryland | Priority limited to 4 months dues for 1 st liens recorded on or after 10/1/2011 |
| Massachusetts | Priority limited to 6 months dues for 1 st liens; exception – MA is a "rolling" super lien state which allows the HOA to seek super-priority liens for successive 6 months periods of unpaid fees rather than limited to one 6 months period. |
| Minnesota | Priority limited to 6 months dues for 1 st liens recorded after 6/1/1994. |
| Missouri | Priority limited to 6 months on 1 st liens recorded after 2014. Priority limited to the superior lien amount on 1 st liens closed prior to 2014 and the loan purpose does not reflect purchase. |
| Nevada | Priority limited to 9 months dues on 1 st liens. |
| New Hampshire | Priority limited to 1 st liens recorded on or after 1/1/2011. |



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| | |
|----------------------|--|
| New Jersey | Priority limited to 6 months dues on 1 st liens and is applicable to any prior lien where loans are recorded after 4/1/1996; lien must be recorded prior to the FCL action of a prior mortgage; super lien status is effective only once every 5 years over the same mortgage |
| New Mexico | Priority limited to 6 months dues on 2 nd liens for Condominium association dues. |
| New York | Limited to Co-operatives in Foreclosure. |
| Oregon | Lender is given 90 days written notice of unit owners default – copy must be recorded, notice must specifically state the intent to assume lien priority, and the lender has not initiated FCL proceedings. |
| Pennsylvania | Priority limited to 6 months dues on 1 st liens for Condominium association dues. |
| Rhode Island | Priority limited to 6 months dues on 1 st liens for Condominium association dues. |
| Tennessee | Priority limited to 6 months dues on 1 st liens for Condominium association dues. |
| Vermont | Priority limited to 6 months dues for 1 st liens. |
| Virginia | Priority limited to 2 nd lien Condominiums. |
| Washington | Priority limited to 6 months dues if the association foreclosure is by non-judicial process the super-lien priority is not applicable. |
| West Virginia | Priority limited to 6 months dues for 1 st liens; notice must be given to unit owner and must be recorded. |

1D.1(h) Accessory Dwelling Units (ADU)

An ADU is typically an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen, bathroom and sleeping area. Some examples may include a living area over a garage, living area in a basement, small addition to the primary dwelling or manufactured home, if real property.

| Fannie Mae DU | Freddie Mac LPA |
|---|---|
| <ul style="list-style-type: none"> • The property is a 1-unit; • The ADU must be subordinate in size to the primary dwelling and contribute less to the value of the primary dwelling; • There is only one ADU on the property; multiple ADUs are not permitted; • The ADU has the following separate features from the primary dwelling: <ul style="list-style-type: none"> ○ Means of ingress/egress ○ Kitchen | <ul style="list-style-type: none"> • The property is a 1-unit, 2-unit, or 3-unit; • The ADU must be subordinate in size to the primary dwelling and contribute less to the value of the primary dwelling; • There is only one ADU on the property; multiple ADUs are not permitted; • The ADU may, but is not required to, include access to the primary dwelling. It is not an ADU if it can only be accessed through the primary dwelling, or the area is open to the |



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| | |
|--|--|
| <ul style="list-style-type: none">○ Sleeping area○ Bathing area○ Bathroom• The kitchen, must, at a minimum, contain:<ul style="list-style-type: none">○ Cabinets○ Countertop○ Sink with running water○ Stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes)• A second kitchen by itself does not constitute an ADU;• The removal of a stove does not change the ADU classification; and• The borrower qualifies without considering any rental income from the ADU. | <p>primary dwelling with no expectation of privacy;</p> <ul style="list-style-type: none">• The ADU has the following separate feature from the primary dwelling:<ul style="list-style-type: none">○ Means of ingress/egress○ Kitchen○ Bathroom• A second kitchen by itself does not constitute an ADU;• The removal of a stove does not change the ADU classification;• Kitchen must have at minimum, a cooking area that may include a stove, microwave, hot plates, toaster oven, or air fryer; and• The borrower qualifies without considering any rental income from the ADU for a 2-unit, or 3-unit. |
|--|--|

The following are not eligible:

- Two or three-unit property with an ADU that does not comply with zoning and land use requirements (illegal zoning)
- One, two or three-unit property with two (2) or more ADUs
- Four-unit property with an ADU
- A manufactured home with a manufactured ADU
- Manufactured home on a leasehold estate with an ADU;
- Appraisal waiver when using rental income to qualify from a one-unit with an ADU

1D.1(i) Manufactured Home Accessory Unit

A one-unit site-built or modular home with a manufactured home as the accessory dwelling unit (ADU) may be acceptable if all of the following are met.

- Meets the property eligibility requirements below;
- Is legally classified as real property;
- Has a minimum of 400 square feet of gross living area; and



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- Manufactured home may not be an ADU for a loan secured by a manufactured home.

The appraisal report must include the following when the ADU is a manufactured home:

- The property was built in compliance with the Federal Manufactured Home Construction and Safety Standards (established June 15, 1976, as amended and in force at the time the home was manufactured);
- It is attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance;
- The foundation system must be appropriate for the soil conditions for the site and meet local and state codes;
- It is encumbered by the mortgage with the primary dwelling;
- Additional requirements that appear in HUD regulations in 24 C.F.R. Part 3280;
- Confirmation that the Wind, Roof Load and Thermal Zones meet the minimum HUD requirements for the location of the subject property. If the unit does not meet these requirements, the appraiser must address; and
- Confirmation that the HUD Data Plate/Compliance Certificate is attached to the dwelling. If not attached, the appraiser must provide the data source(s) for the HUD Data Plate/Compliance Certificate information reported.

1D.1(j) Manufactured Housing

A manufactured home is any dwelling unit built on a permanent chassis and attached to a permanent foundation system.

| Definitions | |
|---|---|
| Anchorage | Connection between superstructure and foundation, by means of welds, bolts, and various high gage metal plates. Anchorage does not refer to any type of soil anchor. |
| Exterior Foundation Wall | Foundation walls placed directly below the exterior perimeter walls of the unit. These walls may or may not be structurally used as: bearing walls under gravity loads and/or shear walls under horizontal loads. If these walls are not used structurally, they are called non-bearing walls or skirt walls. |
| HUD Construction Code (Certification Label) | The HUD Certification Label is a metal plate that is affixed to the exterior of each transportable section of the manufactured home. The HUD |



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| | Certification Number appears on each HUD Certification Label and evidence compliance with the Federal Manufactured Home Construction and Safety Standards. |
| HUD Data Plate/Compliance Certificate (Data Plate) | The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name, and trade/model number. The data plate also includes pertinent information about the unit, including a list of factory-installed equipment. |
| Relocation of Manufactured Home | Moving the manufactured home unit previously installed or occupied to any other site or location. |
| Skirting | A term used to describe a non-structural enclosure of a foundation crawl space. Typically, but not always, it is a lightweight material such as vinyl or metal, attached to the side of the structure, extending to the ground (generally, not installed below frost depth). |

1D.1(j)(i) Manufactured Housing Eligibility

The following eligibility requirements must be met.

- The manufactured home and the land on which it is situated must be legally classified as real property.
- The manufactured home must have been built and installed in compliance with the Federal Manufactured Home Construction and Safety Standards that HUD established June 15, 1976, and additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280 as evidenced by the presence of both a HUD Data Plate and the HUD Certification Label (Tag). Manufactured homes built prior to June 15, 1976, are ineligible. To support these requirements the following evidence must be provided:
 - Existing Construction:
One of the following is required and must be legible:
 - HUD Data Plate, or
 - HUD Certification Label (s) – for each section of the home.

If not available, the following alternate documentation will be accepted:

- A "HUD Label Verification Letter" issued by the Institute for Building Technology and Safety (IBTS), or
- A Performance Verification Certificate (PVC) from the Institute for Building



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- Technology (IBTS), or
 - A copy of the HUD Data Plate from the In-Plant Primary Inspection Agency (IPIA) or manufacturer must be in the loan file.
- New Construction
 - Both the HUD Data Plate and HUD Certification Label(s) are required.
 - If both of these documents are not available, the loan is not eligible.
- Appraisal report must include a photo(s) of the HUD Data Plate and HUD Certification Label(s) as follows:
 - For an existing Manufactured Home, photo(s) of either the HUD Data Plate or the HUD Certification Label(s) are acceptable. When both are present, the appraiser must include both.
 - For a New Manufactured Home, photos of both the HUD Data Plate and HUD Certification Label(s) are required.
- The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer's requirements for support, stability, and maintenance. The foundation must be appropriate for the soil conditions for the site and must meet local and state codes;
- The manufactured home must be built on and remain on a permanent chassis with the towing hitch, wheels, and axles removed;
- The manufactured home must be permanently connected to a septic tank or other sewer system, and to other utilities in accordance with local and state requirements;
- Must be a 1-unit dwelling;
- Minimum 400 square feet of gross living area;
- Must be at least 12 feet wide;
- Incomplete items, such as a partially completed addition or renovation, or defects or needed repairs that affect safety, are not eligible until the work is paid for and complete. Exceptions may be made for minor items that do not affect the ability to obtain an occupancy permit—such as landscaping, a driveway, walkway etc.
- The borrower must own the land on which the manufactured home is situated in fee simple, unless the manufactured home is located in a condo project;
- **Manufactured home with deed restrictions, leasehold or located in a condominium must be Fannie Mae PERS approved (DU transactions);**
- Manufactured home that is an ADU subject to Fannie Mae or Freddie Mac requirements;
- Single-wide Manufactured Home
 - Located in a condo project must be PERS approved



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- Located on an individual lot and is not located in a PERS approved condo or PUD project are eligible subject to the following:
 - Must receive a DU Approve/Eligible or LPA Accept;
 - Must be a primary residence;
 - Purchase or rate and term refinance

1D.1(j)(ii) MH Advantage and CHOICEHome

Fannie Mae MH Advantage and Freddie Mac CHOICEHome are manufactured homes that are built to meet construction, architectural design, and energy efficiency standards that are more consistent with site-built homes.

The Client must comply with all of the following in addition to standard manufactured housing guidelines.

| | Fannie Mae MH Advantage | Freddie Mac CHOICEHome |
|-------------|---|---|
| Eligibility | Ensure the property meets MH Advantage requirements by reviewing appraisal photos evidencing the presence of the MH Advantage <u>Sticker</u> (placed in proximity to the HUD Data Plate), HUD Data Plate, and HUD Certification Label(s). | <ul style="list-style-type: none">• Ensure the property meets CHOICEHome requirements by reviewing appraisal photos evidencing the presence of the CHOICEHome <u>Label</u> (attached to subject home next to the HUD data plate), and HUD Certification Label(s).• The presence of a Notice only certifies a dwelling was manufactured to the CHOICEHome specifications that were in place as of its manufacture date and does not guarantee eligibility for participation in the CHOICEHome program.• The Client must verify site ownership and field-installed feature requirements to ensure CHOICEHome program eligibility. |
| Single-wide | Ineligible | |



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| Manufactured Homes | | |
| Foundation and Elevation | Silent | <p>The appraiser or engineer must confirm permanent foundation complies with the following requirements:</p> <ul style="list-style-type: none"> • Meet HUD Permanent Foundation Guide for Manufactured Housing; • Be engineer designed and certified for the specific dwelling and site; • Include a perimeter mortared masonry blocking wall set on a poured perimeter footer; • Elevation design must be a low profile/residential set finished floor set; • The elevation should not exceed 30 inches from the bottom of the first-floor joist to the exterior grade for the front or entry; • This is an installation standard, not a manufacturing requirement; and • Site topography or other considerations may affect actual placement and will not disqualify the property from its CHOICEHome classification |
| Elevation Features | Silent | <p>Elevation design must include one of the following feature pairings:</p> <ul style="list-style-type: none"> • Dormer(s) and covered porch (minimum 72 square feet); • Dormer(s) and attached/detached carport/garage with space to accommodate one or two cars (materials and finishes must be at |



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| | | <p>least equivalent to the primary structure; or</p> <ul style="list-style-type: none"> Covered porch (minimum 72 square feet) and attached/detached carport/garage with space to accommodate one or two cars (materials and finishes must be at least equivalent to the primary structure). |
| LTV/CLTV Calculation | <p>Purchase</p> <p>Use the lesser of:</p> <ul style="list-style-type: none"> The purchase price of the MH Advantage and purchase price of the land; or The current appraised value of the MH Advantage and land. <p>Rate and Term Refinance</p> <ul style="list-style-type: none"> Use the current appraised value of the MH Advantage and land. | <p>Purchase</p> <p>Use the lesser of:</p> <ul style="list-style-type: none"> The purchase price of the CHOICEHome and purchase price of the land; or The current appraised value of the CHOICEHome and land <p>Rate and Term Refinance</p> <ul style="list-style-type: none"> Use the current appraised value of the CHOICEHome and land. |
| <p>Unless otherwise stated, manufactured homes that meet MH Advantage or CHOICEHome criteria are subject to the same requirements that apply to all manufactured homes.</p> <p>Refer to Chapter 1J Appraisal Requirements.</p> | | |

1D.1(j)(iii) Modifications to the Manufactured Home

Room additions, attached carports, or other structural modifications may put the home at risk if changes were not performed in accordance with the HUD Manufactured Home Construction and Safety Standards (MHCSS) and local and state code.

Manufactured homes that have an addition or have had a structural modification may be eligible:

- If the state in which the property is located requires inspection by a state agency to approve modifications to the property and there is confirmation that the property has met the requirements, or



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- If the state does not have these requirements, the property must be inspected by a licensed professional engineer who can certify that the addition or structural changes were completed and property is structurally sound.

1D.1(j)(iv) Ineligible Manufactured Housing

The following are ineligible manufactured home property types:

- A manufactured home that is not classified and titled as real estate;
- A manufactured home that was installed or occupied previously at any other site or location. The home may only have moved from the manufacturer's or dealer's lot to the current site of the home;
- A manufactured home less than 12 feet wide;
- A manufactured home in a co-operative community is not eligible for LPA Transactions.
- A manufactured home with deed restrictions;
- A manufactured home with less than 400 square feet of gross living area;
- A manufactured home with an accessory dwelling unit (ADU) or guest house;
- A single-wide cash-out refinance, second home or investment property..

1D.1(j)(v) Titling the Manufactured Home as Real Property

All manufactured housing units and land must be classified and taxed as real estate.

The manufactured home loan must be secured by a perfected lien on real property consisting of the manufactured home and land and the manufactured home must be legally classified as real property.

Evidence that motor vehicle title has been (or will be) purged or surrendered is required. The closing agent (or title company) to confirm actions taken to assure that the manufactured home has been permanently affixed to the land and that the lien is recorded.

Evidence must be provided to document that the manufactured home is classified as real property may be through tax certificates or title policy to validate that both land and unit are taxed as one parcel.

The loan is not eligible if the original chattel deed or motor vehicle title is not purged, and the property does not have clear marketable real estate title.



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The Preliminary Title Report or Final Title Policy must reflect the commitment or issuance of the appropriate ALTA Endorsement (e.g., **ALTA 7.1-16**) required to validate that the home is treated as real property.

The Deed of Trust or Mortgage (security instrument) must include a complete legal description that includes land and manufactured unit details regarding the manufacturer name, model, year, serial number, size, and any other information required by state law to identify a manufactured home.

Fannie Mae has prepared an overview of the process for [Titling Requirements for Manufactured Homes](#) as real property in all 50 states. This document is for informational purposes to aid in ensuring the manufactured home is titled as real property.

1D.1(j)(vi) Affidavit of Affixture

The borrower and the Client must sign an Affidavit that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage and contains any specific language that may be required by applicable law.

For DU transactions, if the manufactured home was previously converted from personal property to real property in accordance with applicable law, the Affidavit is not required, unless applicable law requires a new Affidavit.

If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, such filing must be completed in any and all appropriate locations.

1D.1(j)(vii) Loan Amount

The loan amount may include the following costs:

- Cost of the manufactured home;
- Cost of the land;
- Costs of construction, including
 - Bona fide and documented transportation costs;
 - Costs for site preparation, which may include the cost to remove an existing manufactured home and other outbuildings;
 - Foundation;
 - Establishing utilities;
 - All site improvements; and



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- Dwelling installation at the site.

1D.1(j)(viii) Down Payment

The borrower's equity in the land is considered the borrower's own funds. Where the borrower holds title to the land on which the manufactured home will be permanently attached, the value of the land may be credited toward the borrower's minimum down payment requirement. The borrower's equity contribution will be the difference between any outstanding liens against the land and the market value of the land.

The following table describes how to determine the value of the land based on when and how the borrower acquired the land:

| Date of Land Purchase | Value of Land | Documentation Requirements |
|--|--|---|
| More than 12 months preceding the loan application | The current appraised value | None |
| 12 or fewer months preceding the date of the loan application | The lesser of the sales price or the current appraised value | The borrower's cash investment must be documented by obtaining: <ul style="list-style-type: none">• A certified copy of the HUD-1/Closing Disclosure or similar settlement statement;• A copy of the warranty deed that shows there are no outstanding liens against the property; or• A copy of the release of any prior liens(s). |
| The borrower acquired the land at any time as a gift, inheritance, or other non-purchase transaction | The current appraised value | Appropriate documentation must be obtained to verify the acquisition and transfer of ownership of the land. |



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1D.1(j)(ix) Purchase Manufactured Housing Subdivision Development

When a manufactured home is being sold by a builder, developer, or manufacturer acting as a developer as part of a new or existing manufactured home subdivisions, the LTV ratio (CLTV/HCLTV ratio, if applicable) will be based on the lower of the:

- Sales price of the manufactured home and land; or
- Current appraised value of the manufactured home and land.

1D.1(j)(x) All Other Purchase Transactions

The LTV ratio (CLTV/HCLTV ratio, if applicable) for a loan secured by a manufactured home that already exists on its foundation will be based on the lowest of:

- The sales price of the manufactured home and land; or
- The current appraised value of the manufactured home and land; or
- If the manufactured home was built in the 12 months preceding the loan application date, the lowest price at which the home was previously sold during that 12-month period, plus the lower of:
 - the current appraised value of the land, or
 - the lowest price at which the land was sold during that 12 month period (if there was such a sale).

1D.1(j)(xi) Manufactured Housing Rate and Term Refinance Transactions

Rate and Term Refinance transactions involve the payoff of an existing lien secured by the manufactured home and land. The LTV/CLTV/HCLTV will be determined as follows:

| Fannie Mae DU | Freddie Mac LPA |
|--|---|
| <ul style="list-style-type: none">• If the borrower has owned the manufactured home and land for 12 months or more prior to the application date, use the current appraised value.• If the borrower has owned the manufactured home for less than 12 months prior to the application date, use the lower of:<ul style="list-style-type: none">○ The current appraised value of the manufactured home and land; or○ The purchase price at which the | Use the current appraised value of the manufactured home and land, regardless of length of ownership. |



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| manufactured home and land were previously sold during the 12-month preceding the application date. | |
|---|--|

1D.1(j)(xii) Proceeds of Rate and Term Refinance

Proceeds of the rate and term refinance transaction may be used to

- Pay off the outstanding principal balance of an existing first lien secured by the manufactured home and land;
- Pay off outstanding principal balance of an existing subordinate mortgage or lien secured by the manufactured home if it was used, in whole, to purchase the manufactured home and land;
- Finance closing costs (including prepaid expenses); and
- Provide cash back to the borrower in an amount not to exceed the lesser of 2% of the balance of the new loan or \$2,000.

1D.1(j)(xiii) Manufactured Housing Cash-out Refinance

To be eligible for a cash-out refinance, the borrower must have owned both the manufactured home and land for at least 12 months old at the time of refinance, (measured from the Note date of the mortgage being refinanced to the Note date of the new loan).

For a Freddie Mac LPA transaction, the following seasoning is noted:

- If property is owned free and clear, one borrower must have been on title for at least 6 months prior to the note date.
- If the manufactured home is being converted to a legally classified real property under state law, the 12-month seasoning does not apply.

A cash-out refinance:

- Involves the payoff of an existing first lien mortgage secured by the manufactured home and land; and
- Enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it and permits the borrower to take equity out of the property that may be used for any purpose.

The LTV/CLTV/HCLTV will be based on the current appraised value of the manufactured home and



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land.

Single-wide manufactured homes are not eligible for a cash-out refinance.

1D.1(j)(xiv) Manufactured Housing Trade Equity

When the property being traded is the borrower's existing manufactured home as part of the down payment requirement, the maximum equity contribution is determined as follows:

- If the borrower has owned the home for 12 months or more prior to the application date, 90% of the retail value for the traded manufactured home based on the NADA Manufactured Housing Appraisal Guide; and
- If the borrower has owned the traded manufactured home for less than 12 months preceding the date of the loan application, the maximum equity contribution is the lesser of 90% of the retail value or the lowest price at which the home was sold during that 12-month period.

Any costs associated with the removal of the traded home, or any outstanding indebtedness secured by liens on the home must be deducted from the maximum equity contribution.

The trade equity must be documented by a lien search in the appropriate real property or personal property records to verify ownership and existence of liens on the manufactured home and land. The seller of the manufactured home must provide proof of title transfer and satisfaction of any existing liens on the traded manufactured home.

1D.1(j)(xv) Manufactured Housing Appraisal Site Requirements

The appraiser must base his or her opinion of value on the characteristics of the subject property, including the site area. The appraisal report must indicate whether or not the site is compatible with the neighborhood and must comment on the conforming of the manufactured home to other manufactured homes in the neighborhood.

The property site must be of a size, shape, and topography that is conforming and acceptable in the neighborhood. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in the analysis and valuation. The appraiser must comment if the site has adverse conditions or is not typical for the neighborhood.



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1D.1(j)(xvi) Manufactured Housing Appraisal Comparable Sale Selection

The appraiser should select comparable sales of similar manufactured homes to address the marketability and comparability of a manufactured home, for example, multi-width homes to multi-width home. The appraiser must use a minimum of two (2) comparable sales of similar manufactured homes. If the subject property is a single-width manufactured home, one (1) comparable sale must be a single-width manufactured home, when available. If the appraiser is unable to find a single-width comparable sale, an active listing or under contract sales may be used to show marketability. The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. The appraiser must explain why site-built housing, or a different type of factory-built housing is being used for the third comparable sale and make and support appropriate adjustments.

In markets where condo projects with manufactured homes are more common, at least two (2) comparable sales should be manufactured homes located in a condominium project. In markets where condo projects with manufactured homes are atypical, the appraiser may select comparable sales from a mixture of manufactured homes and manufactured home condos provided the appraiser is able to provide adequate written explanation and make appropriate adjustments.

An appraiser that is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide it is appropriate to use either older sales of similar manufactured home or sales of similar manufactured homes that are located in a competing neighborhood to establish a baseline for the sales comparison analysis and determine sound adjustment to reflect the differences between comparable sales that are available and the subject property.

The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the home. This type of information may be used as additional supporting documentation.

1D.1(j)(xvii) Manufactured Housing Appraisal Cost Approach Requirements

A detailed and supported cost approach to value is required for all manufactured homes, which must contain the information indicated on Form 1004C/70B. The sales comparison and cost approach to value are complementary for the valuation of manufactured housing and must support the final value conclusion. A property developed and detailed cost approach will provide the information necessary for an appraiser to:



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- Recognize differences in manufactured home construction quality;
- Understand the difference between the comparable sales and the subject property, extract from the market appropriate adjustments for the sales comparison analysis; and
- Identify sales of manufactured homes that are similar enough to the subject property to use as comparable sales.

1D.1(j)(xviii) Sources of Manufactured Housing Data

Traditional appraisal data sources do not provide enough quality manufactured home data for the appraiser to develop a supportable and well-documented manufactured home appraisal. While sources such as MLS and public records are important and may contain some data, appraiser must utilize other data sources, such as manufactured home dealers and construction companies/builders experience in the installation of manufactured homes.

One important source of manufactured housing information is the NADA Manufactured Housing Appraisal Guide. This publication:

- Lists general manufactured home depreciated replacement values based on original factory construction categories; and
- Offers a step-by-step process for arriving at the average retail book value for a manufactured home and can be used to develop a cost approach.

Another source of information is Marshall & Swift's Residential Cost Handbook. Marshall & Swift provides

- Information that enables the user to arrive at an estimate of the cost of the manufactured home when new and the replacement cost based on, among other things, the construction quality; and
- An explanation of the items that enables the appraiser to support his or her conclusion of the overall construction quality of the manufactured home.

The appraiser must support his or her opinion about both the quality and the condition of the manufactured home.

1D.2 Lava Flood Hazard Zones

Lava Flow Hazard Zones are designated by the US Geological Survey. Properties located in Lava Zones 1 and 2 are not permitted.



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1D.3 Mixed-use Property

A mixed-use property is defined as a property primarily used as a residence, but is also being used for a small, commercial purpose, such as a property with space set aside for a day care facility, a beauty or barber shop, doctor's office, a small neighborhood grocery or specialty store.

A mixed-use property must meet all of the following:

- The property must be a one-unit property that the borrower occupies as their primary residence;
- The borrower must be both the owner and the operator of the business;
- The property must be primarily residential in nature, located in a residential neighborhood, and be typical for properties in the market area;
- The use must represent a legal, permissible use of the property under local zoning laws;
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property;
- The commercial use must not have an adverse effect on the habitability and safety of the property or site; and
- Refer to our Product Summaries for eligibility and Chapter 1J Appraisal and Property Requirements, 1J.7(t) Mixed-use Property Appraisal Requirements.

1D.4 Group Home

Group homes are residential structures used for occupancy for people with disabilities and are typically single-family homes with multiple residents, each living in a separate bedroom but sharing kitchen and/or plumbing facilities. Group homes are operated by a care provider and residents of the group home typically receive room, board, and supportive care. Group homes are not considered boarding houses.

The property may be treated as owner occupied if the borrower occupies the property with the residents or an investment property if the borrower does not occupy the property with the residents.

1D.5 Resale Restrictions

Resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease, agreement, or other instrument executed by or on behalf of the owner of the land. The resale restriction may limit the occupancy of all or part of the land to individuals meeting certain conditions, such as age (senior communities must comply with applicable law).



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The restrictions must be binding on current and subsequent property owners, and remain in effect (i.e., survive) until they are formally removed or modified, or terminate automatically in accordance with their terms, such as upon completion of foreclosure or recordation of a deed-in-lieu of foreclosure and, if necessary, upon recordation of the associated deed transferring the property to a third-party purchaser.

The terms of the resale restrictions must appear in the public land records for the property in a manner discoverable by a routine title search.

1D.5(a) Allowable Resale Restrictions

Newrez will purchase loans that are subject to one or more of the following types of resale restrictions are permitted:

- Income limits;
- Age-related requirements;
- Employment-related requirements;
- Occupancy requirements;
- First-time homebuyer requirements; and
- Restrictions on group homes or homes that are principally used to serve residents with disabilities. (Freddie Mac only).

1D.5(b) Duration of Resale Restrictions

Loans secured by properties subject to resale restrictions are eligible in the following circumstances:

- When the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period); and
- Upon the recordation of a deed-in-lieu of foreclosure.

There are no restrictions on the length of time that a resale restriction may remain in place.

1D.5(c) Ineligible Resale Restrictions

Newrez will not purchase loans with any of the following resale restrictions

- Resale restrictions that survive foreclosure or deed-in-lieu of foreclosure, including down payment assistance programs if they contain a resale restriction that survives foreclosure;
- Resale restrictions with shared equity; and
- Properties that are group homes or primarily serve disabled residents (Freddie Mac LPA only).



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1D.5(d) Title and Insurance Requirements

The source and terms of the resale restrictions must be included in the public land records so that they are readily identifiable in a routine title search.

1D.5(e) Default Remedies

The presence of resale restrictions must not impair Newrez's legal rights to cure a default under the loan terms, to foreclose on the subject property, or to otherwise protect Newrez's interests under the mortgage.

1D.5(f) Appraisal Requirements

In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions.

The borrower and appraiser must be aware of the resale restrictions. The appraiser must include the following statement in the appraisal report:

"This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure."

The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

1D.5(g) Determining Value

The value is the appraised value of the property without resale restrictions.

1D.5(h) Agency Specific Requirements

| Fannie Mae DU | |
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| Loan Eligibility | <ul style="list-style-type: none">• Fixed Rate• ARM with an initial fixed period of five (5) years or more |



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| Borrower Eligibility | <p>Borrowers must meet applicable criteria of the deed restriction.</p> <ul style="list-style-type: none"> • If income limit requirements are imposed by both the resale restrictions and the terms of the mortgage, the most restrictive will apply. • Age-related restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. The borrower could be younger than 55 provided there is an occupant aged 55 and over. This occupant can be a non-borrower household member or a renter in the case of an investment property. |
| Property Type | <ul style="list-style-type: none"> • 1-2 units, including PUD, condos, and co-ops; and • Interior and Exterior Appraisal Report, regardless of DU findings; and • Manufactured homes if they are in a PERS-approved project. |

1D.5(i) Freddie Mac LPA

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| Loan Eligibility | <ul style="list-style-type: none"> • Fixed Rate • ARMs |
| Property Type | <ul style="list-style-type: none"> • 1-2 units, including PUD and condos; and • Interior and Exterior Appraisal Report, regardless of LPA findings; and • Manufactured homes if they are in a PERS-approved project. |
| Right of First Refusal or Option to Purchase | <p>The subsidy provider may retain the right of first refusal or option to purchase a resale restricted property when the borrower is in default, or the property is in foreclosure. The terms of the right of first refusal or option to purchase must be specified in the terms of the resale restrictions.</p> <p>The subsidy provider must exercise its right of first refusal or option to purchase within 90 days of receiving notification of the borrower default, approved short sale, or the property foreclosure.</p> <p>The subsidy provider may permit borrowers to refinance their mortgage and take cash out of the transaction, on an exception basis only. However, the resale restrictions may limit the cash-out amount to protect the subsidy invested in the property. Underwriters must document that the subsidy</p> |



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| | provider has approved the refinance transaction and should ensure that the cash-out amount complies with the provisions of the specific resale restrictions. |
| Eligible Subsidy Providers | <p>The subsidy provider must have established procedures for screening and processing borrowers. Eligible subsidy providers or sponsors of resale restrictions are:</p> <ul style="list-style-type: none">• Non-profit organizations;• Churches;• Employers;• Universities;• Municipalities (including state, county, or local housing agencies); and• Entities that are otherwise administering government sponsored, federal, state, or local subsidy program. |

1D.5(j) Income-Based Resale Restrictions

Income-based resale restrictions restrict the initial sales price and subsequent resale price of properties subject to such restrictions. The resale restricted price provides a form of subsidy to the home buyer in an amount equal to the difference between the sales price and market value of the property without resale restrictions. The restrictions must be stated in a separate covenant, restriction, easement, or conditions in a deed or other instrument executed by or on behalf of the owner of the land or property and must be recorded against the land or property. The restrictions may be in effect for a certain number of years or continue in perpetuity.

If the transaction is a cash-out refinance, the subsidy provider or program administrator must approve the transaction and confirm the transaction meets the requirements of the applicable program. The loan file must contain evidence of the required approval and the approved amount of the proceeds that the borrower may receive.

Borrowers must meet the program eligibility requirements established by the subsidy provider or program administrator.

The resale restriction controls must be administered by the subsidy provider or a program administrator.



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1D.6 Properties with Solar Panels

The ownership and debt financing structures commonly found with solar panels are used to determine whether the panels are third-party owned, personal property of the homeowner, or a fixture of the real estate. Common ownership or financing structures include:

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| Solar Power Purchase Agreements (PPA) | The borrower purchases power produced by the solar panels, and the borrower is not the owner of the solar panels. |
| Solar Panel Lease Agreements | The borrower does not own the solar panels and the borrower pays monthly lease payments to have access to the solar panels. |
| Solar Panels Financed as Personal Property | The borrower owns the solar panels, purchased the solar panels with a Note/Security Agreement and is entitled to power produced by the panels. |
| Solar Panels Financed as a Fixture to Real Estate | |
| Solar Panels Owned Free and Clear | Borrower owns the solar panels and has no related debt. |

If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed, and repaid in full, or are secured by the existing first mortgage), standard requirements for appraisal, insurance, and title apply.

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full prior to or at closing. See Chapter [1C.5](#) for Property Assessed Clean Energy Obligations.

Complete the [Solar Panel Checklist](#) when reviewing solar panel eligibility.

When financing is involved:

- Evaluate the borrower's credit report for solar-related debt and by obtaining a copy of all related documentation for the loan; and
- Review the title report to determine if the related debt is reflected in the land records associated with the subject property.

If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal unless a UCC "personal property" search



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confirms the solar panels are not claimed as collateral by any non-mortgage lender.

Note: A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a “fixture filing” must be filed in the office identified in the relevant state’s adopted version of the UCC. The appraiser must have accurate information about the ownership structure of the solar panels and that the appraisal appropriately addresses any impact to the property’s value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financed solar panels must comply with Energy Efficiency Improvements.

1D.6(k) Solar Power Purchase Agreement or Lease Agreement

Solar panels are leased from or owned by a third party under a PPA, or other similar lease arrangement must comply with the following: (whether to the original agreement or as subsequently amended).

Obtain and review a copy of the lease or power purchase agreement.

- Lease payments must be included in the DTI ratio unless the lease is structured to:
 - Provides for delivery of a specific amount of energy for an agreed upon payment during a given period; and
 - Includes a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.

Payments under PPAs where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.

- The value of the solar panels cannot be included in the appraised value. The appraiser must comment on the marketability of the home with solar panels.

Note: A “precautionary” UCC filing (UCC-Financing Statement) is one of that is filed to put third parties on notice of their claimed ownership interest in the property described in it. When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title).

- Must not be included in the CLTV.
- The property must maintain access to an alternate source of electric power that meets community standards.



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- Damage that occurs because of installation, malfunction, manufacturing defect, or the removal of solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); and
- In the event of foreclosure, the lender or assignee has the discretion to
 - Terminate the lease/agreement and require the third-party owner to remove the equipment;
 - Become, without payment of any transfer of similar fee, the beneficiary of the borrower's lease/agreement with the third party; or
 - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.
- The owner of the solar panels agrees not to be a loss payee (or named insured) on the homeowner's insurance policy covering the residential structure.

1D.6(I) Financed as a Fixture to Real Estate or as Personal Property

The following table summarizes some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

| If the solar panels are... | The following is required... |
|--|--|
| collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC Fixture Filing* has been filed for the panels in the real estate records | <p>Obtain and review the credit report, title report, appraisal, and/or UCC Fixture Filing*, related Promissory Note and related Security Agreement that reflect the terms of the secured loan.</p> <ul style="list-style-type: none">• Include the debt obligation in the DTI ratio;• Provided that the panels cannot be repossessed for default on the financing terms, the appraiser should consider the solar panels in the value of the property; and• Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC Fixture Filing* is of record in the land records; and• Fannie Mae DU: Include the solar panel debt in the CLTV; or• Freddie Mac LPA: |



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| | <ul style="list-style-type: none">○ Do not include in CLTV if the UCC Financing Statement or lease agreement claim an interest in the solar panels and not the real property○ If the UCC Financing Statement or lease agreement claims an interest in the real property, include in the real estate. <p>Note: If a UCC Fixture Filing* is in the land records as a priority senior to the mortgage loan, it must be subordinated or terminated. If terminated, nothing further is needed.</p> |
| reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report | <p>Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC Financing Statement, related promissory Note, or related Security Agreement).</p> <ul style="list-style-type: none">• Do not include the debt obligation in the DTI ratio;• The appraiser must not include any value to the solar panels towards the appraised value because the panels are collateral for another debt;• Do not include the panels in the LTV ratio; and• Do not include the debt in the other debt secured by the real estate in the CLTV ratio since the security agreement or any UCC Financing Statement treat the panels as personal property not affixed to the home. |
| <p>*A fixture filing is a UCC-1 Financing Statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.</p> | |



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1D.6(m) Solar Panels Owned Free and Clear

If the borrower owns the solar panels and has no related debt, apply the following:

- There must be no UCC1 Financing Statement or notice recorded against the subject property. In the event there is a UCC-1 Financing Statement, it must be released; and
- The appraiser has recognized the existence of the solar panels and considered the solar panels in the appraiser's opinion of the market value of the property.

1D.7 Ineligible Property Types

The following property types or characteristics are ineligible:

- 3D Printed homes
 - Section 184
 - Assisted living projects
- Barndominiums
 - Bed and breakfast properties
 - Boarding houses
 - Builder model leaseback (purchase transactions)
 - Commercial properties
 - Condo hotels
- Container homes
 - Houseboats
 - Industrial properties
 - Investment securities
 - Lava Zones 1 and 2
 - Mobile home
 - Multi-family dwelling containing more than four units
- New and newly converted projects in Florida that are not PERS approved
 - Other transient housing
 - Properties encumbered with private transfer fee covenants
 - Properties located on Native American Tribal Land
 - Properties used primarily for agriculture, farming, or commercial enterprise
 - Properties with a C5 or C6 Condition Rating
 - Properties without full utilities installed to meet all local health and safety standards
- Shouses



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- Tax-sheltered syndicate
- Timeshare unit/project
- Tiny homes
- Unimproved or vacant land

| Revision History | Date |
|--|------------|
| <ul style="list-style-type: none"> • Added new section: HOA Dues Lien Priority for Condominiums and PUDS for Fannie Mae DU and Freddie Mac LPA transactions with list of Priority Lien States • Clarified for Condominium or Cooperatives eligibility, direction provided if the Project Review Department (PRD) Policy and procedures do not address guidelines or other information needed, follow agency posted guidelines. • Updated Manufactured home modifications section to identify: <ul style="list-style-type: none"> ○ all changes must be structurally sound to comply with both Fannie Mae and Freddie Mac and confirmed by a state agency or a third party who is qualified and regulated by the state to certify. • Clarified Manufactured Home eligibility with either deed restrictions and/or leasehold must be Fannie Mae PERS approved on DU transactions. • Ineligible list include: A manufactured home in a cooperative community is not eligible for LPA transactions. | 1.30.2024 |
| <ul style="list-style-type: none"> • Created a section titled Lava Flow Hazard Zones • Updated Ineligible Properties to reflect Lava Zones 1 and 2. Removed reference to possible exception for properties in Hawaii | 02.28.2024 |
| <p>Freddie Mac 2024-04 Bulletin Updates align with Fannie Mae.</p> <ul style="list-style-type: none"> • Updated Manufactured home requirements based on existing or new construction for following: <ul style="list-style-type: none"> ○ Modified grid for required documents to support construction and safety standards and ○ Identified appraisal requirements for photos of the HUD Data Plate and/or HUD Certification label(s) | 04.29.2024 |
| <ul style="list-style-type: none"> ○ Fannie Mae SEL 2024-03 dated 05.01.2024 identified if the manufactured home was previously converted from personal property to real property in accordance with applicable law, the Affidavit is not required, unless applicable law requires a new Affidavit ○ Added links to both Fannie Mae and Freddie Mac agency guides for project approval warranties for condominiums | 05.30.2024 |



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|--|------------|
| Freddie Mac Bulletin 2024-9 identified condominium projects and cooperative projects are allowed to share Amenities with other residential projects. Link created to Freddie Mac 5701.3 (h) | 07.30.2024 |
| Updated the Table of Contents to renumber/correct the chapter sections Removed requirement for Form 38 Housing Development Subject to Age Restrictions document from Agency Specific Requirements for Fannie Mae. | 09.26.2024 |
| Fannie Mae SEL2024-07 released 11/6/2024 updates completed: <ul style="list-style-type: none">Removed requirement that Single Wide Manufactured Home located in a PUD or co-op projects must be PERS approved per Fannie Mae SEL-2024-07 | 11.25.2024 |



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Chapter 1E Conforming Underwriting

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1E.1 Underwriting Methods

Guidelines contained in this chapter are applicable to loans underwritten by Desktop Underwriter and Loan Product Advisor unless otherwise stated.

- Loans underwritten by Desktop Underwriter (DU) and Loan Product Advisor (LPA) may follow the DU Underwriting Findings Report or LPA Feedback Certificate unless otherwise stated in this Underwriting Guide, on our Product Profiles, or on the Overlay Matrix.
- Loan Product Advisor Streamlined Accept Documentation may be used if LPA Feedback Certificate is approved as such. Streamlined Accept Documentation is not outlined in this chapter. Refer to the Freddie Mac Seller/Servicer Guide for documentation requirements.

1E.2 Desktop Underwriter (DU)

DU is Fannie Mae's automated underwriting system, which evaluates mortgage default risk and arrives at an underwriting recommendation by relying on a comprehensive examination of the primary and contributory risk factors in a mortgage application. It analyzes the information in the loan casefile to reach an overall credit risk assessment to determine eligibility for delivery to Fannie Mae.

1E.2(a) Desktop Underwriter General Requirements

When underwriting loans with DU, you must:

- Employ prudent underwriting judgment in assessing whether a loan casefile should be approved;
- Confirm the accuracy of the data submitted, making sure that you did not fail to submit any data that might have affected the DU recommendation had it been known;
- Ensure that the loan complies with all of the verification messages and approval conditions specified in the DU Underwriting Findings Report;
- Apply due diligence when reviewing the documentation in the loan file;
- Review the credit report to confirm that the data that DU evaluated with respect to the borrower's credit history was accurate and complete;
- Determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by DU; and
- Act when erroneous data in the credit report or contradictory or derogatory information in the loan file would justify additional investigation or would provide grounds for a decision that is different from the recommendation that DU delivered.



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1E.2(b) Maximum Number of Borrowers

There may be no more than four (4) borrowers on a transaction and submitted to DU. Any loan with more than four (4) borrowers must be manually underwritten and is not permitted.

1E.2(c) Data Accuracy

- For approved loans using the DU Underwriting Findings Report, comply with all of the Verification Messages/Approval Conditions listed in the Underwriting Findings report and document the loan file accordingly.
- Due diligence must be applied when reviewing the documentation in the loan file to determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by DU.
- The credit, with respect to the borrower's credit history, was reviewed and deemed accurate and complete.
- Action must be taken when erroneous data is in the credit report or additional investigation or would provide grounds of a decision that is different from the recommendation that DU delivered.
- If there is derogatory or contradictory information that is not part of the data analyzed by DU, resubmit the loan to DU to ensure all data is taken into consideration in the underwriting analysis.

Note: Any Newrez underwriting overlays would apply. See applicable Underwriting Guide chapter, Product Summaries, and Overlay Matrix for underwriting overlays.

1E.2(d) Desktop Underwriter Decisions

| Decision | Description |
|--------------------|---|
| Approve/Eligible | Based on the data submitted to DU, the loan meets both Fannie Mae's credit risk and eligibility requirements. |
| Approve/Ineligible | <p>Based on the data submitted to DU, the loan appears to meet Fannie Mae's credit risk requirements; however, the loan does not appear to meet Fannie Mae's eligibility requirements.</p> <p>In order to deliver this loan to Fannie Mae, you must be certain the reason for ineligibility is acceptable to Newrez based on the guidelines published in our Product Profiles or this Underwriting Guide.</p> |



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| | The limited waiver of underwriting representations and warranties does not apply to loans that receive an Approve/Ineligible recommendation. |
| Refer with Caution | <p>Based on the data submitted to DU, the loan does not represent a level of risk that is acceptable to Fannie Mae for DU loans. If the data considered was an accurate representation of the borrower's income, assets, liabilities, and credit profile, the loan is not eligible for delivery to Newrez.</p> <p>If the loan receives a Refer with Caution due to substantial inaccurate credit data or documented extenuating circumstances, the loan is not eligible for delivery to Newrez.</p> |
| Out of Scope | <p>DU does not contain the rules or models that are necessary in order to underwrite the product, borrower, or type of loan submitted. DU will not produce messages or the Underwriting Analysis report for Out of Scope loans. DU will continue to identify in a message the reason that a loan is Out of Scope.</p> <p>Out of Scope loans must be manually underwritten and are not eligible for delivery to Newrez.</p> |
| Error | Error |

1E.2(e) Desktop Underwriter Data and Delivery Information Accuracy

The data submitted to DU must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value.

Verification documents must be reviewed, and the verified values compared to the data submitted to DU. The terms of the closed loan must match the terms of the final loan casefile submission in DU or fall within the tolerances listed in the table below.

While Fannie Mae allows for tolerances, individual mortgage insurance companies may require additional review based on any data that may have changed during the loan process to determine that the appropriate coverage and rate are applied.

Fannie Mae continuously updates DU with new versions of the system. When a loan was initially run through a specific version of DU, any underwriting updates for that same loan will run through the same version of DU. Any updated DU versions will not apply to previously submitted loans.



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| Data Element | Resubmission Policy | | | | | | | | | | | | | | | | | | | | |
|--|---|-----------------------|--|--|--|--|--------------|------------------|-----------------------|-----|-----|-----|-----|-----|-----|-----|-----|----|-----|-----|-----|
| Appraised Value | Resubmit if any change in value | | | | | | | | | | | | | | | | | | | | |
| Funds to Close | Resubmit if the verified assets are less than the DU requirement | | | | | | | | | | | | | | | | | | | | |
| Reserves | Resubmit if the reserves required to be verified per the DU report, decrease by more than 10% | | | | | | | | | | | | | | | | | | | | |
| Borrowers Added/Deleted | Resubmit if any borrowers are added or deleted | | | | | | | | | | | | | | | | | | | | |
| Debt Increase Income Decrease Interest Rate Increase | <div>Resubmit if the result of these changes causes the DTI ratio recalculated by the lender to:</div> <ul style="list-style-type: none">Now exceed 45%, orIncrease by 3% of more (if the recalculated DTI ratio is 50% or less) <div>*See resubmission examples below</div> <table><tr><th colspan="3">*Resubmission Examples Based on DTI Triggers</th></tr><tr><th>Original DTI</th><th>Recalculated DTI</th><th>Resubmission Required</th></tr><tr><td>35%</td><td>40%</td><td>Yes</td></tr><tr><td>44%</td><td>46%</td><td>Yes</td></tr><tr><td>46%</td><td>48%</td><td>No</td></tr><tr><td>46%</td><td>50%</td><td>Yes</td></tr></table> | | | *Resubmission Examples Based on DTI Triggers | | | Original DTI | Recalculated DTI | Resubmission Required | 35% | 40% | Yes | 44% | 46% | Yes | 46% | 48% | No | 46% | 50% | Yes |
| *Resubmission Examples Based on DTI Triggers | | | | | | | | | | | | | | | | | | | | | |
| Original DTI | Recalculated DTI | Resubmission Required | | | | | | | | | | | | | | | | | | | |
| 35% | 40% | Yes | | | | | | | | | | | | | | | | | | | |
| 44% | 46% | Yes | | | | | | | | | | | | | | | | | | | |
| 46% | 48% | No | | | | | | | | | | | | | | | | | | | |
| 46% | 50% | Yes | | | | | | | | | | | | | | | | | | | |
| Interest Rate Decrease | Resubmit if the interest rate decrease is due to a product change or permanent buydown | | | | | | | | | | | | | | | | | | | | |
| Loan Amount: Purchase | Resubmit if any change in loan amount | | | | | | | | | | | | | | | | | | | | |
| Loan Amount: Refinance | <div>Resubmit if the loan amount:</div> <ul style="list-style-type: none">Increases by more than the lesser of \$500 or 1% of the loan amount; orDecreases by >5%. <div>These tolerances are allowed if the new LTV/CLTV/HCLTV does not result in:</div> <ul style="list-style-type: none">Changes to MI coverage; orDifferent LLPA; orChanges to loan eligibility. | | | | | | | | | | | | | | | | | | | | |



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| | Does not apply to maximum cash back to borrower on a rate & term refinance |
| Loan Purpose | Resubmit if loan purpose changes |
| Loan Type (product) | Resubmit if loan type changes |
| Occupancy Type | Resubmit if occupancy type changes |
| Property Type | Resubmit if property type changes |
| Sales Price | Resubmit if sales price changes |
| Ineligible Recommendation | Investigate; exception is required to proceed |

1E.2(f) DU Validation Service

The DU validation service allows certain components of the loan file, such as income, to be validated by DU using an electronic verification report obtained from designated vendors. DU will use the data from the verification report to validate specific borrower income information entered into DU.

For loans assessed by the DU validation service, comply with the following:

- Obtain borrower authorization to receive the information from the vendor;
 - Confirm that the verification report matches the borrower;
 - Ensure information entered in DU is properly documented;
 - Investigate and resolve any conflicting or contradictory information;
 - Retain a copy of all verification reports in the loan file, in addition to any other documentation required by DU; and
 - Ensure that the most current version of the verification report is used by the DU validation service.
- If an updated verification report is obtained, the loan must be resubmitted to DU.

1E.2(g) Validation Results

When a component of the loan file, such as income, is assessed by the DU validation service, three results are possible. DU will issue a message providing the validation results.

| Result | Message |
|-----------|--|
| Validated | DU has determined that the information provided on the verification report supports the information entered into DU for the component being validated. The DU message(s) will indicate that the verification report is acceptable |



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| | documentation to support the component that has been validated. |
| Not Validated | information entered into DU for the component of the loan file eligible for validation. The DU message(s) will indicate what documentation, in addition to the verification report, is required. |
| Unable to Validate | DU is unable to validate the information entered into DU for the component eligible for validation. This could be due to an inability to access the verification report or due to the information obtained from the verification report being sufficient for DU to validate the component. The DU message(s) will indicate what documentation is required. |

1E.2(h) Validated Components and Documentation Requirements

The following table lists the income types that can be validated, and the documentation that DU will require, which may be different than the standard documentation is this Underwriting Guide.

Income Validation

| Eligible Income Type | Eligible Verification Report |
|--|--|
| Base (non-self employed) | Asset Verification Report Employment and Income Verification Report |
| Bonus | |
| Overtime | |
| Commission Income | |
| Alimony | Asset Verification Report |
| Child Support | Asset Verification Report |
| Military Income | <ul style="list-style-type: none"> Asset Verification Report |
| Retirement (Pension) | <ul style="list-style-type: none"> Asset Verification Report Tax return Transcript (Taxpayer Tax return Summary Report) |
| Retirement (IRA, annuities, pension) | <ul style="list-style-type: none"> Tax Return Transcripts (Taxpayer Tax Return Summary Report) Additional documentation may be required depending on the type of retirement income |
| Social Security (retirement, disability, | <ul style="list-style-type: none"> Asset Verification Report |



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| supplemental, survivor benefits) | <ul style="list-style-type: none"> • Tax Return Transcripts (Taxpayer Tax Return Summary Report) • Additional documentation may be required depending on the type of Social Security income |
| Self-employed (IRS Form 1040, Schedules C or C-EZ for sole proprietorships only) | Tax Return Transcript (taxpayer Tax Return Summary Report) |
| VA Benefits (Non-educational) | Asset Verification Report |
| <p>▪ Note: Additional supporting documentation may be required for some income types (such as child support or alimony)</p> <p>Income – Additional Information</p> <p>The following additional information applies to income validated by DU:</p> <ul style="list-style-type: none"> ▪ If an employment and income verification report is used, the vendor must obtain income information using data obtained from the report supplier's existing database of employer-provided information. ▪ All income or direct deposits amounts shown on the income or asset verification report must be reflected in U.S. dollars. ▪ When DU Validates income: <ul style="list-style-type: none"> ○ it is not required to determine if the borrower is employed by a family member or interested party to the property sale or purchase. ○ A verbal verification of employment must be obtained. <p>The vendor may offer additional acceptable options to obtain information:</p> <ul style="list-style-type: none"> ▪ Data obtained from the report supplier's existing database of employer-provided information. ▪ Data developed from a manual request for the report supplier to contact the employer directly to obtain the information. | |

Employment Validation

The following table lists the employment types that can be validated, and the documentation that DU will require, which may be different than the standard documentation required in this Guide.

| Eligible Employment Type | Eligible Verification Report |
|--------------------------|------------------------------|
| Base | Asset Verification Report |



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| | |
|---|---|
| Bonus | Employment and Income Verification Report or Employment Verification Report. |
| Overtime | |
| Commission Income | |
| Military Employment | Asset Verification Report |
| <p>The vendor may offer additional acceptable options to obtain information:</p> <ul style="list-style-type: none">• Data obtained from the report supplier's existing database of employer-provided information.• Data developed from a manual request for the report supplier to contact the employer directly to obtain the information. <p>Employment - Additional Information</p> <ul style="list-style-type: none">• Income and employment are assessed independently; however, the results of the employment validation may impact income validation, for example if employment is not able to be validated, the associated income will not be validated.• When employment is validated by DU, the validation satisfies the requirement for a verbal verification of employment and loan must close by the "Close by Date" stated in the DU Validation message.• A review of the verification report relied upon by DU, including any Employer Disclaimer information, if applicable, and:<ul style="list-style-type: none">○ Investigate and resolve any conflicting or contradictory information, and○ when an asset verification report is used to validate employment, review to confirm that the borrower is listed as an owner of the asset account and that the report reflects the borrower's name as account holder. Review of the report covering the period of time (30 or 60 days) is required for asset verification for the transaction type, or○ if no asset verification is required for the transaction, the account activity covering the most recent 30-day period, for these purposes. | |

1E.2(i) Verbal Verification of Employment Alternative for Employment Validated Using an Asset Verification Report

When employment is initially validated using an asset verification report and the loan will not close by the "Close by Date" stated in the DU employment validation message,

- a supplemental asset report from an asset verification vendor may be obtained, and



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- perform a manual review of the report to satisfy the standard requirements for verbal verification of employment.

Note: When this method is used the representation and warranties through the DU validation service related to employment validation do not apply.

When used to reverify employment, the supplemental asset report must:

- be obtained within the same timeframe required for a verbal verification of employment, and
- be from the same asset verification report vendor as the initial asset verification report relied on to validate employment and include:
 - the account numbers and the account holder name for each account includes in the report;
 - the date of the report, and
 - the date and deposit details of the deposits reflected on the report.

The report must confirm:

- the borrower is listed as an account holder;
- the deposit details of the direct deposits that are being used to reverify employment
 - match the ACH details identified in the DU findings messages for the direct deposit streams used by DU to validate employment, and
 - are consistent with the income source provided in DU;
- the pattern of receipt of the identified direct deposits used to reverify employment does not reflect missed payments, and the latest expected payment prior to the date of the report is present.

There must be no knowledge of information indicating the borrower may no longer be employed and must investigate and resolve any conflicting or contradictory information,

All supplemental asset reports must be retained in the loan file.

Asset Validation

The following table lists the asset types that can be validated, and the documentation that DU will require, which may be different than the standard documentation required in this Underwriting Guide.

| Eligible Asset Type | Eligible Verification Report |
|---|--|
| Total funds to be verified as required by DU, based on assets held in the following accounts: | Asset Verification Report |
| Checking | Additional documentation may be required |



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| | |
|---|--|
| Savings | depending on the type of asset account and the assessment conducted by DU for validation purposes. |
| Certificates of Deposit | |
| Stocks | |
| Money Market | |
| Mutual Funds | |
| Retirement | |
| The account statements obtained from the vendor must cover the most recent: <ul style="list-style-type: none">• 30 days of account activity for refinance transactions;• 60 days of account activity for purchase transactions; and• The most recent quarter if account information is reported on a quarterly basis. | |

1E.2(j) DU Validation Service – Tax Transcripts

In order to ensure that the income validation is completed using the most recent tax transcripts, the following must be used to determine if the transcript contains the most recent tax return information.

- For loan casefiles created on or before April 30, the most recent tax transcript must be provided. Most recent is the prior year (current year minus 1). If the prior year's tax return has not been filed or the transcript is not yet available, the most recent tax transcript is the current year minus 2.
- For loan casefiles created after April 30, the current year tax transcript must be provided for validation. The most recent tax transcript is the prior year (current year minus 1)

1E.3 Loan Product Advisor General Requirements

When underwriting loans with LPA, you must:

- Employ prudent underwriting judgment in assessing whether a loan casefile should be approved;
- Confirm the accuracy of the data submitted, making sure that you did not fail to submit any data that might have affected the LPA recommendation had it been known;
- Ensure that the loan complies with all of the verification messages and approval conditions specified in the LPA Feedback Certificate;
- Apply due diligence when reviewing the documentation in the loan file;
- Review the credit report to confirm that the data that LPA evaluated with respect to the borrower's credit history was accurate and complete;
- Determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by LPA; and



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- Take action when erroneous data in the credit report or contradictory or derogatory information in the loan file would justify additional investigation or would provide grounds for a decision that is different from the recommendation that LPA delivered.

1E.3(a) Maximum Number of Borrowers

There may be no more than five (5) borrowers on a transaction and submitted to LPA. Any loan with more than five (5) borrowers must be manually underwritten and is not permitted.

1E.3(b) Loan Product Advisor Risk Class and Eligibility

| Decision | Description |
|--|--|
| Accept | An Accept Risk Class confirms that LPA has determined that the borrower's credit worthiness is acceptable. All underwriting guidelines in this Underwriting Guide must be met. |
| Caution | A Caution Risk Class indicates that the mortgage is unlikely to comply with Freddie Mac's eligibility and underwriting requirements because there is a strong indication of excessive layering of risk. Loans with an LPA Caution are not eligible for delivery to Newrez. |
| Caution/A Minus | A Caution/A-minus may be eligible for sale as an Affordable Merit Rate Mortgage. The Feedback Certificate will specify if a mortgage is eligible for A-minus. Loans with an LPA Caution A-minus are not eligible for delivery to Newrez. |
| Incomplete/Invalid | LPA does not contain the rules or models that are necessary in order to underwrite the product, borrower, or type of loan submitted. LPA will not produce messages on a Feedback Certificate. Loans that are Incomplete or Invalid are not eligible for delivery to Newrez. |
| The LPA Feedback Certificate will indicate the loan's purchase eligibility. The purchase eligibility must be Freddie Mac Eligible. | |

1E.3(c) Loan Product Advisor Data and Delivery Information Accuracy

The final LPA Risk Class and Documentation Level must reflect the loan as it was closed, including



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occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value.

Verification documents must be reviewed, and the verified values compared to the data submitted to LPA. The terms of the closed loan must match the terms of the final loan casefile submission in LPA or fall within the tolerances listed in the following table.

It is possible that some loans will not require additional underwriting submissions as long as the requested income and asset documentation supports the information disclosed on the loan application within allowable tolerances.

Resubmission of a loan to LPA prior to closing is required if:

- Information on the previous submission was not true, complete, or accurate; or
- The most recent submission (including the date of the LPA credit report) exceeds the data requirements.

The final Transmittal Summary must be maintained in the permanent loan file documenting the verified values of the data utilized to perform the underwriting analysis. Although the requested income and asset documentation may be within allowable tolerances, thereby avoiding any requirement to resubmit the application to LPA, the final Transmittal Summary must be updated with the verified values and executed by the appropriate underwriter.

Freddie Mac continuously updates LPA with new versions of the system. When a loan was initially run through a specific version of LPA, any underwriting updates for that same loan will run through the same version of LPA. Any updated LPA versions will not apply to previously submitted loans.

The following table provides acceptable tolerances for which a resubmission to LPA is not required. Only one of these tolerances may be used on any loan transaction without resubmission to LPA.

Note: While Freddie Mac allows for tolerances, individual mortgage insurance companies may require additional review based on any data that may have changed during the loan process to determine that the appropriate coverage and rate are applied.

| Data Element | Resubmission Policy |
|--------------|---------------------|
|--------------|---------------------|



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| | |
|--|---|
| Appraised Value | Resubmit if any change in value |
| Funds to Close Reserves | Resubmit if: <ul style="list-style-type: none"> The verified assets to close decrease; or The verified reserves decrease; or The verified reserves decrease to an amount that is less than the reserves required to be verified on the LPA Feedback Certificate. |
| Borrowers Added/Deleted | Resubmit if any borrowers are added or deleted |
| Debt Increase Income Decrease Interest Rate Increase | Resubmission is not required if: <ul style="list-style-type: none"> The total DTI is $\leq 45\%$ and DTI has increased $< 3\%$. |
| Interest Rate Decrease | Resubmit if the interest rate decrease is due to a product change or permanent buydown |
| Loan Amount: Purchase | Resubmit if any change in loan amount |
| Loan Amount: Refinance | Resubmit if the loan amount: <ul style="list-style-type: none"> Increases by \$500 or more or more than 1% of loan amount, and mortgage insurance is <u>not required</u>; or Increases by \$500 or more or more than 1% of loan amount, and mortgage insurance is <u>is required</u>, and the change impacts mortgage insurance coverage. AND <ul style="list-style-type: none"> For mortgages that qualify for an appraisal waiver and appraisal waiver will not be accepted. Resubmit if the loan amount: <ul style="list-style-type: none"> Decreases more than 5% and mortgage insurance is <u>not required</u>; or Decreases more than 5% and mortgage insurance is <u>is required</u> and the change impacts mortgage insurance coverage. AND <ul style="list-style-type: none"> For mortgages that qualify for an appraisal waiver, the appraisal waiver offer will not be accepted. Does not apply to maximum cash back to borrower on a rate & term refinance. |
| Loan Purpose | Resubmit if loan purpose changes |



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| | |
|---------------------|------------------------------------|
| Loan Type (product) | Resubmit if loan type changes |
| Occupancy Type | Resubmit if occupancy type changes |
| Property Type | Resubmit if property type changes |
| Sales Price | Resubmit if sales price changes |

1E.4 Loan Product Advisor Asset and Income Modeler (AIM)

The LPA asset and income modeler allows certain components of the loan file, such as income, to be validated by LPA using an electronic verification report obtained from designated vendors. LPA will use the data from the verification report to validate specific borrower income information entered into LPA.

For loans assessed by the LPA AIM, comply with the following:

- Obtain borrower authorization to receive the information from the vendor;
- Confirm that the verification report matches the borrower;
- Ensure information entered in LPA is properly documented Investigate and resolve any conflicting or contradictory information;
- Retain a copy of all verification reports in the loan file, in addition to any other documentation required by LPA; and
- Ensure that the most current version of the verification report is used by the LPA AIM. If an updated verification report is obtained, the loan must be resubmitted to LPA.

1E.4(a) Validation Results

When a component of the loan file, such as income, is assessed by the LPA AIM validation service, three results are possible. LPA will issue a message providing the validation results.

| Result | Message |
|-------------------|--|
| Loan Eligible | <p>LPA has determined that the information provided on the verification report supports the information entered into LPA for the component being validated.</p> <p>The LPA message(s) will indicate that the verification report is acceptable documentation to support the component that has been validated.</p> |
| Loan Not Eligible | <p>LPA has determined that the information provided on the verification report does not fully support the information entered into LPA for the component</p> |



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| | |
|-------------|--|
| | of the loan file eligible for validation. The LPA message(s) will indicate what documentation is required. |
| Unavailable | LPA is unable to validate the information entered into LPA for the component eligible for validation. This could be due to missing or incomplete information from the service provider of a system being down. The LPA message(s) will indicate what documentation is required. |

1E.4(b) Validation Components and Documentation Requirements

The following table lists the income types that can be validated directly from borrower's paystub and w2 forms, and the documentation that LPA will require, which may be different than the standard documentation required in this Underwriting Guide.

| Eligible Income Type | Eligible Verification Report |
|--|------------------------------|
| Base | Income Verification Report |
| Bonus | |
| Overtime | |
| Commission Income | |
| The following employment earnings are not eligible for AIM: <ul style="list-style-type: none">• Military pay;• Earnings of a borrower employed by a family member, the property seller, real estate broker or other interested party to the transaction;• Employed income from foreign sources; and• Income reported on Internal Revenue Service Form 1099. | |
| A verbal verification of employment must be obtained. | |

The following table lists the asset types that can be validated, and the documentation that LPA will require, which may be different than the standard documentation required in this Underwriting Guide.

| Eligible Asset Type | Eligible Verification Report |
|---------------------|------------------------------|
| Checking | Asset Verification Report |



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| | |
|---|--|
| Savings | |
| Money Market | |
| Gifts and Grants | |
| Securities | |
| Retirement Accounts | |
| Borrower's business checking, savings and/or money market | |
| <p>The following assets sources are not eligible for AIM:</p> <ul style="list-style-type: none">• Cash on hand• Assets that will be used by the borrower for the repayment of the monthly obligations <p>The following must be confirmed:</p> <ul style="list-style-type: none">• Each asset in the asset verification report is owned by at least one borrower and that borrower has access to the funds; and• There are no outstanding loan secured by any of the asset accounts included in the asset verification report. | |

| Revision History | Date |
|---|------------|
| Fannie Mae SEL 2025-01 Updated DU Asset Verification/ report for: <ul style="list-style-type: none"> ○ Military Income and ○ Military Employment | 02.27.2025 |
| Restriction removed showing: Military Income is not eligible for Income Validation based on Fannie Mae update | 03.27.2025 |
| Updated DU Data and Delivery Information Accuracy for resubmit if the DTI is recalculated to now exceed 45% or increase by 3% or more due to: <ul style="list-style-type: none"> • Debt Increase, or • Income Decrease or • Interest Rate Increase | 05.22.2025 |



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1F.1 Documentation Standards

A credit report must be obtained for each borrower who will be obligated on the Note.

All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference. The current balance, current status, rating, monthly payment amount, and payment history for the most recent 12 months must be provided.

Written verifications of mortgage, rent, or credit must be sent directly to the creditors. The return address on the verification must be the lender's address. The hand carrying of verifications is prohibited.

1F.2 Credit Report Standards

The loan file must contain one of the following types of credit reports for each borrower:

- A merged in-file report including credit scores, from three different credit repositories; or two repositories, if that is the extent of the information available. If information from only one credit repository is available, it is acceptable if there is a credit score, and information was requested from all three repositories. If a merged in-file report is upgraded to a Residential Mortgage Credit Report (RMCR), the original merged in-file report must remain in the file; or
- Residential Mortgage Credit Report, which conforms to all applicable Fannie Mae and Freddie Mac requirements.

When a new or refreshed credit report is provided, all prior credit reports must be included in the loan file. The repulped credit report/supplement must indicate the reason and authorization for any changes, additions and/or deletions.

When the credit report shows a victim statement under the FACT Act, the originating entity must document in writing the steps taken to validate the loan application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws.

Credit report alerts must be reasonably resolved with supporting documentation included in the loan file. Although due diligence is required, it does not release the Client from representations and warranties regarding misrepresentation.

For LPA transactions: Inquiries shown on credit report must be identified on subsequent credit reports (i.e. hard credit pull)



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The borrower's present address must be within the U.S. in order to obtain a credit report. The borrower's present address must be within the US, US territories or an APO, FPO or DPO military address located within the US in order to obtain a credit report that is compatible with DU or LPA requirements. **Borrowers with foreign credit reports must be manually underwritten and are not eligible.**

1F.2(a) Credit Report Versions

The following versions of the classic FICO score is required for all loans:

- Equifax Beacon® 5.0;
- Experian®/Fair Isaac Risk Model V2SM; and
- TransUnion FICO® Risk Score, Classic 04.

These three scores must be requested for each borrower from each of the three major repositories for a three in-file merged credit report.

The credit report will indicate if a credit score could not be produced due to insufficient credit. The credit report must be in the loan file, whether the report includes traditional credit and a credit score or indicates that a credit score could not be produced due to insufficient or frozen credit.

1F.2(b) Credit Report Red Flags

When underwriting a credit report, the borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information. The borrower's address history must be examined for consistency with other file documentation. Discrepancies must be adequately explained, and questionable explanations researched. The use of a U.S. address to obtain a credit report for a borrower who resides in another country is not permitted.

1F.2(c) Frozen Credit

| | |
|--|---|
| Credit Frozen at one of three repositories | Repository may remain frozen, and loan will be underwritten by DU/LPA using the credit data received from the other two repositories. |
| Credit frozen at one of the three repositories and no credit score from other repositories | Credit must be unfrozen. If the credit is unfrozen after the date that the original credit report was ordered, a new three-file merged credit report must be obtained to reflect current updated information from all repositories. |
| Credit frozen at two or more of | |



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| | |
|------------------|------------------------|
| the repositories | Resubmit to DU or LPA. |
|------------------|------------------------|

1F.3 Credit Scores

A credit score represents a comprehensive view of a borrower's credit history risk factors. The higher the score the lower the risk of default. The score in combination with the dates and severity of late payments should be considered. Refer to the individual Product Profiles for any credit score requirements.

1F.4 Selection and Validation of Credit Scores

Selecting the credit score for loan qualification is a two-step process.

- Select the credit score for each individual borrower; and
- Select the credit score used for loan qualification.

1F.4(a) Selection of Credit Score

Select the credit score for each borrower. Use the lowest selected credit score among all borrowers for loan qualification.

| Number of Scores | Score |
|---|------------------|
| 3 | Middle Score |
| 2 | Lower of the two |
| 1 | Use score |
| If two repositories report identical credit scores, use that score for qualification. | |

1F.4(b) Authorized User Account

When a credit account owner permits another person to have access to and use an account, the user is referred to as an authorized user of the account. This practice is intended to assist related individuals in legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner.

When the borrower's credit report contains authorized user accounts, the DU or LPA decision is considered valid if there is evidence of at least one of the following:

- Another borrower on the mortgage owns the trade line;
- The trade line is owned by the borrower's spouse; or

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- The borrower has been making the payments on the account for at least 12 months and the monthly payment as reported on the Borrower's credit report, is included in the monthly debt payment-to-income ratio.

| Fannie Mae DU | Freddie Mac LPA |
|--|--|
| <ul style="list-style-type: none"> • DU takes credit report tradelines designated as authorized user tradelines into consideration as part of the DU credit risk assessment. However, the credit report tradelines must be reviewed to ensure that the tradelines are an accurate reflection of the borrower's credit history. • If the lender believes the authorized user tradelines are not an accurate reflection of the borrower's credit history, the lender should evaluate the borrower's credit history without the benefit of these tradelines and use prudent underwriting judgment when making its final underwriting decision. In order to assist in the review of authorized user tradelines, DU issues a message providing the name of the creditor and account number for each authorized user tradeline identified. • When ensuring tradelines are an accurate reflection of the borrower's credit history, as a general guide, if the borrower has several authorized user accounts but only has a few accounts of their own, the lender should establish: <ul style="list-style-type: none"> ○ the relationship of the borrower to the owner of the account, ○ if the borrower uses the account, and ○ if the borrower makes the payments on the account. ○ If the authorized user tradeline belongs to another borrower on the mortgage loan, no additional investigation is needed • On the other hand, if the borrower has several tradelines in good standing and only a minor number of authorized user accounts, the lender could make the determination that: | <ul style="list-style-type: none"> ○ When the borrower's credit report contains tradelines for which the borrower is not the primary account holder but is listed as an authorized user, LPA will return a message indicating when the following requirements must be met: <ul style="list-style-type: none"> ○ The file must contain documentation evidencing that for each authorized user account: <ul style="list-style-type: none"> ▪ Another borrower on the mortgage owns the tradeline in question, or ▪ The tradeline is owned by the borrower's spouse, or ▪ The borrower has been making payments on the account for the last 12 months and the monthly payment, as reported on the borrower's credit report, is included in the monthly debt payment-to-income ratio. OR ○ If the underwriter is unable to document one of the above requirements for each authorized user account, the underwriter may make the determination that the authorized user accounts have an insignificant impact on the borrower's overall credit history and the information on the credit report is representative of the borrower's own credit reputation. The underwriter should base the determination on the number of the borrower's own tradelines, as well as their age, type, size, and the payment history, as compared to the authorized user accounts. The underwriter must document the determination in the mortgage file. • If the Underwriter is unable to document the requirements above, the LPA assessment invalid and is ineligible (the loan would require |



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| | |
|---|---|
| <ul style="list-style-type: none">○ the authorized user accounts had minimal, if any, impact on the borrower's overall credit profile; and○ the information reported on the credit report is an accurate reflection of the borrower's credit history.● The lender is not required to review an authorized user tradelines that belongs to the borrower's spouse when the spouse is not on the mortgage transaction. | a manual underwrite which is not permitted by Newrez) |
|---|---|

1F.4(c) Trade Line Requirements

There is no minimum trade line requirement. DU and LPA will determine if there are sufficient trade lines to evaluate a borrower's credit history.

1F.4(d) Self-Reported Tradelines

Self-reported tradelines on a credit report are acceptable. DU and LPA will consider them in its risk assessment. The inclusion of the self-reported tradelines does not significantly alter the DU and LPA recommendation.

1F.4(e) Foreign Credit Reports and Credit Scores

Foreign credit reports and credit scores are not permitted.

1F.5 Nontraditional Credit

Nontraditional credit is permitted in conjunction with DU Approve/Eligible and LPA Accept Eligible loans for borrowers who have no credit score or at least one (1) borrower on the loan has no credit score.

If one or more borrowers do not have a credit score due to insufficient credit, an acceptable nontraditional credit history must be established. All three major credit repositories must be checked to verify the borrower's credit history and confirm that the borrower does not have a credit score.

If the borrower's credit information is frozen at one (1) of the credit repositories, and no credit score is available from any other repository, the loan may be underwritten in accordance with the following requirements for



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nontraditional credit. If the borrower's credit information is frozen at two (2) or more of the credit repositories, the loan is not eligible as nontraditional credit even though no credit score is available.

The credit report will indicate if a credit score could not be produced due to insufficient credit. Ensure that the credit report accurately reflects the borrower's information, such as the name, Social Security number, and current residence of the borrower to confirm that the lack of traditional credit was not erroneously reported because incorrect information was used to order the credit report.

1F.5(a) Unacceptable Uses of Nontraditional Credit

The establishment of a nontraditional credit history is not acceptable for the following scenarios:

- A credit score for the borrower can be obtained despite the borrower's limited use of credit;
- The borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required; or
- The borrower's traditional credit history indicates significant derogatory references, such as a prior bankruptcy or foreclosure. In these cases, the borrower must have re-established credit. Refer to [Re-established Credit](#).

1F.5(b) Number of Nontraditional Credit Sources Required

The number of nontraditional credit sources that must be documented for a borrower without a credit score are defined below.

If two (2) or more borrowers without a usable credit score have the same payment reference, then the payment reference may count for each of the borrowers.

| | No Borrower Has a Credit Score | Not All Borrowers Have a Credit Score |
|---------------|---|---|
| Fannie Mae DU | <p>Lenders may submit loan casefiles to DU when no borrower has a credit score.</p> <p>When no borrower on the loan has a credit score, but at least one borrower has a minimum of one credit account or installment account reported on their credit report, DU will assess the risk using the borrower's reported credit and the loan will be subject to standard eligibility guidelines.</p> <p>When no borrower on the loan has a</p> | <p>Lenders may submit loan casefiles to DU when one (or more) borrower(s) has a credit score and at least one borrower does not have a credit score. The following documentation requirements apply:</p> <p>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.</p> |



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| | | |
|--------------------------------|---|---|
| | <p>credit score, and no borrower has at least one credit account or installment account reported on their credit report, DU will apply the following requirements:</p> <ul style="list-style-type: none">• The property must be a one- to four-unit, principal residence, and all borrowers must occupy the property.• The transaction must be a purchase or limited cash-out refinance.• Reserves may be required as determined by DU. <p>In both cases, no verification of nontraditional credit references is required for any borrower when DU conducts a cash flow assessment and issues a message that the third-party asset verification report may be used to satisfy the requirements. Otherwise, a nontraditional credit history must be documented for each borrower without a credit score. See Fannie Mae Ch. B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History, for additional information.</p> <p>If a loan casefile does not receive an Approve Eligible, it may receive a more favorable recommendation if a 12-month asset verification report is obtained for DU to conduct a cash flow assessment and issues a message that the third-party asset verification report may be used to satisfy the requirements in 1F.5(d) Documentation Requirements.</p> | <p>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. The lender can complete this manually or may rely on the DU message indicating that the 12-month asset verification report satisfies this requirement when DU completes a cash flow assessment</p> <p>See Fannie Mae Ch. B3-5.4-03, Documentation and Assessment of a Nontraditional Credit History, for additional information.</p> |
| Homeownership Education | | |



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| | | |
|---|---|---|
| If all borrowers on the loan are relying solely on nontraditional credit to qualify, at least one borrower must complete homeownership education prior to loan closing. | | |
| | No Borrower Has a Credit Score | Not All Borrowers Have a Credit Score |
| Freddie Mac LPA | At least two (2) credit references, in the U.S., not appearing on the credit report, for each borrower are required. | Borrower(s) without a credit score contributes <ul style="list-style-type: none"> • 50% or more of qualifying income, at least two (2) sources in the U.S. for each borrower without a credit score is required. • Less than 50% of qualifying income, no nontraditional credit history is required for the borrowers without a credit score. |
| Eligibility | <ul style="list-style-type: none"> • Fixed rate • LPA Accept • Primary residence • 1-unit • Purchase or Rate & Term Refi • Maximum 95% LTV/CLTV/HCLTV • All borrowers must occupy the property • One borrower must complete homebuyer education • Super Conforming not permitted | <ul style="list-style-type: none"> • At least one borrower has a credit score • LPA Accept • Primary residence • 1-unit • Purchase and Rate & Term Refi • All borrowers must occupy the property |
| Refer to 1F.5(d) Documentation Requirements | | |

1F.5(c) Eligible Types of Nontraditional Credit References

The types of credit that can be used to develop a nontraditional credit history are those that require the borrower to make periodic payments on a regular basis with intervals that are no longer than every three (3) months.

An informational interview must be conducted with the borrower to identify all credit references over the



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most recent consecutive 12 months. If a nontraditional mortgage credit report is being requested from a consumer reporting agency, the agency will conduct the borrower interview and obtain the list of available nontraditional credit references.

In all cases, the payment history for each credit reference must be documented for the most recent consecutive 12-month period. All credit references must be included, not just those that reflect acceptable performance.

The following nontraditional credit sources may be used to develop a nontraditional credit history for the borrower:

- Rental Housing Payments. This includes payments made to a landlord or management company, payments made on a privately held mortgage that is not reported to the credit bureaus, contract for deed payments, and other similar arrangements, provided payments are related to the borrower's housing. Refer to [Rental Payment History](#).
 - Loans where nontraditional credit history is required must include rental housing payments as one (1) source of nontraditional credit.
- Privately Held Mortgages: Housing payments for borrower's residence not reported to the credit bureaus, such as contract for deed payments and/or other similar arrangements; and,
- Real Estate Taxes: Payments made on a principal residence, regardless of payment frequency for homes owned free and clear.
- Utilities, such as electricity, gas, water, telephone service, television, and internet service providers. If utilities are included in the rental housing payment, they cannot be considered a separate source of nontraditional credit. Utilities can be considered only if the payment history can be separately documented.
- Medical insurance coverage (excluding payroll deductions)
- Automobile insurance payments
- Cell phone payments
- Life insurance policies (excluding payroll deductions)
- Payments for household or renter's insurance
- Payments to local stores, such as department stores, furniture stores, appliance stores
- Rental (or lease) payments for durable goods, such as automobiles
- Payment of medical bills
- Payment of school tuition
- Payments for child care



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- A loan obtained from an individual, provided the repayment terms can be documented in a written agreement
- Checking account, savings account, voluntary payments made to a payroll savings plan or contributions to a stock purchase plan, provided the records reflect an increasing balance as a result of periodic deposits over at least the most recent 12 months. Contributions must have been made no less than quarterly.
- Wire remittance statements demonstrating a consistent amount of funds remitted over the most recent 12-month period.

1F.5(d) Documentation Requirements

Documentation may be provided directly from the borrower or the creditor, or by obtaining a nontraditional mortgage credit report from a consumer reporting agency.

| | |
|-----------------|--|
| Fannie Mae DU | If a non-U.S. citizen lacks sufficient credit references in the U.S. to satisfy these requirements, credit references from foreign countries must be used to achieve the required number of nontraditional credit references and establish a nontraditional credit profile. |
| Freddie Mac LPA | Permanent or nonpermanent resident alien borrowers must have established the minimum number of payment references required in the U.S. A U.S. credit history may be supplemented with a credit history from a foreign country to establish an acceptable credit reputation. |

1F.5(d)(i) Rental Payment History

The borrower's rental payment history must be documented for the most recent consecutive 12-month period.:

- Canceled checks, the borrower's bank statements, copies of money orders, or other reasonable methods for documenting the timely payment of rent may be used. The documentation must clearly indicate the payee and amount being paid, and reflect that payments were made on a consistent basis.
- Direct landlord verification is acceptable whether the landlord is an individual or a professional management company.



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If the credit report contains a rental payment reference and it includes the required information, including payment history, then that rental payment reference may be used as an acceptable nontraditional credit reference.

| Fannie Mae DU | Freddie Mac LPA |
|--|--|
| <ul style="list-style-type: none">• At least one (1) borrower without a credit score must have a housing payment history as one (1) of the payment references.• A rental payment history is not required for the other borrowers on the loan.• If two (2) or more borrowers share the housing-related reference (for example, they are both named on the lease for the property in which they are living), that documentation counts as one nontraditional credit reference for each borrower, even if only one (1) borrower has been making the payments. | <ul style="list-style-type: none">• At least one (1) borrower without a credit score must have a housing payment history as one (1) of the payment references.• If more than one (1) borrower without a credit score has a housing payment history, then all such housing payment histories for the most recent 12 months (or length of housing payment history if less than 12 months) must be verified. |

1F.5(e) Credit Reference Standards

Individual credit references (other than rental housing payments) from a creditor must include the:

- creditor's name and address;
- name of the payor;
- name and title of the individual providing the reference;
- telephone number of the creditor;
- account number, if applicable;
- nature of obligation (rent, utilities, payment for purchases, insurance, etc.);
- date the account was opened;
- amount of highest credit;
- current status of the account;
- required payment amount;
- unpaid balance; and



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- payment history.

The historical status of each account must be stated in a “number of times past due” format using “0x30, 0x60, 0x90” days late.

1F.5(f) Documenting a Nontraditional Payment History Obtained From the Borrower

For documentation obtained directly from the borrower, the following standards must be met:

- Documentation that describes the terms of the debt repayment or contract together with canceled checks or copies of bills marked “paid” that reflect the borrower’s payment history over the most recent consecutive 12 months.
- Withdrawals or debits on the borrower’s bank statements that show the payee information clearly listed for the creditor and that payments were made on a consistent basis over the most recent consecutive 12 months.

1F.5(g) Verification of Bank Accounts and Wire Remittance Statements

Account statements can be used to document a nontraditional credit history, provided they are from the borrower’s checking account, savings account, voluntary payments made to a payroll savings plan, or contributions to a stock purchase plan.

- The account statements must reflect an increasing balance as a result of periodic deposits over at least the most recent consecutive 12-month period, with contributions being made no less than quarterly.
 - If the account statements demonstrate overdraft activity, that information suggests a weakness in the borrower’s ability to meet financial obligations. Assess the significance of this information relative to the borrower’s overall credit risk.
- Wire remittance statements can be used to document a nontraditional credit history, provided they demonstrate a consistent amount of funds being remitted over the most recent consecutive 12-month period.

1F.5(h) Borrowers with Disabilities

If a borrower with disabilities does not have a credit score and a nontraditional credit history is being developed, documentation provided by a court-appointed guardian, a Social Security Administration representative payee, or a parent, provided that this party:

- manages the borrower’s financial transactions;



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- maintains records on the borrower's behalf; and
- uses credit accounts held jointly in the name of the person with disabilities to pay financial obligations.

The documentation provided may be used either to request a nontraditional mortgage credit report from a consumer reporting agency, or to establish a nontraditional credit history for the borrower.

1F.5(i) Acceptable Nontraditional Payment History

Nontraditional credit references must meet the following:

- Rental Payment History: 0x30x12
- Non-Housing
 - Only one account may have a 1x30x12
 - 0x60x12
 - No collections (other than medical), judgments, or tax liens have been filed in the past 24 months

A borrower may lack sufficient credit to obtain a credit score; however any derogatory credit references that appear on the credit report must still be considered.

1F.6 Inquiries and Undisclosed Liabilities

All debt incurred during the application process and through loan closing must be disclosed on the final application and included in the loan qualification. Recent inquiries may indicate that the borrower has been actively seeking new credit accounts.

When the credit report indicates recent inquiries (excluding all utility company inquiries), confirm that the borrower has not obtained any additional debt that is not reflected on the loan application. If additional credit was obtained, verification of that debt must be provided, and the borrower must be qualified with the monthly payment. All credit inquiries (excluding all utility company inquiries) made within 90 days must be validated, which includes a letter of explanation for each inquiry and evidence of any new debt.

To help identify undisclosed debt not reflected on the initial credit report but obtained up to and including the day of closing, the following is required, for Newrez underwritten loans, and strongly recommended for loans underwritten by Delegated Clients:

- A single repository refreshed Soft Credit Pull or a third-party undisclosed debt monitoring (UDM) report,



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for the purpose of determining if any new debt has been incurred by the borrower(s).

- The Soft Credit Pull or UDM report should be obtained as close as possible to closing but at least within 10 days of the Note date.
- If any new credit inquiries appear on the Soft Credit Pull or UDM report, those inquiries must be addressed by the borrower(s).
- Any new debt must be considered in the DTI and DU/LPA rerun if tolerances have been exceeded.

For Newrez underwritten loans, a condition will be placed on the Loan Decision Letter (LDL) for a Soft Credit Pull or UDM report and must be included with the final package submitted for purchase.

All Delegated Clients must have a policy to monitor for undisclosed debt through closing (note date).

The Soft Credit Pull should include any new obligations that were not identified on the initial tri-merge credit report. The Soft Pull should not include:

- FICO
- Previously disclosed obligations from the initial tri-merge credit report

When the Soft Credit Pull provides more information than is required, that information must be considered and could negatively impact the loan. For example:

| If | Then |
|--|---|
| The Soft Credit Pull includes a credit score(s) for any of the borrowers. | A new tri-merged credit report for all borrower(s) must be obtained and DU/LPA rerun. |
| The Soft Credit Pull includes updated payment histories for existing tradeline(s) shown on the original credit report. | If any new derogatory credit is revealed, a new tri-merged credit report for all borrower(s) must be obtained and DU/LPA rerun. |
| The Soft Credit Pull includes updated monthly payments and updated outstanding balances for existing tradeline(s) shown on the original credit report. | The new monthly payments must be considered, and DU/LPA rerun if outside of tolerance. |



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Non-Delegated and Delegated Clients may also want to consider running a MERS report to determine if the borrower has undisclosed liens or another mortgage being established simultaneously.

Any debts identified post-closing affecting loan eligibility guidelines may impede the purchase of the loan. See Chapter [1E](#) Underwriting and Chapter [1H](#) Liabilities and Debt Ratios for more information.

1F.7 Housing Payment History

On the date of the loan application, all existing mortgages must be current and comply with the agency requirements shown below:

| Mortgage Pay History | |
|---|--|
| Fannie Mae DU | Freddie Mac LPA |
| <ul style="list-style-type: none">On the date of the loan application, the borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date. | <ul style="list-style-type: none">Payment history must indicate the dates the accounts were last updated with the creditors. Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report. |

If these requirements are not satisfied, the mortgage rating must be updated with a Verification of Mortgage (VOM) or cancelled checks. Obtain the current balance, current status, monthly payment amount, and payment history required based on the applicable product.

A mortgage payment is considered current if it is paid within the month due. A letter of explanation and supporting documentation is required when payments are made beyond the month due.

Payment histories on all mortgage trade lines, regardless of occupancy, including first and second mortgage liens, and HELOCs are considered mortgage debt. Mobile homes and manufactured homes reported as an installment loan must be considered as a housing payment and reviewed as such. Timeshare accounts identified as mortgage trade lines are not required to meet mortgage payment history requirements.

Mortgage payment histories do not have to be independently verified provided the credit report includes a reference to the mortgage(s) and reflects the most recent 12 months payment activity. If the credit report does not provide a mortgage payment history, DU or LPA may issue a condition if additional verification is required.

- Timeshare loans are considered installment debt regardless of how they are reported on a credit report (e.g. as a mortgage); as such, payments for timeshare loans are not considered



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housing payments and foreclosure recovery periods for reestablishment of credit are not applicable to timeshare loans in foreclosure.

| Mortgage Delinquency | |
|--|---|
| Fannie Mae DU | Freddie Mac LPA |
| <ul style="list-style-type: none">• DU will determine the acceptability of mortgage delinquency.• If there are any late mortgage payments that are not recognized by DU, the loan is not eligible if any mortgage tradeline has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date. | <ul style="list-style-type: none">• LPA will determine the acceptability of mortgage delinquency. |

1F.7(a) Verification of Rent Documentation

For mortgages secured by a second home or an investment property or when there is a non-occupying co-borrower who does not own but rents their primary residence, one of the following documentation is required to verify the monthly rental payment amount.

| Fannie Mae DU | Freddie Mac LPA |
|--|--|
| <ul style="list-style-type: none">• Direct verification of rent from a management company or individual landlord;• Six months bank statements or canceled checks reflecting a clear and consistent payment to an organization or individual; or• Copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount. | <ul style="list-style-type: none">• Direct verification of rent from a management company;• Direct verification of rent from an individual landlord supported by two months of cancelled checks or other evidence of two months' payments;• Copy of the current, fully executed lease agreement supported by two months of cancelled checks or other evidence of two months' payment; or• Six months consecutive cancelled checks or bank statements evidencing the amount used to qualify. |



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Refer to our Product Summaries for housing payment history requirements.

1F.8 Significant Derogatory Credit

The presence of significant derogatory credit dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit include bankruptcies, deeds-in-lieu, foreclosures, pre-foreclosure sales, short sales, and charge-offs of mortgage accounts.

Compensating factors cannot be used to compensate for derogatory credit.

DU and LPA may be able to measure whether or not the applicable waiting period has been met after a significant derogatory event using the credit report date. If DU or LPA is able to determine that the waiting period has not been met based on the credit report, an updated credit report may be obtained, and the loan may be resubmitted to DU or LPA after the required time has elapsed.

If DU or LPA is unable to determine the wait times, which may happen with a foreclosure or a pre-foreclosure sale or short sale, you may manually apply the pre-foreclosure sale or short sale guidelines outlined in the Table below.

1F.8(a) Waiting Period and Re-establishing Credit

Waiting period begins on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the:

- Credit report date for DU (however the Note date may be used); or
- Credit report date for LPA.

The loan application must accurately reflect “Yes” to being a party to a significant credit event.

| Fannie Mae DU | | |
|--------------------------------|-------------------------------|---|
| Derogatory Event | DU Approve/Eligible Wait Time | DU Approve/Eligible Wait Time with Extenuating Circumstances ¹ |
| Foreclosure (Mortgage Account) | ≥ 7 years from completion | A three-year waiting period is permitted if extenuating circumstances can be documented and is measured from the completion date of the foreclosure action. Additional requirements apply |

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| | | between three and seven years, which include: <ul style="list-style-type: none"> • Maximum LTV 90% or the maximum LTV/CLTV for the transaction/product parameters • Purchase of primary residence • Rate and Term Refinance for all occupancy types |
| Pre-foreclosure/Short Sale/DIL | ≥ 4 years from completion | ≥ 2 years from completion, if extenuating circumstances can be documented. |
| Mortgage Charge-off | ≥ 4 years from charge off | ≥ 2 years from charge off, if extenuating circumstances can be documented. |
| Bankruptcy, excluding Chapter 13 | ≥ 4 years discharged/dismissed | ≥ 2 years discharged/dismissed, if extenuating circumstances can be documented and is measured from the discharge or dismissal date of the bankruptcy action. |
| Bankruptcy, Chapter 13 | ≥ 2 years discharged ≥ 4 years dismissed or filed but not discharged or dismissed | ≥ 2 years discharged after dismissed, if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge. |
| Multiple Bankruptcy Filings | ≥ 5 years if more than one filing discharged/dismissed within the past 7 years | ≥ 3 years if more than one filing discharged/dismissed if extenuating circumstances can be documented and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of extenuating circumstances. |
| ¹ Extenuating Circumstances in B3-5.3-09 DU Credit Report Analysis for underwriting a loan with inaccurate credit or extenuating circumstances for eligibility. | | |



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| If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied. | |
| | |
| Freddie Mac LPA | |
| Foreclosure (Mortgage Liens and/or Real Estate Tax Liens) | LPA determines wait time and eligibility, Loan Product Advisor has evaluated the borrower's credit reputation, and determined that the credit reputation is acceptable. Follow LPA Accept. |
| Pre-foreclosure/Short Sale/DIL | |
| Mortgage Charge-off | |
| Bankruptcy, excluding Chapter 13 | |
| Bankruptcy, Chapter 13 | |
| Multiple Bankruptcy Filings | |

1F.8(b) Re-established Credit

After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, short sale, charge-off of a mortgage, or other significant derogatory credit, the borrower's credit will be considered re-established if:

- The waiting period and related additional requirements are met;
- The loan receives a DU Approve or LPA Accept; and
- The borrower has traditional credit.

See [1F.4\(b\)](#) Authorized User Accounts and [1F.4\(c\)](#) Trade Line Requirements for additional guidance when reestablishing credit, and Chapter [1H](#) Liabilities and Debt Ratios, Court-ordered Assignment of Debt, for possible exclusion of the debt and associated credit history.

1F.8(c) Delinquent Credit

| | |
|---------------------|---|
| Judgments and Liens | <ul style="list-style-type: none">• Delinquent credit, including unpaid taxes, judgments, tax liens, mechanic's or materialmen's liens, and any lien with the potential to affect Newrez's first mortgage lien position or diminish the borrower's equity, must be paid off at or prior to closing.• Satisfaction may be a condition of loan approval.• Documentation of the satisfaction must be provided. |
|---------------------|---|



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|--|---|
| | <ul style="list-style-type: none"> When the credit report or title report show federal, state, or local tax liens, a letter of explanation and proof that the lien is paid is required. <p>Verification of sufficient funds to satisfy these obligations must be documented.</p> <p>See Chapter <u>1H.4(h)</u> Federal Income Tax Installment Agreements</p> |
| Past Due Accounts | <p>Accounts that are past due (and not yet reported as a collection account) must be brought current. Verification of sufficient funds to satisfy these obligations must be documented.</p> <p>Freddie Mac/LPA loans: Follow LPA</p> |
| Collection and Charge-off of Non-Mortgage Accounts | Follow DU/LPA recommendation |
| Disputed Trade Lines | <ul style="list-style-type: none"> Fannie Mae DU: Follow DU Findings Freddie Mac LPA: Disputed accounts with supporting documentation and a written explanation from the borrower may be considered by the underwriter |
| Consumer Credit Counseling | <p>When reviewing the credit history of a borrower who is either participating in or has completed Consumer Credit Counseling the primary objective is to evaluate the borrower's credit history.</p> <p>DU and LPA will evaluate and determine eligibility.</p> |
| Credit Refresh | If any new derogatory credit is discovered after retrieving a refreshed credit report prior to closing, a new credit report must be obtained, and the loan resubmitted to DU/LPA for approval. |

| Revision History | Date |
|---|------------|
| Freddie Mac Bulletin 2024-16 expanded for LPA transactions with Authorized User tradelines to identify a manual underwrite is not needed if the Borrower has been making the payments on the accounts for the last 12 months AND the monthly payment as reported on the Borrowers credit report is included in the monthly debt to income ratio | 01.30.2025 |
| Relocated Authorized User Account requirements per DU or LPA decisions from Ch 1H to Ch. 1F | |
| Fannie Mae SEL 2025-01 updates when using DU v.12: | 02.27.2025 |



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(1) Non-Traditional Credit requirements for DU to evaluate borrower eligibility for following scenarios in

:

- No Borrower has a Credit Score – but at **least one** borrower has a minimum of one reported credit or installment account on their credit report for DU assessment
 - For each borrower without a credit score, nontraditional credit references are required. This may be completed manually or by providing the following:
 - 12-month asset verification report, and
 - obtaining a cash flow assessment through DU.
- One borrower has a credit score and one borrower has no score, the following was updated;
 - transactions will no longer be subject to to limitations for loan purpose or occupancy and
 - will now be subject to standard eligibility guidelines.
 - A manual underwrite may be completed or
 - Obtain a 12-month asset verification report for DU to complete a cash flow assessment
- Modified using Eligibility Grid for Fannie Mae transactions including Homeownership requirements
- Transferred Eligibility Requirements for Freddie Mac LPA transactions from product profile to Guide for :
 - No Borrower has a Credit Score and
 - Not All Borrowers have a Credit Score

Updated Significant Derogatory Credit to modify:

- Clarified Bankruptcy is included as an Extenuating Circumstance
- Grid for Waiting Period Requirements modified to include
 - AUS decisions in titles (Approve Eligible or Accept) and
 - Specifics for DU Approve/Eligible Waiting Period with Extenuating Circumstances
- Clarified for LPA Accept Transactions – Waiting Period to show: Loan Product Advisor has evaluated the borrower’s credit reputation, and determined that the credit reputation is acceptable.



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Chapter 1G Conforming Assets

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1G.1 Minimum Down Payment and Cash to Close

Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate additional cash reserves as the Loan Program requires.

For most Loan Programs, the borrower is required to make a minimum down payment from his or her own assets. Complete requirements are detailed in our Product Summaries.

Unless specifically waived by the Loan Program, all down payment funds and cash to close must be documented and verified. Electronic Verifications are acceptable.

1G.1(a) Minimum Borrower Contribution

Refer to specific product summary for required borrower investment of their own funds.

1G.2 Reserve Requirements

Reserves are eligible assets remaining after closing. Reserves are measured by the number of months of the qualifying payment for the subject mortgage that the borrower could pay using his or her financial assets. Reserves are used as an indication of the borrower's capacity to demonstrate a savings pattern.

The monthly housing expense includes:

- Principal and interest
- Property and flood insurance
- Mortgage insurance premiums
- Real estate taxes
- Ground rent
- Special assessments
- Homeowners' association dues (excluding any utility charges that apply to the individual unit)
- Subordinate financing payments on mortgages secured by the subject property



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1G.2(a) Simultaneous Second Home or Investment Property Transactions

If processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both applications. Reserves are not cumulative for multiple applications.

Refer to our Product Summaries for reserve requirements.

1G.3 Asset Sources

Acceptable asset sources are listed below. Not all asset sources are acceptable for down payment, closing costs and reserves. See each section for asset source acceptability.

- [Financial Institution Accounts](#)
- [1031 Tax Deferred Exchange](#)
- [Bridge Loan](#)
- [Business Assets](#)
- [Community Savings Funds](#)
- [Credit Card Financing](#)
- [Credit Card Reward Points](#)
- [Cryptocurrency](#)
- [Earnest Money Deposit](#)
- [Employer Assistance Benefits](#)
- [Equity from Other Assets](#)
- [Foreign Assets](#)
- [Gift Funds](#)
- [Income Tax Refund](#)
- [Individual Development Accounts](#)
- [Life Insurance - Cash Value](#)
- [Loans Secured by Other Assets](#)
- [Notes Receivable/Repayment of Loans](#)
- [Qualified Tuition Plan \(529 Plan\)](#)
- [Real Estate Commission](#)
- [Rent Credit/Lease with Option to Purchase](#)
- [Retirement Accounts](#)



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- [Sale of Personal Assets](#)
- [Sale of Real Estate](#)
- [Secondary Financing](#)
- [Stocks, Stock Options, Bonds, and Mutual Funds](#)
- [Systematic Savings](#)
- [Trade Equity](#)
- [Trust Funds](#)

Funds awarded to the borrower (e.g., disaster relief funds, lottery winnings, court-awarded settlements) are also acceptable sources of assets provided the source is not an interested party to the real estate or mortgage transaction.

Note: For LPA transactions, the only acceptable source of large deposits are limited to the borrower's income and assets identified in this chapter.

Prorated real estate tax credits contributed by the property seller in areas where real estate taxes are paid in arrears may not be considered when determining the funds required to be verified, except when the Closing Disclosure indicates that an escrow account is established and includes the portion of real estate taxes owed by the property seller for the period, they owned the property. In such cases, a prorated tax credit from the property seller offsets that portion of the charge for the establishment of the escrow account.

1G.3(a) Financial Institution Accounts

Financial institution accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts.

Accounts that do not allow the borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the borrower is not the beneficiary, such as custodial accounts.

Funds that are owned jointly by an occupant borrower and non-occupant borrower are considered funds of the occupant borrower.



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Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits income levels and sources are necessary to validate the documents.

| | |
|-------------------------|---|
| Account Statements | <p>Account statements may be obtained to document the borrower's assets.</p> <p>Provide the most recent one (1) or two (2) months account statements or the most recent quarterly account statements, per DU or LPA.</p> <ul style="list-style-type: none">Account statements must be dated within 45 days of application for DU and be the most recent for LPA. <p>Quarterly account statements dated more than 45 days and less than 90 days are acceptable with verification that the funds are still available.</p> <p>Account statements must clearly identify:</p> <ul style="list-style-type: none">The financial institution;Borrower as the account holder;At least the last four (4) digits of the account number;Time period covered; andEnding balance. <p>If a supplemental statement is necessary, any financial institution-generated printout or alternative verification of the asset (such as deposit or withdrawal slips) is acceptable if all of the required data above is supplied and documented. Supplemental information must be on an institution form with the name of the financial institution or on letterhead. ATM receipts are not permitted.</p> <p>Account statements may be online account statements obtained by the borrower. Documents that are faxed or downloaded from the Internet must clearly identify the name of the institution and the source.</p> |
| Verification of Deposit | <p>A Verification of Deposit (VOD) issued by the financial institution may be obtained. Each VOD must clearly identify:</p> <ul style="list-style-type: none">The financial institution; |

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| | |
|---------------------------------|--|
| | <ul style="list-style-type: none"> • Borrower as the account holder; • At least the last four digits of the account number; • Type of account; • Open date; • Account balance as of the date of the VOD; and • Average balance for the previous two months. When an average balance is not provided, obtain the most recent two months account statements. <p>The VOD must be remitted directly to the depository. A VOD should never be mailed to a Post Office Box or to an individual's attention. If the borrower indicates this is necessary, the file must contain verification that the depository was independently contacted and verified this requirement. The return address on the verification must be the originator's address. The hand carrying of verifications is strictly prohibited.</p> |
| Third Party Asset Verifications | <p>Direct verification by a third-party asset verification is acceptable as long as:</p> <ul style="list-style-type: none"> • The borrower provided authorization to use third-party verification; • The verified information provided conforms with the information that would be on a VOD or account statement, <ul style="list-style-type: none"> ○ When using a VOD an average balance for the previous two months is required; and/or ○ Account statement with a 30 day or 60 day period per AUS • The completion date complies with the allowable age of documentation. |
| Large Deposits | <p>Purchase Transactions</p> <ul style="list-style-type: none"> • Document the source of funds for any single deposit that exceeds 50% of the total monthly qualifying income, if the deposit is needed for down payment, closing costs, prepaids and reserves. Any liabilities resulting from all borrowed funds must be considered. • When a single deposit includes both documented and undocumented funds, only the amount of the undocumented funds must be used to determine whether the deposit meets the 50% definition. • If the source of the deposit cannot be adequately documented, reasonable judgement must be based on the available documentation, the DTI ratio, income, and credit file. |



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| | <ul style="list-style-type: none">• Documented funds must be reduced by the amount of the undocumented large deposit. The remaining documented funds must be sufficient for the down payment, closing costs, and reserves.• If a large deposit was transferred from another account verified in the loan file, that account must be verified after the withdrawal to ensure that the assets are not counted twice. <p>Refinance Transactions</p> <ul style="list-style-type: none">• Documentation for large deposits is not required; however, any liabilities resulting from all borrowed funds must be considered. <p>Unverified funds, regardless of the amount, are not acceptable sources for the down payment, closing costs, reserves, and/or to pay down or pay off debt, for both purchase and refinance transactions.</p> |
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1G.3(b) 1031 Tax Deferred Exchange

The sale of real estate may be exempt from capital gains tax if it is done under Internal Revenue Code Section 1031.

Comply with all of the following:

- The proceeds from a 1031 tax exchange may be used for investment property purchases only;
- The loan closing must be handled by a qualified intermediary (typically an escrow company or licensed exchange company) and cannot be an agent, investment banker, broker, employee of the borrower or any related family member;

The following documentation is required:

- A complete copy of the fully executed exchange agreement;
- A copy of the HUD-1/Closing Disclosure from the sale of the property being exchanged;
- Purchase contract for the subject transaction; and
- Final HUD-1/Closing Disclosure for the subject transaction.



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1G.3(b)(i) Proceeds from 1031 Tax Deferred Exchange

Assets for the down payment from a “like-kind exchange,” also known as a 1031 tax deferred exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031. Section 1031 of the Internal Revenue Code permits investors to defer payment of capital gains taxes by exchanging a like-kind property rather than selling property.

Proceeds from a 1031 tax deferred exchange are not an eligible source of funds for cash reserves.

1G.3(c) Bridge Loan

A bridge loan is a form of second mortgage secured by the borrower's present home, which is for sale. By using funds from this loan, the borrower can close on a new home before selling the present home. The bridge loan cannot be cross collateralized against the subject property.

A copy of the executed Note verifying the terms of the bridge loan must be provided in addition to the Closing Disclosure verifying the proceeds from the bridge loan.

Bridge loans are not an eligible source of funds for cash reserves.

See Chapter Liabilities and Debt Ratios for more information.

1G.3(d) Business Assets

Business assets may be used for down payment, closing costs and reserves when a borrower is self-employed and the individual income tax returns have been evaluated. The borrower must be listed as an owner of the account and have access to the funds being used.

A cash flow analysis must be performed to determine that the withdrawal of funds will not have a negative impact on the business. If there is a negative impact, the use of the funds will not be permitted. A cash flow analysis is not required if the self-employed borrower's income is not being used to qualify.

Freddie Mac/LPA Transactions: When using business assets, documentation of large deposits is not required if:



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- Most recent two (2) months business account statements are provided; and
- It is determined that the deposits, withdrawals, and balances are typical for the borrower's business.

1G.3(e) Community Savings Funds

Funds from a community savings account may be used for the down payment if the borrower can document regular contributions to the fund. Acceptable documentation includes written confirmation from the party managing the pooled savings fund and documentation of regular borrower contributions. In addition, the statements should identify:

- The issuing institution or administrator;
- The account owner(s);
- The account number;
- The period covered and ending balance;
- Any outstanding loans; and
- Identify the stocks/securities, if applicable.

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| The borrower's obligation to continue making contributions to the fund must be considered as part of the borrower's debt when calculating the total DTI ratio. | The savings fund must be administered by a non-profit community organization. |

1G.3(f) Credit Card Financing

It is acceptable to use a credit card (or cash advance or unsecured line of credit) to pay for certain costs that must be paid early in the application process (such as lock-in fees, origination fees, commitment fees, credit report fees, appraisal report fees, flood certifications) to pay these fees. Credit card financing cannot be used for down payment.

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| The maximum amount charged or advanced is limited to 2% of the loan amount. | The maximum amount charged or advanced is limited to the greater of 2% of the loan amount or |



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| | <p>\$1500. One of the following must be met:</p> <ul style="list-style-type: none">• The borrower has sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and down payment); or• The credit card payment is recalculated to account for the new charges and includes the updated payment in the qualifying ratio. |
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Provide the following:

- Account statement or receipt showing the amount charged or advanced; and
- Verification of sufficient funds to pay the amount charged or advanced if the amount charged or advanced is not included in the DTI ratio.

Borrowers are not required to pay these credit card charges before closing.

1G.3(g) Credit Card Reward Points

Credit card reward points are an acceptable source of funds for use towards closing costs, down payment, and reserves, provided the reward points are converted to cash prior to closing.

The following requirements apply:

- Evidence of the borrower's ownership of the reward points and their cash value.
- If the credit card reward points are converted to cash and deposited into the borrower's depository account (e.g., checking or savings account), no additional documentation is required unless the deposit is considered a large deposit, which requires documenting per the [Large Deposit](#) requirements.
- If the credit card reward points are converted to cash, but not deposited into a borrower's depository account, the borrower must provide evidence that the reward points were available to the borrower prior to the conversion, including verification of the cash value (for example, credit card reward statement prior to conversion); and converted to cash prior to closing.



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1G.3(h) Cryptocurrency

Cryptocurrencies (such as Bitcoin) are decentralized digital currencies that work without a central bank or administrator. Cryptocurrency is not an eligible asset and cannot be used as an earnest money deposit; however, **proceeds** from the liquidation of cryptocurrency may be eligible for down payment, closing costs or reserves when all of the following requirements are met:

- Document the trail of the cryptocurrency converted into U.S. dollars and transferred to the borrower's U.S. bank account; and
- The funds are verified in U.S. dollars prior to closing.

A large deposit may be from virtual currency that was exchanged into U.S. dollars. Document that the funds originated from the borrower's virtual currency account.

Virtual currency may not be used for the deposit on the sales contract (earnest money) for the purchase of the subject property.

1G.3(i) Earnest Money Deposit

The earnest money deposit(s) must be verified:

- When the borrower needs these assets to demonstrate sufficient funds to close; and
- The borrower receives a refund of the original cash deposit at closing.

Earnest money deposits must be verified by one of the following:

- A copy of the cancelled check;
- A copy of the deposit check and proof the check was cashed; and
- Verification of sufficient funds on deposit in the depository account for the down payment, closing costs, etc.

The source of funds for the deposit must be verified (e.g., account statement) as well as the source of the deposit check. Ensure that the deposit is not counted twice in the file (deducted from the funds to close and counted in assets).



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1G.3(j) Employer Assistance Benefits

A borrower may use funds provided by his or her employer to pay part of the closing costs, down payment, and reserves after the borrower has met the minimum required investment. The assistance must come directly from the employer, including through an employer-affiliated credit union and may not be an interested party to the transaction either directly or through a third party.

The program must be an established, ongoing, and documented company program, not just an accommodation developed for an individual employee.

There must be documentation that describes the terms of any loan agreement and other employee assistance being offered to the borrower (such as relocation benefit), including the employer's written verification of the dollar amount of the assistance. When the assistance is funded before settlement, there must be confirmation of receipt of the funds.

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| <p>a) Forms of Assistance</p> <ul style="list-style-type: none">• Grant;• Direct, fully repayable second mortgage or unsecured loan;• Forgivable second mortgage or unsecured loan; and• Deferred payment second mortgage or unsecured loan. <p>b) Financing Structures</p> <ul style="list-style-type: none">• Fully amortizing level monthly payments;• Deferred payments for some period or over the entire term; and• Forgiveness of the debt over time. <p>The financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (voluntarily or involuntarily) before the maturity date of the subordinate financing.</p> |



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c) Eligibility

- Subject property must be a primary residence;
- May fund all or part of the down payment, closing costs and reserves subject to meeting the minimum borrower contribution. An Unsecured Loan may not be used to fund reserves;
- Subordinate financing received from the borrower's employer is permitted when the following is documented:
 - The benefit is provided to the employee as part of an established, ongoing, and documented employer benefit program;
 - The dollar amount of the employer's assistance;
 - An unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan. The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts);
 - That the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union); and
 - Eligible Community Seconds.

When the employer assistance is extended as a secured second mortgage, the transaction may be structured as a Community Seconds, or it must comply with eligibility criteria that are subject to subordinate financing.

When the employer assistance is extended as a grant or IDA, the transaction must comply with the eligibility criteria in section 1G.4 (i) Gifts or 1G.4 (k) IDA, as applicable.

Note: An individual development account (IDA) is a type of savings account designed to help low-income individuals build assets and achieve financial stability and long-term self-sufficiency. People use IDAs to save money pay for a home.

The following must be documented:

- The program is an established company program;
- Note or other evidence of subordinate lien terms;
- The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts);

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| <ul style="list-style-type: none"> • Evidence that the borrower received the employer assistance funds directly from the employer (or employer-affiliated credit union); and • Unsecured loan: an award letter or legal agreement from the note holder, which discloses the terms and conditions of the loan. <p>d) Inclusion in the DTI</p> <ul style="list-style-type: none"> • If the secured second mortgage or unsecured loan does not require regular payments of either principal and interest or interest only, a payment need not be calculated for qualifying. If regular payments are required, the payment must be included in the DTI. |
| <p>Freddie Mac LPA</p> <p>a) Forms of Assistance</p> <ul style="list-style-type: none"> • Grant; • Individual Development Account (IDA); • Direct, fully repayable second mortgage or unsecured loan; • Forgivable second mortgage or unsecured loan; and • Deferred payment second mortgage or unsecured loan. <p>b) Financing Structures</p> <ul style="list-style-type: none"> • Fully amortizing level monthly payments; • Deferred payments for some period or over the entire term; and • Forgiveness of the debt over time. <p>In addition, if the loan is unsecured, the borrower must make a 5% minimum borrower contribution. The loan:</p> <ul style="list-style-type: none"> • May not allow or result in negative amortization. Has a maturity date that does not exceed the maturity date of the mortgage and is at least five years after Note Date, unless the unsecured loan unsecured loan is fully amortizing; • Has an interest rate that is no greater than the first mortgage note rate; and • Must not be a cash advance from a credit card or unsecured line of credit. <p>The financing terms may provide for the employer to require full repayment of the debt if the borrower terminates his or her employment for any reason, or the employer terminates the</p> |

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borrower's employment for any reason other than long-term disability, the elimination of the employee's position or reduction in workforce.

c) Eligibility

Subordinate financing received from the borrower's employer is permitted when the following is documented:

- The benefit is provided to the employee as part of an established, ongoing, and documented employer benefit program;
- The dollar amount of the employer's assistance;
- An unsecured loan from an employer with an award letter or legal agreement from the note holder and must disclose the terms and conditions of the loan;
- The terms of any other employee assistance being offered to the borrower (such as relocation benefits or gifts); and
- That the borrower received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

When the employer assistance is extended as a secured second mortgage, the transaction must comply with eligibility criteria that are subject to subordinate financing.

When the employer assistance is extended as a grant or IDA, the transaction must comply with the eligibility criteria in section 1G.4 (i) Gifts or 1G.4 (k) IDA, as applicable.

Note: An individual development account (IDA) is a type of savings account designed to help low-income individuals build assets and achieve financial stability and long-term self-sufficiency. People use IDAs to save money to pay for a home.

d) Documentation

- The program is an established company program;
- Note or other evidence of subordinate lien terms;
- Closing Disclosure or equivalent closing statement;
- Funds were not from an interested party to the transaction, directly or indirectly; and
- Must show transfer of the loan proceeds if not in the borrower account.



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e) Inclusion in DTI

If the P&I or interest only payments begin on or after the 61st payment or if repayment is due only upon sale or default, the monthly payment may be excluded from the DTI. Otherwise, the payment must be included in the DTI.

1G.3(k) Foreign Assets

Foreign assets may be used for down payment, closing costs, and reserves.

All asset documents must be completed in English, or provide a complete and accurate translation, attached to each document, and ensure the translation is complete and accurate.

The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions.

See the Compliance Chapter of the Client Guide for additional information.

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| Foreign assets must be held in a U.S. financial institution and verified in U.S. dollars prior to closing. | Foreign assets must be held in a U.S. financial institution and verified in U.S. dollars prior to closing unless the combined value of the foreign assets is at least 20% greater than the amount from these foreign assets needed for closing. |

1G.3(l) Gift Funds

The borrower may use funds received as a gift from an acceptable donor for a primary residence or second home, to satisfy part of the cash requirement, provided the minimum borrower investment for the Loan Program is met. Gift funds may be used for down payment, closing costs, and reserves. Gift funds are not permitted for investment properties.



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| Gift Letter | <p>A gift letter signed by the donor, trustee, or authorized representative of the estate must:</p> <ul style="list-style-type: none"> Specify the actual or maximum dollar amount of the gift or gift of equity; 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>A gift letter signed by the donor, trustee, or authorized representative of the estate of trust must:</p> <ul style="list-style-type: none"> Specify the actual or maximum dollar amount of the gift or gift of equity; Include the donor's statement that no repayment is expected; and Indicate the donor's name, address, telephone number, and relationship to the borrower. |
| Donor | <p>A gift may be provided by:</p> <ul style="list-style-type: none"> A relative: 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 non-relative: One who shares a familial relationship with the borrower that includes a fiancé, fiancée, domestic partner and a relative of a domestic partner, godparent, and former relative; <ul style="list-style-type: none"> An unrelated individual with close, family-like ties to the borrower (LPA only); A trust established by an acceptable donor, or An estate of an acceptable donor); or An acceptable donor who is also the seller of the subject property is eligible if they are not affiliated with another interested party in the transaction. (DU only). A donor cannot be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction. | |
| Transfer of Gift Funds | <p>Verification and documentation that sufficient funds to cover the gift are in the donor's account or have been transferred to the borrower's account is required.</p> <p>Transfer of funds from the donor's account to the borrower's account:</p> <p><u>Fannie Mae (DU Transactions):</u></p> | |

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| | <ul style="list-style-type: none"> • Copy of the donor's check and borrower's bank statement; • Copy of donor's withdrawal slip and borrower's deposit slip; • Evidence of electronic transfer of funds from the donor's account to the borrower's account or to the closing agent; • Copy of donor's check to the closing agent; or • Settlement statement showing receipt of donor's check. <p>When the funds are not transferred prior to closing, provide the evidence that one (1) of the following was provided to the closing agent:</p> <ul style="list-style-type: none"> • Cashier's check; • Electronic transfer certified check; • Wire confirmation; or • Other official check. <p><u>Freddie Mac (LPA transactions):</u></p> <p>Receipt of gift funds must be documented by one of the following:</p> <ul style="list-style-type: none"> • Transfer of funds from the donor's account in a financial institution to the Borrower's account through: <ul style="list-style-type: none"> ○ Copies of bank statements from both the donor and the borrower's accounts ○ A copy of the cancelled gift check; or, ○ A copy of a donor's withdrawal slip and the borrower's deposit slip. • Transfer of the funds from the donor's account in a financial institution to the settlement or closing agent (e.g. a copy of the cashier's check or wire transfer confirmation) • For an earnest money deposit paid by the donor directly to the builder or real estate agent, transfer of funds from the donor's account in a financial institution to the earnest money deposit holder (e.g. copy of a canceled gift check, a copy of a cashier's check or wire transfer confirmation) • Funds transferred using a third-party money transfer application or service are acceptable only when the documentation in the loan file evidences that the funds were transferred using the application or service directly from the donor's bank account to the Borrower's bank account or to the settlement |
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| | or closing agent. | |
| Gift of Equity | <p>A gift of equity:</p> <ul style="list-style-type: none"> • Can be used to fund all or part of the down payment and closing costs, including prepaid items; • Cannot be used towards reserves; • Must be reflected on the Closing Disclosure; and • Must be clearly labeled as a gift of equity. <p>The acceptable donor and minimum contribution requirements for gifts apply to gifts of equity. When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and is not subject to IPC requirements.</p> | |
| Wedding Gifts | <p>When funds are received as a wedding gift, comply with all of the following:</p> <ul style="list-style-type: none"> • Primary residence; • A copy of the marriage certificate or license (not more than 60 days old); and • Verification of receipt of the funds through an account statement or deposit slip. | |
| Graduation Gift Funds | <p>When funds are received as a graduation gift, comply with all of the following:</p> <ul style="list-style-type: none"> • Primary residence; • The gift may be from related and unrelated persons; • A copy of the diploma or transcripts that that supports the date of graduation; • Verification of the gift funds in the borrower's bank account; and • The gift funds must be deposited in the borrower's bank account within 90 days of the date of graduation. | |
| Pooled Funds | Fannie Mae DU | Freddie Mac LPA |
| | <p>The following must be provided:</p> <ul style="list-style-type: none"> • 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; • A signed gift letter; and • Appropriate documentation to | <p>The following must be provided:</p> <ul style="list-style-type: none"> • A certification from the borrower stating the following: <ul style="list-style-type: none"> ○ The donor has lived with the borrower for the past 12 months and will continue to do so in the new residence; ○ The source of the pooled funds; |



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| | <p>demonstrate a history of shared residency - such as a copy of a driver's license, bill, account statement, etc. that shows the donor's address as being the same as the borrower's address.</p> | <ul style="list-style-type: none"> ○ The funds were not borrowed by the donor; and ○ The relationship between the borrower and the donor. • Appropriate documentation to demonstrate a history of shared residency-such as a copy of a driver's license, bill, account statement, etc. that shows the donor's address as being the same as the borrower's address. |
| Gift or Grant from an Agency | <p>A borrower may use a gift or grant from an acceptable agency to fund all or part of the down payment, closing costs, or reserves subject to the minimum borrower contribution requirements stated in our Product Summaries. Gifts and grants are permitted on primary residences. Donated gifts or grants are not permitted on second homes or investment properties.</p> <p>Grants must be funded by one (1) of the following eligible donors:</p> <ul style="list-style-type: none"> • A federal agency, state, county, or similar political subdivision of a state; • Any city, town, village, or borough of a states that: <ul style="list-style-type: none"> ○ Has a local government and that has been created by a special legislative act; ○ Has been otherwise individual incorporated or chartered pursuant to state law; or ○ Is recognized as such under the constitution or by the laws of the state in which it is located. • A housing financing agency as defined in 24 C.F.R. §266.5; • A nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code; • A regional Federal Home Loan Bank under one of its affordable housing programs; • An Indian tribe on the most current list published by the Secretary of the Interior pursuant to 24 C.F.R. §266.5; and | |



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| | <ul style="list-style-type: none">• Correspondent Client-funded grants (HomeReady only). <p>Document the gift or grant from an agency with acceptable grant program materials, award letters or terms and conditions provided to the borrower. This documentation must:</p> <ul style="list-style-type: none">• Establish that the funds were provided by an agency;• Establish that no repayment of the gift or grant is expected and an indication of how the funds will be transferred;• Evidence of the transfer of the funds; and• Identify the donor's mailing address. <p>For loans underwritten by Newrez, gifts or grants must be evaluated and approved by Newrez prior to loan application.</p> |
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1G.3(m) Income Tax Refund

If an income tax refund that has not yet been received will be used as funds for down payment or closing costs, the borrower must provide a copy of their signed personal tax return to verify the anticipated refund. Verification of receipt of the Refund Anticipation Loan via a copy of the refund check or electronic deposit and evidence the Refund Anticipation Loan has been repaid is required.

1G.3(n) Individual Development Accounts

An individual development account (IDA) is a type of savings account designed to help low-income individuals build assets and achieve financial stability and long-term self-sufficiency. People use IDAs to save money to pay for a home.

Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home. Such accounts are referred to as individual development accounts, or IDAs. Nonprofit agencies that offer IDA programs have options with respect to accumulating and holding the matching funds, which include:

- The use of a parallel "savings" account that is separate from the home buyer's savings account;
- Separately designated matching funds within a single agency account via accounting processes to allocate matching funds to a particular home buyer; and



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- The use of a trustee account that contains both the home buyer's funds and the agency's matching funds.

When the home buyer reaches the target amount and is ready to complete the home purchase, the funds are disbursed from the nonprofit agency account to the closing agent via a single check or multiple checks.

If the agency's matching funds are held in an account that is separate from the home buyer's account, the matching funds need not be commingled with the home buyer's funds prior to disbursement to the closing agent. It is acceptable to allow separate disbursement of funds from the agency and from the home buyer, as long as the terms of the IDA program are met.

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| <u>Does Not Require Repayment</u> <ul style="list-style-type: none">• The matching funds may be used for some or all of the down payment without first being required to meet the minimum borrower contribution requirement from his or her own funds; and• A lien must not be filed against the subject property. <u>Requires Repayment, Defers or Forgives</u> <ul style="list-style-type: none">• The matching funds may be used to supplement the down payment provided the borrower has met the minimum borrower contribution; and• The minimum required down payment must come from the borrower's own funds unless:<ul style="list-style-type: none">○ LTV/CLTV \leq 80%; or○ the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds or funds received from an employer | <u>Does Not Require Repayment</u> <ul style="list-style-type: none">• The ratio of the agency's matching funds to the borrower's deposits must not exceed 4:1;• The matching funds may be used for down payment, closing costs and prepaid items, and may be considered the borrower's own funds; and• A lien must not be filed against the subject property. <u>Requires Repayment, Defers, or Forgives</u> <ul style="list-style-type: none">• Not permitted <u>Documentation</u> <p>Document all of the following:</p> <ul style="list-style-type: none">• The matching funds are not subject to recapture;• The ratio of matching funds by the agency;• The regular payments made to the IDA by the borrower and the matching organization; |



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| <p>to pay for some or all of the borrower's minimum contributions.</p> <ul style="list-style-type: none">• A lien is filed against the property. <p><u>Documentation</u></p> <p>Document all of the following:</p> <ul style="list-style-type: none">• How the nonprofit agency's IDA program operates and terms of program;• The borrower satisfied the program's vesting requirements; and• The borrower's regular payments into the account and the agency's regular deposits of matching funds into the account. | <ul style="list-style-type: none">• The borrower satisfied the program's vesting requirements; and• The borrower's regular payments into the account and the agency's regular deposits of matching funds into the account. |
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1G.3(o) Life Insurance-Cash Value

Net proceeds from a loan against the cash value or from the cash surrender value of the borrower's life insurance policy are an acceptable source of funds for down payment, closing costs and reserves.

Document all of the following:

- Borrower as policy owner;
- Period covered and current cash value;
- Receipt of the funds; and
- Any outstanding loans.

If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated.

1G.3(p) Loans Secured by Other Assets

Borrowed funds secured by an asset owned by the borrower are an acceptable source of funds for down payment, closing costs, and reserves. Examples that may be used to secure funds include certificates of deposit, savings plans, stocks, bonds, other real estate owned by the borrower and life insurance policies.



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The following documentation is required:

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| <ul style="list-style-type: none">• The terms of the loan;• Verification that the party providing the secured loan is not a party to the sale;• Evidence that the loan is secured by an asset owned by the borrower; and• Evidence of transfer and receipt of the funds. The value of the asset must be reduced by the amount of the loan proceeds and any associated fees. | <ul style="list-style-type: none">• The terms of the loan;• Verification that the party providing the secured loan is not a party to the sale;• Evidence that the loan is secured by an asset owned by the borrower;• Value of the Asset (e.g., copy of the appraisal, Blue Book value); and• Evidence of transfer and receipt of the funds. The value of the asset must be reduced by the amount of the loan proceeds and any associated fees. |
| The monthly payment must be included in the debt-to-income ratio unless excluded as outlined in Chapter 1H Liabilities and Debt Ratios. | |

1G.3(q) Notes Receivable/Repayment of Loans

When funds are obtained from repayment of a previous loan made by the borrower, all of the following information must be provided:

- Written agreement between the borrower and the recipient of the loan;
- Verification the borrower had the ability to lend the funds;
- Provide evidence that the funds were withdrawn from the borrower's account;
- Verification that repayment has been made; and
- Provide statements verifying the funds were withdrawn from the recipient's account and deposited into the borrower's account.

1G.3(r) Qualified Tuition Plan (529 Plan)

A 529 plan is a tax-advantaged savings plan designed to encourage saving for future college costs. A 529 plan, legally known as "qualified tuition plans," are sponsored by states, state agencies, or educational



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institutions and are authorized by Section 529 of the Internal Revenue Code.

When used for down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for down payment and closing costs, receipt of the funds realized from the sale or liquidation is not required.

When used for reserves, 100% of the value of the assets may be considered and liquidation is not required.

1G.3(s) Real Estate Commission

Real estate commission is an acceptable source of funds for down payment and/or closing costs when the borrower is acting as their own real estate agent of the subject property. The borrower must be a licensed real estate agent and will receive a sales commission from the purchase of the subject property.

The Closing Disclosure must reflect the commission earned by the borrower and credited toward the transaction.

1G.3(t) Rent Credit for Option to Purchase

| Fannie Mae DU | Freddie Mac LPA |
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| <p>Rent credit for option to purchase is an acceptable source of funds toward the down payment or minimum borrower contribution. Borrowers are not required to make a minimum borrower contribution from their own funds in order for the rental payments to be credited toward the down payment. The rent credit is not considered an interested party contribution.</p> <p>Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid by the borrower. . The market rent is determined by the appraiser in</p> | <p>The portion of rental payments paid by the Borrower credited towards the Down Payment and/or Closing Costs under a documented rental/purchase agreement. The credit must not exceed the difference between the market rent and the actual rent paid. The rental/purchase agreement must have an original term of at least 12 months and the rent must be based on a minimum of 12 months rental payments.</p> <p>All of the following must be provided:</p> <ul style="list-style-type: none">▪ A copy of the rental/purchase agreement▪ Evidence of rental payments<ul style="list-style-type: none">▪ Fully executed lease agreement; |



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| <p>the appraisal for the subject property and the credit may be no more than the difference between the market rent and the actual rent paid.</p> <p>All of the following must be provided:</p> <ul style="list-style-type: none">• A copy of the rental/lease with an option to purchase agreement that evidences the following:<ul style="list-style-type: none">• An original term of at least 12 months,• The total number of months of the agreement,• The monthly rental amount, and• The amount of the monthly rent credit.• Copies of the borrower's canceled checks, bank statements, money order receipt or other reasonable methods evidencing the rental payments over the term of the agreement. The documentation must clearly indicate the payee and the amount being paid.• The appraisal of the subject property reflecting the market rent amount. | <p>and</p> <ul style="list-style-type: none">▪ Either cancelled checks;▪ Depository account statement;▪ Documentation from a third-party money transfer service; or▪ Receipt from the creditor for payments in cash ▪ Appraiser's determination of the market rent for the subject property |
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If the above requirements are not met, the rental payments over and above fair market rent may not be included toward the down payment.



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1G.3(u) Rent-Back Credit – Fannie Mae

A rent-back credit is an amount paid by the property seller to the borrower in exchange for allowing the seller to stay in the home for a specified period of time after closing. While rent-back credit to the borrower paid by the seller is permissible as part of the sale; it cannot be used as an eligible source of funds for closing costs, down payment, or reserves when qualifying the borrower.

A rent-back credit may appear on the Closing Disclosure as a credit to the borrower. In all cases, the client must underwrite the loan without any consideration of the rent-back credit (e.g., it must not be entered in the DU loan application data) and must document that the borrower has sufficient funds for the transaction from eligible sources.

Note: For loans secured by the borrower's principal residence, the borrower must continue to meet any occupancy requirements as outlined in the security instrument.

1G.3(v) Retirement Accounts

Vested funds from individual retirement accounts (IRA, SEP-IRA, and KEOGH) and tax-favored retirement savings accounts (e.g., 401(k), 403(b)) may be used as the source of funds for down payment, closing costs, and cash reserves.

All of the following is required:

- Number of retirement account statements, follow DU or LPA
- Verification of the ownership of the account,
- Verification of the borrower's vested balance or the percentage of vesting, and
- Confirmation that the account allows withdrawals regardless of current employment status (employer retirement accounts).

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of 1G.4(t) Stocks, Stock Options, Bonds, and Mutual Funds, for determining value and whether documentation of the receipt of funds is required when used for down payment and closing costs. Liquidation is not required when retirement accounts are used for reserves.



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1G.3(w) Sale of Personal Assets

Funds derived from the sale of assets (other than real estate) are eligible provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction. The proceeds should not be more than the value of the asset.

| Fannie Mae DU | Freddie Mac LPA |
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| <p>Document all of the following:</p> <ul style="list-style-type: none">• Proof of ownership for all asset types that are titled assets, such as an automobile title;• The value of the asset, as determined by an independent and reputable source, if the proceeds represent more than 50% of the total monthly income used in qualifying. The lesser of the estimated value (as determined by the independent source) or actual sales price must be used when determining the amount of funds for the transaction. <p>For example, a borrower plans to sell their vehicle. The value as determined by an independent source is \$10,000; the sales price of the vehicle is \$12,000. \$10,000 can be added to the borrower's available funds even if the sale has already occurred.</p> <ul style="list-style-type: none">• The transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser; and• Evidence of receipt of the proceeds (e.g., deposit slip or account statement). | <p>Document all of the following:</p> <ul style="list-style-type: none">• Signed bill of sale documenting the asset and evidencing the transfer of ownership; and• Evidence of receipt of the proceeds (e.g., deposit slip or account statement). |



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1G.3(x) Sale of Real Estate

The net proceeds that will be generated from the sale of an existing property must be established. Both the actual sale price and net proceeds must be documented with either a copy of the final Closing Disclosure, Fully executed final Sellers's ALTA Settlement Statement or a fully executed buy-out agreement accompanying a Closing Disclosure that is part of an employer's relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage verifying required net proceed proceeds.

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| Net proceeds based on sales contract |
| Obtain a copy of the executed contract of sale and use the following calculation: Sales Price minus (Sales Costs + All Liens) = Estimated sales proceeds |
| Net proceeds based on listing price |
| 90% of Listing Price minus All Liens = Estimated Sales Proceeds The 10% adjustment factor must be adjusted depending on market conditions in the area. |

1G.3(y) Secondary Financing

Secondary financing is any loan secured by the subject property other than the first mortgage. The lien created by the second mortgage must be clearly subordinate to the first mortgage.

The monthly payment on the second mortgage must be included with the PITIA on the subject property when calculating the housing expense-to-income ratio.

See Chapter [1C.4](#) Financing, Subordinate Financing section for more information.

1G.3(z) Stocks, Stock Options, Bonds, Mutual Funds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for down payment, closing costs, and reserves provided their value can be verified and verification of the borrower's ownership of the account or asset is documented.



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1G.3(z)(i) Stocks and Mutual Funds

Document the value of the assets with one of the following:

- Most recent monthly or quarterly account statement; or
- Evidence the security is owned by the borrower and value of the current stock prices from a financial publication or website.

Value must not include margin accounts.

1G.3(z)(ii) Stock Options

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| Document the value of vested stock options with: <ul style="list-style-type: none">• A statement that lists the number of options and the option price;• Use the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock. | Document the number of vested shares and value of vested stock options with: <ul style="list-style-type: none">• Most recent two months statements or VOD; or• A statement verifying the number of vested shares owned by the borrower and current stock price from a published source to determine the value. |
| Non-vested stock options are not an acceptable source of funds for down payment, closing costs, or reserves. | |

1G.3(z)(iii) Privately Held Stock or Unlisted Corporation

When the stock of a privately held (not publicly traded) corporation will be used as funds for down payment, and/or closing costs, the price per share must be validated by a CPA for the corporation. A copy of the Buy/Sell Agreement is also required. Verification of receipt of the funds from the sale of the stock is required.

Stock of a privately held corporation is not an acceptable source of funds for reserves.

In the situation where the privately held corporation is a source of the borrower's income, the above



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documentation will be required together with verification from the accountant that sale of the stock will not have an adverse effect on the business or reduce the borrower's current income level.

1G.3(z)(iv) Government Municipal Bonds

Document the value of government municipal bonds based on their purchase price unless the redemption value can be documented.

1G.3(z)(v) Government Savings Bonds

Document the value of government savings bonds based on their purchase price unless the redemption value can be documented.

1G.3(z)(vi) Down Payment or Closing Costs

When used for down payment or closing costs, if the value of the asset is at least 20% more than the amount of funds needed for down payment and closing costs, receipt of the funds realized from the sale or liquidation is not required.

1G.3(z)(vii) Reserves

When used for reserves, 100% of the value of the assets may be considered and liquidation is not required.

1G.3(aa) Systematic Savings

Borrowers should have the funds needed to close the transaction at the time of the underwriting. However, a loan to a borrower who does not have sufficient assets to close may be underwritten subject to all of the following:

- 80% of the required assets are documented;
- The ability of the borrower to save based on his or her income and debts must be documented; and
- The required assets must be documented and verified in the borrower's account prior to closing.

1G.3(bb) Trade Equity

The property seller may take a property owned by the borrower as part of the down payment on the property being sold to the borrower.



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| Fannie Mae DU | Freddie Mac LPA |
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| The borrower must make a 5% cash down payment unless the LTV/CLTV/HCLTV is less than or equal to 80% or is purchasing a 1-unit primary residence and meets the requirements to use gifts to pay for some or all of the borrower's minimum contribution. | Equity received from the trade-in is considered borrower's own funds. |

The following documentation must be provided on all transactions where the buyer/seller are reversed:

- A copy of the interior/exterior appraisal report ordered by the lender, on the property being sold by the borrower;
- A copy of the trade-in contract;
- Title search proving that the borrower owns the real estate and verifying any liens associated with the property; and
- Proof of title transfer and satisfaction of any existing mortgage liens for which the borrower was liable. Transfer deed must be recorded.

To calculate borrower's equity, use the following calculation:

$$\begin{aligned} & \text{(lesser of current appraised value or trade-in price)} \\ & \text{minus} \\ & \text{(outstanding liens plus transfer fees) = Borrower's equity} \end{aligned}$$

The above apply to all trade-in transactions, including those evidenced with two separate contracts in which buyer and seller reverse roles. See Chapter 1D Manufactured Housing for trade equity from the borrower's existing manufactured home.

1G.3(cc) Trust Funds

Funds disbursed from a trust are acceptable assets with a typed copy of the trust agreement or signed statement on letterhead from the trustee that:

- Identifies the borrower as the beneficiary;
- Confirms that the borrower has access to all or certain specific amount of the funds; and
- Confirms that the trust has the assets to disburse funds to the borrower.



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If the assets are required for closing, proof of receipt is required.

1G.4 Unacceptable Asset Sources

Sources of funds considered ineligible include, but is not limited to:

- Cash advance on a revolving charge account
 - Cash for which the source cannot be verified (e.g., garage sales)
 - Cash on hand
 - Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing
 - Funds in a Custodial Account (Uniform Transfers to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA) or "In Trust For"
 - Gift that must be repaid in full or in part
 - Labor performed by the borrower, also referred to as "sweat equity"
 - Marijuana related business assets
 - Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
 - Restricted stock
 - Personal unsecured line of credit or loan
 - Salary advance
-

1G.5 Interested Party Contributions

Interested party contributions (IPC) are costs that are normally the responsibility of the borrower that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property. Interested party contributions may never be applied to any portion of the down payment or reserve requirements.

Interested Party Contributions are either financing concessions or sales concessions. The following are considered IPCs:

- Funds that are paid directly from the interested party to the borrower;
- Funds that flow from an interested party through a third-party organization, including nonprofit entities, to the borrower;
- Funds that flow to the transaction on the borrower's behalf from an interested party, including a third-



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party organization or nonprofit agency; and

- Funds that are donated to a third party, which then provide the money to pay some or all of the closing costs for a specific transaction.

1G.5(a) Interested Parties

Interested parties to a transaction include, but are not limited to:

- The property seller,
- The builder or developer,
- The real estate agent or broker,
- Any affiliate of the above, or
- Any party that can benefit from the sale of the property at the highest price and influence the sales price or real estate transaction.

An affiliation exists when there is:

- direct common ownership or control by the lender over the interested party, or
- by the interested party over the lender or
- by a third-party over both interested party and the lender.

Note: A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction.

Contributions provided by a family member are not considered financing contributions and therefore are not subject to the limits listed in the following section. These funds are considered gifts and are treated as such. See [1G.4\(i\)](#) Gifts in the Asset Sources section for more information.

All interested party contributions must be disclosed on the Closing Disclosure.

1G.5(b) Maximum Allowable Interested Party Contributions

Maximum financing concessions are calculated using the lower of the sales price or appraised value (not the loan amount) of the subject transaction.

When the Interested Party Contributions exceed the limits in the Product Summaries, they are considered sales concessions and must be deducted from the property sales price. When this occurs, the maximum



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LTV/CLTV ratios must be recalculated using the lesser of the reduced sales price or appraised value. Financing concessions must be equal to or less than the sum of the borrower's closing costs. Any amount exceeding the borrower's closing costs must be treated as a sales concession.

1G.5(c) Financing Concessions

Financing concessions are financial contributions towards the loan transaction from interested parties that are paid on the borrower's behalf and are subject to limitations outlined in our Product Summaries.

Financing contributions include but are not limited to the following:

- Contribution toward financing fees normally paid by the borrower
- Discount points
- Fees (appraisal fees, origination fees, attorney, real estate tax service fees, builder commitment fees that are attributable to a specific mortgage transaction)
- Contribution toward other costs related to the transaction that are normally paid by the borrower being paid by another individual
- Transfer taxes
- Stamps
- Surveys
- Title insurance
- Interest charges (limited to not more than 30 days interest)
- Property insurance (limited to no more than 14 months)
- Real estate taxes covering any period after settlement date
- Homeowner association dues covering any period after the settlement date (limited to no more than 12 months)
- Initial and/or renewal mortgage insurance premiums
- Escrow accruals required for renewal of borrower-purchased mortgage insurance coverage

Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to interested party contribution limits.

Payoff of a PACE loan by a seller is not subject to IPC limits because it is not a financing concession.

Note: Fees for forward commitments that a builder pays to a lender before entering into a sales contract with a borrower are not subject to Agency IPC limits because they are not attributable to the specific loan



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transaction. A loan with a reduced interest rate due to a forward commitment must be delivered with SFC 887/IFI J70.

1G.5(d) Sales Concessions

Sales concessions are interested party contributions that take the form of non-realty items and may be paid prior to, at or after closing of the transaction. The value of the sales concessions must be deducted from the property's sales price and the lesser of reduced sales price or the appraised value used when calculating the LTV/CLTV/HCLTV.

Sales concessions include but are not limited to the following:

- Contributions such as cash/cash-like gifts;
- Rebates such as realtor rebates, which are not credited towards the transaction
- Any contributions, including but not limited to, vacations, furniture, automobiles, decorator allowances, securities, moving costs, or other giveaways granted by any interested party to the transaction;
- Lender incentives from a lender who is or is affiliated with an interested party;
- Contributions in excess of actual costs.

1G.5 (e) Interested Party Contributions (IPC) Exclusions

The following are not considered to be IPC's and are not subject to the requirements described for LTV/CLTV adjustments:

- A lender credit derived from premium pricing even if the lender is an interested party to the transaction;
- Gift funds or gift of equity from a seller who is also an acceptable donor provided that:
 - The donor is not a builder, or another interested party, and has no affiliation with any other interested party to the transaction and
 - All requirements pertaining to gift funds and gift or equity from an acceptable donor are met.
- A legitimate pro-rated real estate tax credit in places where the real estate taxes are paid in arrears; and
- Fees for standby commitments

1G.5 (f) Undisclosed Interested Party Contributions

Mortgages with undisclosed IPC's are not eligible for sale to the agencies. Examples of these types of contributions include, but are not limited to:

- Moving expenses,



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- Payment of various feeds on the borrower's behalf,
- "silent" second mortgages held by the property seller, and
- Other contributions that are given to the borrower outside of closing and are not disclosed on the settlement statement.

1G.5(g) Temporary Interest Rate Buydowns

If a temporary or permanent interest rate buydown is being offered to the borrower, the cost of the subsidy to fund that buydown must be included in the IPC calculation, if received from an interest party or a lender affiliated with an interested party.

The cost of the subsidy must meet the allowable maximum financing concessions. This can be determined by confirming the current market interest rate (the rate that is offered without the payment of any discount points-and the discount points being charged to obtain the interest rate being offered with the buydown).

Fees for standby commitments (also known as forward commitment) that a builder obtains for blanket coverage before it enters into a contract with a borrower are not subject to IPC limits because they are not attributable to the specific mortgage transaction. Loans with a reduced interest rate due to a standby commitment must be delivered with a Special Featured code (SFC) 887.

1G.5(h) Payment Abatement

A payment abatement is an incentive provided to the borrower by an interested party, in which the interested party provides funds to pay or reimburse a certain number of monthly payments on the borrower's behalf. The monthly payments may cover, in whole or in part, principal, interest, taxes, insurance, and other assessments. These funds are provided to the lender or a third party to be distributed over the term of the abatement period or credit against the borrower's future obligations.

Loans with payment abatements are not eligible regardless of whether they are disclosed on the Closing Disclosure/Settlement Statement. This applies to transactions in which an interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity, such as a nonprofit down payment assistance program.

The payment of no more than 12 months of HOA dues by an interested party is not considered an abatement, subject to the requirements of this section. The funds for the payment of the HOA dues must be collected at closing and transferred directly to the HOA, as documented on the Closing Disclosure/Settlement Statement. No other payment abatements are permitted.



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The payment of HOA fees is not considered an abatement unless the payment of the fee extends for more than 12 months. Paying HOA fees for 12 months or less is considered an interested party contribution.

1G.5(i) Review of Loan Documents

Loan and sales contract documents must be scrutinized with particular care when there is an IPC involved in the transaction.

- The sales contract must summarize all of the financing arrangements negotiated between the buyers and sellers. When an IPC is part of the transaction, it must be included in the contract. All pages and addenda of the contract must be provided to the underwriter as well as the appraiser.
- The Loan Estimate (LE) summarizes the best estimate of expenses that the borrowers should expect to complete the transaction. The relevant financing elements from the sales contract and LE must appear on Form 1003 in the Details of Transaction Section;
- The property appraisal must reflect that the appraiser included any and all financing terms and indicate whether the terms affected the property value; and
- The Closing Disclosure must reflect the final fees and costs, and may not differ substantially from the sales contract, LE, and the Uniform Residential Loan Application (URLA, Form 1003).

If these documents do not reflect consistent fees and expenses, differences should be analyzed, and discrepancies reviewed. The following are some, but not all, areas of concern:

- IPCs in amounts greater than the limits based on the CLTV ratio and transaction type;
- Cash-back on a purchase transaction;
- References to sales contract pages or addendums that have not been provided;
- PITIA abatements;
- The appraiser indicates a marketing time that is inconsistent with current market (e.g. quick sale in a market with lengthy marketing times) and no evidence of IPCs;
- Payment of condominium, PUD, or cooperative fees by an interested party;
- Contributions on the Closing Disclosure that were previously undisclosed;
- Subordinate financing on the Closing Disclosure that was previously undisclosed;
- Subordinate financing that is forgiven or deferred that is provided and/or funded by an interested party;
- Excessive marketing and/or commission fees;
- Commission fees based on a value different than the sales price;



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- Guaranteed rental income; and
- Below market interest rates when no buy down subsidy is listed on the Closing Disclosure.

The Closing Disclosure is a critical record of the transaction. IPCs are easily identifiable when there is a debit on the seller's side and credit on the borrower's side of the Closing Disclosure; however, IPCs may be present even when the borrower is not directly credited. In some scenarios, a direct credit to the borrower is not given, rather a deposit to a reserve account or a payment to a third party is made. These must be taken into consideration because they may be a way to conceal an IPC. All debits to the seller's side must be analyzed regardless of who or what is being credited.

1G.5 (j) Lender Incentives

The lender may provide the borrower, either directly or through a third-party, with an incentive such as cash or a cash-like gift (e.g., a gift card) or other item of value that is not a lender credit toward the transaction. The incentive may be offered on all transactions as part of a promotion or lender program, provided that:

- The incentive is not sourced from the transaction (for example, premium pricing);
- The borrower qualifies without consideration of the incentive (for example the incentive cannot be considered borrower assets, used to reduce the payment of an outstanding credit card account, or included in maximum cash back to borrower at closing calculation),
- The amount of the incentive does not exceed \$2,500; and
- No repayment is required; and
- The amount is documented in the loan file.

The incentive is not considered cash out to the borrower and does not have to be included in the calculation of the proceeds, including the calculation of cash back to the borrower. These requirements apply regardless of whether the incentive is provided before, at or after the closing.

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| <p>Both Fannie Mae SEL2025-03 and Freddie Mac Bulletin 2025-6 released 05.07.2025 increased Interested Party Contributions/Lender Incentives from \$500 to a maximum of \$2,500 (Lender Incentives)</p> <p>Fannie Mae SEL2025-03 dated 05.07.2025 updated for:</p> <p>Interest Parties include:</p> <ul style="list-style-type: none">• The property seller,• The builder or developer,• The real estate agent or broker,• Any affiliate of the above, or• Any party that can benefit from the sale of the property at the highest price and influence the sales price or real estate transaction. <p>Clarified: An affiliation exists when there is direct common ownership or control by the lender over the interested party, by the interested party over the lender or by a third-party over both.</p> <p>Note: A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction.</p> <p><u>Maximum Allowable IPC's</u></p> <ul style="list-style-type: none">• Maximum financing concessions are calculated using the lower of the sales price or appraised value (not the loan amount) of the subject transaction. Note: Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to the maximum financing concessions.• When the IPCs exceed the limits, they are considered sales concessions. and must be deducted from the property sales price. When this occurs, the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value. Financing concessions must be equal to or less than the sum of the borrower's closing costs. Any amount exceeding the borrower's closing costs must be treated as a sales concession <p><u>New section added: Interested Party Contributions/Exclusions</u></p> <p>The following are not considered to be IPC's and are not subject to the requirements described for LTV/CLTV adjustments</p> <ul style="list-style-type: none">• A lender credit derived from premium pricing even if the lender is an interested party to the transaction;• Gift funds or gift of equity from a seller who is also an acceptable donor provided that: | 05.22.2025 |
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| <ul style="list-style-type: none"> ○ The donor is not a builder, or another interested party, and has no affiliation with any other interested party to the transaction and ○ All requirements pertaining to gift funds and gift or equity from an acceptable donor are met. • A legitimate pro-rated real estate tax credit in places where the real estate taxes are paid in arrears; and <p><u>Clarified</u> - The payment of HOA fees/dues by an interested party is not considered an abatement, unless the payment of the fee extends for more than 12 months.</p> <p><u>Lender Incentives expanded to reflect:</u></p> <ul style="list-style-type: none"> • The maximum amount of incentive increased from \$500 to \$2,500; • The lender may provide the borrower, either directly or through a third-party, with an incentive such as cash or a cash-like gift (e.g., a gift card) or other item of value that is not a lender credit toward the transaction . The incentive may be offered on all transactions as part of a promotion or lender program, provided that: • The incentive is not sourced from the transaction (for example, premium pricing); • The borrower qualifies without consideration of the incentive (for example the incentive cannot be considered borrower assets, used to reduce the payment of an outstanding credit card account, or included in maximum cash back to borrower at closing calculation), <p>If the lender is, or is affiliated with, an interested party to the transaction, the incentive must be treated as a sales concession.</p> <p>Business Assets updated to remove requirement for a Cash flow analysis is not required if the s/e borrower's income is not being used to qualify and same requirement shown for Fannie Me (DU) transactions (Smartsheet #1845)</p> | |
| <p>Transfer of Gift Funds requirements were identified by Fannie Mae and Freddie Mac based on agency published guidelines</p> | <p>06.26.2025</p> |



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Chapter 1H Conforming Liabilities and Debt Ratios

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1H.1 Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITIA.

- Principal and interest on the first mortgage loan (P&I)
- Interest payments for Interest-only loans
- Subordinate financing payments on mortgages secured by the subject property
- Property insurance premiums
- Flood insurance premiums
- Mortgage insurance premiums
- Real estate taxes
- Homeowners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit)
- Leasehold payments
- Ground rent
- Special assessments with more than ten (10) months remaining

If the loan is secured by the borrower's primary residence, the monthly housing expense is based on the qualifying payment and is the monthly housing expense used to calculate the DTI ratio.

If the loan is secured by a second home or an investment property, the qualifying payment amount is considered one of the borrower's monthly debt obligations when calculating the DTI ratio. The monthly housing expense represents the housing payment (PITIA or rental payment) associated with the borrower's primary residence, including any HOA fees and subordinate liens.

Transactions resulting in significant payment shock should be carefully considered by the underwriter. The borrower's income must clearly support the borrower's ability to make a higher monthly payment.

1H.1(a) Real Estate Tax Payment

Real estate calculation must be based on no less than the current assessed value.

- The actual amount of taxes must be included in the DTI ratio.
- For new construction when the actual real estate tax amount is not available, the borrower must qualify with the property tax payments based upon fully improved land. Use a reasonable estimate of the real estate taxes based on the value of the land and completed improvements.

This also applies to properties located in a jurisdiction where transfer of ownership causes or



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results in a recalculation of the amount of real estate tax, the monthly housing expense must include an estimate of the recalculated real estate amount.

1H.1(b) Real Estate Tax Abatement or Tax Exemption

When there is a partial or complete real estate tax abatement on the property, or the borrower is exempt from real estate taxes, the reduced real estate tax amount may be used in the monthly housing expense calculation or exclude the real estate tax amount from the monthly housing expense calculation, as applicable.

The following must be documented:

- Evidence of the tax abatement or exemption showing a minimum of at least a five (5) year continuance after the Note date; and
- If the tax exemption is due to the borrower's age or disability, documentation verifying continuance is not required but there must not be a predetermined expiration date within five (5) years of the Note date.
 - For disabled veterans, the title company must provide a certification confirming the borrower's real estate tax exemption status and provide to lender.

Example

For a municipality with a 10-year abatement, qualify with the reduced amount. For a municipality with a 10-year abatement and with annual real estate tax increases in years one (1) through 10, qualify the borrower with the annual taxes that will be required at the end of year five (5) after the first mortgage payment date.

1H.2 Qualifying Housing Payment

Generally, the principal and interest payment, based on the actual interest rate is used to determine the borrower's monthly housing expense.

Refer to our Product Summaries for specific requirements on qualifying rates, formulas, and limitations.

1H.3 Debt-to-Income Ratios

Debt-to-income (DTI) ratios compare the monthly housing expense and all debt payments to total monthly qualifying income.



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Refer to our Product Summaries for DTI ratio limits.

1H.4 Monthly Obligations

The total monthly debt obligations considered is the sum of the monthly housing expense of the borrower's primary residence plus all other monthly expenses incurred by the borrower. Any additional debt obtained because of a recent inquiry on the credit report must be included in the monthly debt obligation.

Monthly expenses include:

- [Agricultural Exemptions](#)
 - [Alimony and Child Support Payments](#)
 - [Authorized User Accounts](#)
 - [Bridge Loans](#)
 - [Business Debt](#)
 - [Co-Signed Loans](#)
 - [Court-Ordered Assignment of Debt](#)
 - [Debts Paid by Others \(Non-Mortgage\)](#)
 - [Federal Income Tax Installment Agreements](#)
 - [Garnishments](#)
 - [Home Equity Lines of Credit](#)
 - [Installment Debt](#)
 - [Lease Payments](#)
 - [Loans Secured by Financial Assets](#)
 - [Mortgage Assumptions](#)
 - [Non-Applicant Accounts](#)
 - [Other Real Estate Owned](#)
 - [Property Settlement Buy-out](#)
 - [Revolving Charges/Lines of Credit](#)
 - [Student Loans](#)
 - [Undisclosed Liabilities](#)
 - [Voluntary Recurring Debt](#)
-



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1H.4(a) Agricultural Exemptions

Clarification for Texas 50(a)(6) loans, agricultural exemptions must have been removed and evidence of roll back taxes from the tax assessor must be in the file. If roll back taxes are due, that tax debt must be recalculated after removing the agricultural exemption and included in the DTI ratio.

1H.4(b) Alimony and Child Support Payments

When a borrower is required to pay alimony and/or child support payments under a divorce decree, separation agreement, or any other written legal agreement, and those payments will continue for more than ten (10) months, the payments must be considered as part of the borrower's recurring monthly debt obligations.

Voluntary payments do not need to be taken into consideration.

| Alimony | Child Support |
|---|--|
| Reduce the qualifying income by the amount of the obligation. | Include the amount of the obligation as a monthly payment in the calculation of the DTI ratio. |

One of the following is required to document the payment:

- A copy of a written legal agreement or court decree or equivalent documentation describing the payment terms for the obligation, the amount of the award and the period of time over which it will be received; or
- Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made.

Review of the application and loan file documentation may require additional validation to determine child support obligations.

1H.4(c) Authorized User Accounts

The payment for authorized user tradelines must be included in the DTI unless documented that the debt is paid by another party in accordance with the guidelines. Refer to the credit Chapter for additional guidelines when evaluating a borrower's credit history that contains authorized user accounts.



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1H.4(d) Bridge Loans

The monthly payment from a bridge loan must be included in the borrower's DTI ratio calculation. The monthly payment does not have to be included in the DTI calculation if the following documentation is provided:

- A fully executed sales contract for the current residence; and
- Confirmation that any financing contingencies have been cleared.

1H.4(e) Business Debt

When a self-employed borrower is obligated on a debt that has been paid by the borrower's business for at least 12 months, the monthly payment for the debt may be excluded from the monthly DTI ratio if all of the following are met.

| Fannie Mae DU | Freddie Mac LPA |
|--|--|
| <ul style="list-style-type: none">• No history of delinquency;• A minimum of 12 months evidence documenting that the debt is paid by the business account; and• The cash flow analysis of the business took the payment obligation into consideration. | <ul style="list-style-type: none">• No history of delinquency in the past 12 months;• A minimum of 12 months evidence documenting that the debt is paid by the business account; and• Tax returns evidence that business expenses associated with the debt have been reported and support that the debt has been paid by the business. |

To ensure that the obligation is counted only once, 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.

1H.4(f) Co-signed Loans

When a borrower co-signs for a loan to enable another party to obtain credit, but is not actually repaying the debt, the debt must be included in the DTI ratio, unless there is documentation to evidence the co-obligor has been making payments for a minimum of 12 consecutive months and the account is current with no history of delinquency during those 12 months.

Evidence such as cancelled checks or automated savings withdrawals will be accepted.



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1H.4(g) Court-ordered Assignment of Debt

When the borrower has outstanding debt that was assigned to another party by court order (e.g., divorce decree or separation agreement), and the creditor does not release the borrower from liability, it may be excluded from the DTI ratio calculation.

A copy of the court order assigning the debt is required.

The payment history of the debt does not need to be taken into consideration after the effective date of the assignment.

1H.4(h) Debts Paid by Others (Non-Mortgage)

When the borrower is obligated on a non-mortgage debt and that debt is being repaid by another party (even if they are not obligated to repay the debt), the monthly obligation may be excluded from the DTI ratio subject to all of the following:

- The other party may not be an interested party to the transaction, such as the seller or realtor; and
- The most recent 12 months cancelled checks or bank statements from party paying the debt, documenting a 12-month satisfactory payment history evidencing no delinquent payments.

The debt may only be excluded if the other party is paying the entire monthly obligation for a minimum of 12 months. Non-mortgage debt include installment, revolving, lease payments, alimony, child support and separate maintenance.

1H.4(i) Federal Income Tax Installment Agreements

When the borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the monthly obligation must be included in the DTI ratio. There must not be an indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.

The following documentation must be obtained:

| | Fannie Mae | Freddie Mac |
|---------------------|---|---|
| Approved IRS | <ul style="list-style-type: none">• An approved IRS installment agreement with the terms of repayment, including | <ul style="list-style-type: none">• An approved IRS installment agreement reflecting the terms of |

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| | | |
|--|--|---|
| Installment Agreement | <p>the monthly payment amount and total amount due; and</p> <ul style="list-style-type: none"> • Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from IRS, reflecting the last payment amount and date and the next payment amount owed and due date. <ul style="list-style-type: none"> ○ At least one payment must be made prior to closing. <p>The payments on a federal income tax installment agreement can be excluded from the DTI if the agreement meets the guidelines for Debts Paid by Others or Installment Debt.</p> <p>If any of the above conditions are not met, the borrower must pay off the outstanding balance due from documented acceptable sources.</p> | <p>repayment, including the monthly payment amount and total amount due; and</p> <ul style="list-style-type: none"> • Document the borrower is not past due under the terms of the installment agreement. • The payment must be included in the DTI if there are more than 10 months of payments remaining. • If any of the above conditions are not met, the borrower must pay off the outstanding balance from documented acceptable sources. |
| Installment Agreements Pending IRS Approval | <ul style="list-style-type: none"> • Not permitted. All installment IRS agreements must be approved and meet above guidelines. | <ul style="list-style-type: none"> • When the borrower has applied for an installment agreement with IRS that is pending IRS approval, all of the following must be met: <ul style="list-style-type: none"> ○ A copy of the application for the installment agreement reflecting the amount of taxes owed and requested payment terms and |



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| | | <ul style="list-style-type: none">○ The greater of the monthly payment amount requested by the borrower or the amount of taxes owed divided by 72 months must be included in the DTI |
|--|--|--|

1H.4(j) Garnishments

Garnishments with more than ten (10) months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes. A garnishment is not required to be paid off prior to closing.

1H.4(k) Home Equity Lines of Credit

When the credit report shows a home equity line of credit (HELOC) with an outstanding balance, a monthly payment must be included in the recurring monthly debt obligations.

| Fannie Mae DU | Freddie Mac LPA |
|---|---|
| <ul style="list-style-type: none">• If a monthly payment is not reported, a copy of the borrower's monthly statement should be provided.• If the HELOC does not require a payment and there is no recurring monthly debt obligation, no monthly payment needs be included in the recurring debt obligations. | <ul style="list-style-type: none">• If a monthly payment is not reported, obtain one of the following:<ul style="list-style-type: none">○ A copy of the borrower's monthly statement with a monthly payment; or○ Use 1.5% of the outstanding balance.• If the HELOC does not require a payment and there is no recurring monthly debt obligation, no monthly payment needs be included in the recurring debt obligations. |

1H.4(l) Installment Debt

Installment debt that is not secured by a financial asset, including student loans, automobile loans and timeshares, etc., must be included in the borrower's monthly debt obligations, if there are more than ten (10) months remaining. An installment debt with fewer than ten (10) monthly payments remaining



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should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet their monthly obligations. A timeshare is considered an installment loan and not a mortgage debt. Timeshare maintenance fees are not required to be included in the DTI.

For loans underwritten by DU, DU will determine whether to include installment debts with fewer than ten monthly payments remaining.

When a monthly payment on an installment debt is not reported on the credit report, obtain documentation verifying the monthly payment amount.

1H.4(l)(i) Deferred Installment Debt

Deferred installment debts must be included in the DTI ratio.

If the credit report does not indicate the monthly amount that will be payable at the end of the deferment period, copies of the borrower's payment letter, or forbearance must be obtained to determine the monthly payment used for loan qualification.

1H.4(l)(ii) Pay Off or Pay Down of Debt

Pay off or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

Paying off installment debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing. Source of funds must also be documented.

Paying down installment debt for loan qualification is permitted. The source of funds must be documented.

For information about deferred student loans, see [1H.4\(t\)](#) Student Loans below.

1H.4(m) Lease Payments

Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease.



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1H.4(n) Loans Secured by Financial Assets

The borrower may use their financial assets (life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.) as security for a loan.

The payment on this type of loan is not required to be included in the DTI ratio provided the applicable loan instrument shows the borrower's financial asset as collateral for the loan.

If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient liquid assets remaining.

All of the following documentation must be provided:

- Evidence of value and ownership of the asset;
- Evidence the loan is secured by the asset; and
- Evidence of receipt of the loan proceeds.

1H.4(o) Mortgage Assumptions

When the borrower sells a property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the debt (PITIA) does not need to be included in the DTI ratio if verification that property purchaser has at least a 12-month history of making regular and timely payments for the mortgage is provided. All of the following documentation must be provided:

- Evidence of transfer of ownership;
- Copy of the formal, executed assumption agreement; and
- Credit report indicating that consistent and timely payments were made for the assumed mortgage.

If timely payments for the most recent 12-month period cannot be documented, the mortgage payment must be included in the borrower's recurring monthly debt obligations.

1H.4(p) Mortgage Debt Paid by Others

| | |
|---------------|-----------------|
| Fannie Mae DU | Freddie Mac LPA |
|---------------|-----------------|



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| | |
|---|---|
| <p>When the borrower is obligated on a mortgage debt and that debt is being repaid by another party, the full monthly housing expense (PITIA) may be excluded from the DTI ratio subject to all of the following:</p> <ul style="list-style-type: none">• The other party is obligated on the mortgage debt. The most recent 12 months cancelled checks or bank statements from party paying the debt, documenting a 12-month satisfactory payment history evidencing no delinquent payments; and• The mortgaged property is included in the borrower's multiple financed property count and meets reserve requirements.• Rental income is not being used to qualify. <p>The debt may only be excluded if the other party is paying the entire monthly obligation for a minimum of 12 months.</p> | <p>When the borrower is obligated on a mortgage debt and that debt is being repaid by another party, the full monthly housing expense (PITIA) may be excluded from the DTI ratio subject to all of the following:</p> <ul style="list-style-type: none">• The other party is obligated on the mortgage debt. The most recent 12 months cancelled checks or bank statements from party paying the debt, documenting a 12-month satisfactory payment history evidencing no delinquent payments;• The mortgaged property is included in the borrower's multiple financed property count and meets reserve requirements; and• The other party is not an interested party to the transaction. <p>The debt may only be excluded if the other party is paying the monthly obligation for a minimum of 12 months.</p> |
|---|---|

1H.4(q) Non-Applicant Accounts

Credit reports may include accounts identified as possible non-applicant accounts (or similar notation). Non-applicant accounts may belong to the borrower, or they may belong to another individual.

Typical causes of non-applicant accounts include:

- Applicants who are Juniors or Seniors;
- Individuals who move frequently;
- Unrelated individuals who have identical names; and
- Debts that the borrower applied for under a different Social Security number or under a different address. These may be indicative of potential fraud.

If the debts do not belong to the borrower, documentation may be provided to validate this, and may



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exclude the non-applicant debts from the borrower's DTI ratio.

1H.4(r) Other Real Estate Owned

Mortgage payments and related expenses on any real estate owned must be included in the borrower's recurring debt obligations. This includes mortgage payments and related expenses on any property that is currently pending sale (not closing prior to subject transaction), or a property retained as a second home or investment property.

When the loan application reflects the borrower owns other real estate free and clear of mortgage liens or encumbrances, evidence is typically not required. However, under certain circumstances the underwriter may require documentation confirming the real estate is unencumbered. The borrower must qualify with the applicable taxes, hazard insurance, homeowners' association dues/fees (if applicable), and any other related expenses, which must be documented.

1H.4(r)(i) Current Primary Residence Pending Sale

When the sale of the borrower's current primary residence is pending sale, but the sale will not close prior to the new loan closing, the PITIA of the current primary residence must be included in the DTI unless the following is provided.

| Fannie Mae DU | Freddie Mac LPA |
|---|---|
| Qualify based on the new primary residence if the following are provided: <ul style="list-style-type: none">• The executed sales contract for the current primary residence; and• Confirmation that any financing contingencies have been cleared. | Qualify based on the new primary residence if one of the following are provided: <ul style="list-style-type: none">• Executed, non-contingent sales contract for the current residence;• Executed, contingent sales contract with evidence that the financing contingencies have been cleared or a lender's commitment to the buyer of the property pending sale; or• An executed buy-out agreement that is part of an employer relocation plan and either:<ul style="list-style-type: none">○ The buyout is executed by the borrower; or |

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| | |
|--|---|
| | <ul style="list-style-type: none"> ○ The buyout is not executed, and the borrower has sufficient reserves to pay the monthly payment for the property pending sale until the expiration date of the buyout offer (in addition to product requirement reserves) and a signed statement from the borrower indicating their intention to accept the buyout agreement if the current primary residence is not sold prior to the expiration date of the buyout agreement. |
| Refer to Chapter 1G Assets for more information. | |

1H.4(r)(ii) Conversion of a Primary Residence

If the borrower's current primary residence is being converted to a second home or investment property, an explanation may be required when the property being purchased is of lesser value or in the same geographic location. Qualify the borrower based on the following:

| | |
|---------------------|---|
| Second Home | If the borrower's current primary residence is converting to a second home, the PITIA of the second home must be used in the monthly debt obligations. |
| Investment Property | If the borrower's current primary residence is converting to an investment property, refer to Chapter 1I Income and Employment for Rental Income for qualification. |

1H.4(s) Property Settlement Buyout

When the borrower's interest in a property is "bought-out" by another co-owner of the property, the mortgage lender may not release the borrower from liability, the debt does not need to be included in the DTI ratio provided there is documentation to evidence the transfer of title of the property.



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1H.4(t) Rental Housing Payment

The housing payment for each borrower's principal residence must be considered when underwriting the loan. For the following scenarios, the borrower's monthly rental housing payment must be evaluated (if the borrower does not otherwise have a mortgage payment or no housing expense):

- For non-occupant borrowers, and
- For second homes or investment properties.

The following list provides examples of acceptable documentation to verify the rental payment.

| Fannie Mae DU | Freddie Mac LPA |
|--|---|
| <ul style="list-style-type: none">• Six months canceled checks or equivalent payment source; or• six months bank statements reflecting a clear consistent payment to an organization or individual; or• direct verification of rent from a management company or individual landlord; or• a copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount. | <ul style="list-style-type: none">• Direct verification of rent from a management company; or• Direct verification of rent from an individual landlord supported by two months of canceled checks or other evidence of two months' payments; or• A copy of the current, fully executed lease agreement supported by two months of canceled checks or other evidence of two months' payments; or• Six months of canceled checks or bank statements supporting consistent payments in the amount used in qualifying. |

1H.4(u) Revolving Charges/Lines of Credit

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.

| Account Type | Fannie Mae DU | Freddie Mac LPA |
|--------------------|---|---|
| Revolving Accounts | 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 | If a revolving debt is provided on the loan application without a monthly payment amount and there is no documentation showing the monthly payment amount, LPA will use 5% of the |



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| | monthly payment when calculating the DTI ratio. | outstanding balance as the monthly payment when calculating the DTI ratio. |
|--|---|--|
| Open 30-Day Accounts | Open 30-day charge accounts require the balance to be paid in full every month. | |
| | <ul style="list-style-type: none"> Open 30-day accounts do not need to be included in the DTI ratio. The borrower must have sufficient funds to pay off the outstanding balance, in addition to the funds required for the transaction. If the borrower paid off the account balance prior to closing, provide verification of the payoff, in lieu of verifying funds to cover the balance. The borrower must document the source of funds used to pay the balance while still having sufficient funds for closing and reserves. | The full amount of the outstanding balance must be included in the DTI ratio unless the borrower has sufficient funds to pay off the outstanding balance, in addition to the funds required for the transaction. |
| Payoff or Paydown Revolving Debt for Loan Qualification | <p>Payoff of debt to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.</p> <p>Paying off revolving debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing. Source of funds must also be documented.</p> <p>Paying down revolving debt for loan qualification is not permitted.</p> | |



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1H.4(v) Student Loans

Student loans, whether in repayment, deferred or in forbearance, must be included in the DTI ratio.

Documentation may include, but is not limited to:

- Direct verification from creditor;
- Copy of the installment loan agreement; or
- Copy of the installment loan agreement or creditor's student loan certification documenting the payment amount that will be required once the deferment or forbearance period has ended.

| Structure | Fannie Mae DU | Freddie Mac LPA |
|---|---|--|
| Student Loans in Repayment | <ul style="list-style-type: none"> • Use the payment on the credit report; or • If the monthly payment is not on the credit report or shows \$0 as the monthly payment and the borrower is on an income-driven payment plan, obtain documentation to verify the actual monthly payment is \$0 and qualify with a \$0 payment. | <ul style="list-style-type: none"> • If the monthly payment amount is greater than \$0, use the monthly payment amount reported on the credit report or other file documentation; or • If the monthly payment amount reported on the credit report is \$0, use 0.5% of the outstanding loan balance, as reported on the credit report, unless other file documentation supports a different current payment amount greater than zero, or • If student loan is in an income driven repayment plan and file documentation indicates the borrower must recertify their income and/or that the borrower's payment will increase prior to or on the first mortgage payment due date, the DTI must include a payment that is: <ul style="list-style-type: none"> ○ The greater of the current payment or 0.50% of the |
| Student Loans in Deferment or Forbearance | <p>Calculate the payment using:</p> <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. | |



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| Structure | Fannie Mae DU | Freddie Mac LPA |
|--|---------------|---|
| | | <p>outstanding loan balance; or</p> <ul style="list-style-type: none"> ○ The documented future payment amount if greater than the current payment; or ○ The future payment amount is less than or equal to the current payment, provided that the file contains documentation that the borrower has recertified their income and the future payment amount has been approved. The future payment amount must be greater than \$0. |
| <p>Forgiveness, Cancellation, Discharge and Employment-Contingent Repayment Programs</p> | NA | <p>The student loan payment may be excluded from the monthly DTI ratio provided the loan file contains the following documentation:</p> <ul style="list-style-type: none"> • The student loan has ten or less monthly payments remaining until the balance is forgiven, canceled, discharged or in the case of an employment-contingent repayment program, paid; or • The monthly payment on a student loan is deferred or is in forbearance and the full balance of the student loan will be forgiven, canceled, discharged or |

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| Structure | Fannie Mae DU | Freddie Mac LPA |
|-----------|---------------|--|
| | | <p>in the case of an employment-contingent repayment program, paid at the end of the deferment or forbearance period.</p> <p>AND</p> <ul style="list-style-type: none"> • The borrower is eligible or approved, as applicable, for the student loan forgiveness, cancellation, discharge, or employment-contingent repayment program, as applicable, and the underwriter is not aware of any circumstances that will make the borrower ineligible in the future; and • Evidence of eligibility or approval must come from the student loan program or the employer, as applicable. |

1H.4(w) Timeshare Obligations

- Timeshare maintenance fees are not required to be included in the DTI and timeshare ownership is not considered an ownership interest in residential property.

1H.4(x) Undisclosed Liabilities

Refer to Chapter 1F Credit for Undisclosed Liabilities.

1H.4(y) Voluntary Recurring Debts

Voluntary recurring debts should generally not be considered in the underwriting analysis or subtracted from gross income (401(k) contributions, 401(k) loans, union dues, commuting expenses, open accounts with zero balances, federal, state, and local taxes, or other voluntary deductions). Specific circumstances in an individual file must always be analyzed.



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Refer to Chapter 1I Employment and Income for treatment of business expenses.

1H.5 Monthly Obligations Not Included in Liabilities

Some obligations, often identified on the borrower's paystub, are not considered a liability, and will not be included as a debt or deducted from the borrower's gross income when calculating the borrower's DTI ratio.

These obligations include

- Federal, state, and local taxes
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds)
- Commuting costs
- Union dues
- Voluntary deductions

| Revision History | Date |
|--|------------|
| Authorized User Account information for DU and LPA transactions relocated to Ch 1F Credit , section 1F.4(b) Authorized User Accounts | 01.30.2025 |
| Updated Federal Income Tax Installment Agreements to identify both Fannie Mae and Freddie Mac requirements when the following is provided: <ul style="list-style-type: none">• Approved IRS Installment Agreement or• Installment Agreements Pending IRS Approval Freddie Mac Bulletin 2025-4 delayed release of Flood Insurance premium being included in the PITI and used for loan qualifying. Updated Ch. 1H.1 Monthly Housing Expense to remove following content for flood insurance premiums : (If a full risk premium and a discounted premium are shown, the full risk premium plus any fees and surcharges must be used) | 04.29.2025 |



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Chapter 1I Conforming Employment and Income

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11.1 Income Documentation and Standards

11.1(a) IRS Form 4506-C or an alternative IRS Form

11.1(a)(i) General Requirements

- For loans underwritten by Newrez, borrower(s) are required to complete, sign and date IRS Form 4506-C, authorizing the Client or its assigns, to validate income information.
- IRS Form 4506-C can be used to obtain tax transcripts for multiple years or tax periods, but only one (1) tax form number can be requested per IRS Form 4506-C.
- IRS Form 4506-C must not expire before a reasonable time to allow for execution.
Note: IRS Form 4506-C is valid for 120 days.
- The signed Form 4506-C must include authorization for tax transcripts to coincide with the year(s) reflected on the income documentation provided and used for qualification.
- Signature Requirements:
 - If filing jointly, each borrower (taxpayer) must sign the same IRS Form.
 - If separate filings, each borrower (taxpayer) must sign on separate forms.



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- The form must be signed exactly as the borrowers' name appears on the original return.
- If a borrower's name changed, the borrower must sign with both the current name and changed name.

11.1(a)(ii) At Closing Requirements

- Form 4506-C, for each borrower whose income is used to qualify (regardless of income type) must be signed at closing, even if DU Validation Service or LPA Asset and Income Modeler waives the requirement.
- Form 4506-C for business return(s) must be signed at closing when the business returns are used for qualification, even if DU Validation Service or LPA Asset and Income Modeler waives the requirement.
- Form 4506-C must be an original signature and cannot be e-signed.

As an example, it is necessary to complete three IRS Form 4506-Cs for a self-employed borrower whose income documentation consists of two (2) years individual income tax returns and two (2) years' business tax returns for two (2) separate businesses. One Form 4506-C will be required for the individual return and a separate Form 4506-C for each business return.

11.1(a)(iii) Completing IRS Form 4506-C

| Line # | | Individual Tax Returns | Business Tax Returns |
|--------|---|------------------------|--|
| 1-4. | Complete with appropriate borrower information. The address completed on the form must be the same as the address on the tax return even if not the borrower's current address. | | |
| 5. | a. IVES Participant name, address and SOR mailbox ID | | |
| | b. Customer File Number | | |
| 6. | Transcript Requested | Enter Form 1040 | Enter Form 1120, 1065, etc., as applicable |
| | a. Return Transcript | Check Box and/or 6c | |
| | b. Account Transcript | Leave Blank | |
| | c. Record of Account | Check Box and/or 6a | |
| 7. | Form W-2, Form 1099 series, Form 1098 series, | Check Box 7 | Leave Blank |



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| | or Form 5498 series transcript | | |
| 8. | Year or period requested | Complete for the number of year(s) required to document income | |
| The IRS will process the request if the IRS Form 4506-C for the business includes the following: | | | |
| <ul style="list-style-type: none">• 1120: Borrower must sign name with title and only the following titles are acceptable<ul style="list-style-type: none">○ President○ Vice President○ Secretary○ Treasurer○ Assistant Treasurer○ Chief Accounting Officer• 1120S: Borrower must sign name with title and only the following titles are acceptable<ul style="list-style-type: none">○ President○ Vice President○ Secretary○ Treasurer○ Managing Member• 1065: Borrower must sign name with title and only the following titles are acceptable<ul style="list-style-type: none">○ Partner○ Limited Partner | | | |

11.1(b) IRS Form 8821 (Freddie Mac only)

Use of IRS Form 8821 in lieu of IRS Form 4506-C is acceptable.

11.1(c) Tax Transcripts

Tax transcript(s) may be required, at the underwriter's discretion. Refer to the Product Summaries.

Information from the tax transcript and borrower-provided document must be compared and discrepancies explained and resolved with detailed comments provided.



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11.1(c)(i) Borrower Provided Transcripts

In certain cases, such as identification theft, transcripts will not be available directly from the IRS, and the borrower will need to obtain them. Additional documentation will be required along with the transcripts.

If the IRS rejects tax transcripts requested (for reasons of possible identity fraud/theft, other identity related issues, or misuse of tax transcripts), the messaging for these reasons received from the IRS may state the following: "Due to limitations, the IRS is unable to process this request. The IRS will mail a notification to the borrower to explain the reason, please contact your borrower."

- The rejection of the IRS not fulfilling the online request must be in the loan file; and
- The borrower may order their own tax transcripts and provide them. All schedules must be required by the borrower for the past two (2) years tax returns were filed.

If the rejection was due to identity theft provide:

- Proof identification theft was reported to and received by the IRS (IRS Form 14039); or
- A copy of the notification from the IRS alerting the taxpayer to possible identification theft; and
- Borrower obtained transcript, in pdf format, for all applicable years missing.

If a borrower is not required to file last years' tax return and the source of income cannot be validated through the IRS Form 4506-C process, documentation supporting the lack of filing tax returns must be provided. See IRS [Table 1-1.2011 Filing Requirements for Most Taxpayers](#) and Chapter [6A](#) Fraud for guidance when related to identify theft.

11.1(d) Paystubs

- The paystub must clearly identify the:
 - Borrower as the employee;
 - Gross earnings for the current pay period and year-to-date earnings;
 - Pay period;
 - Employer name; and
 - Date issued.
- Paystubs must be dated no earlier than 30 days prior to the loan application;
- If the borrower is paid hourly, the number of hours must be noted on the paystub;



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- Paystubs must be computer-generated or typed by the employer. If the employer does not provide a computer-generated or typed paystub, the most recent years' income tax returns or tax transcripts are required with a written verification of employment completed in its entirety;
- Paystubs must not have any alterations;
- The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor; and
- Paystubs that are issued electronically, via e-mail or downloaded from the Internet are acceptable. Documents must clearly identify the employer's name and source of information – for example, by including the information in the Internet banner.

11.1(e) W-2 Form

The W-2 must

- Clearly identify the borrower as the employee and the employer's name;
- Be the employee copy provided by the employer;
- Be computer-generated or type by the employer;
- Not have any alterations; and
- Be the original source of the information from a third-party, such as the borrower's human resources department, personnel, office, payroll department, company's payroll vendor, or supervisor.

The following may be used in lieu of the W-2 form provided the documentation reflects the complete income earned in the previous calendar year:

- Year-end paystub(s); or
- Military Leave and Earnings Statement.

11.1(f) Written Verification of Employment (WVOE)

A written verification of employment must contain:

- Dates of employment;
- Position;
- Probability of continued employment; when available;
- Base pay amount and frequency. For employees paid on an hourly basis; the verification must state the hourly wages, including the number of hours worked each week;



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- Year-to-date earnings;
- Most recent one (1) or two (2) years' earnings; and
- Additional salary information, which itemizes bonus, overtime, tip, or commission income, if applicable.

Electronic verification systems are acceptable however the information received must contain the same level of information.

The borrower may not request completion of the written verification of employment directly from their employer.

11.1(g) Verbal Confirmation of Employment

A verbal confirmation of the borrower's current employment status is required for each borrower (including when non-DU and DU validation services or LPA AIM is used).

If verbal confirmation cannot be obtained, a written verification of employment must be utilized to confirm employment and must be completed within the same time frame as a verbal confirmation.

To comply with a verbal confirmation of employment requirement, independently obtain the phone number and address for the borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, etc., or by contacting the applicable licensing bureau. In addition, the following must be met:

| Verbal Confirmation of Employment | |
|-----------------------------------|--|
| Wage Earner | Verbal confirmation of employment must be completed within ten (10) business days from the Note date (or funding date for escrow states) and documented with the following information: <ul style="list-style-type: none">• Name and title of the person who confirmed employment;• Date of contact;• Name and title of associate contacting the employer;• Phone number and method and source used to obtain the phone number; and• Borrower's employment status. |



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| | <p>Alternatives to the above include an email exchange directly with the employer may be used to confirm employment and must be an independently obtained employer's email address, such as name@company.com (no Gmail, yahoo, etc.) and includes all of the following:</p> <ul style="list-style-type: none">• Borrower's name and employer's name;• Name and title of the individual contacted at the employer, date of contact and the individual's work email address; and• Borrower's current employment status. <p>In addition, the loan file must contain:</p> <ul style="list-style-type: none">• Information about the third-party source used to obtain the employer's email (e.g., reliable internet source); and• Name, title, and employer of the representative who contacted the borrower's employer and obtained the email verification. <p>For borrowers in the military, a Leave and Earnings Statement dated within 120 calendar days of the Note date may be used.</p> <p>If using a third-party service to verify employment (e.g., The Work Number, Quick Confirm, LexisNexis, etc.) the following applies:</p> <ul style="list-style-type: none">• Request to third-party must be within ten (10) business days of the Note date; and• Employment Verification between employer and third-party must be within 35 calendar days of the Note date.<ul style="list-style-type: none">○ DU loans: When employment is validated by DU validation service using an asset verification report, but the loan will not close by the "close by Date" stated in the validation message, an alternative method of reverifying employment is permitted using a supplemental asset report. |
| Self-Employed Borrower | <p>Verification of the existence of a self-employed borrower's business must be completed within 120 calendar days from the Note date.</p> <p>Verification of the existence of the business from a third party is required. A</p> |

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| | <p>borrower's website is not acceptable as third-party verification. Acceptable third-party sources include, but are not limited to:</p> <ul style="list-style-type: none"> • A CPA (must be arm's length), regulatory agency, or the applicable licensing agency, or • By verifying a phone listing and address for the borrower's business using a telephone book, the Internet, directory assistance, Better Business Bureau. <ul style="list-style-type: none"> ○ If using an internet source, such as Whitepages.com, Yellowpages.com, the phone number must be called to ensure the business is still in existence. <p>Verification of current existence of the business obtained verbally from an acceptable third-party source must be documented and include all of the following:</p> <ul style="list-style-type: none"> • Name and address of business; • Name of individual and entity contacted; • Date of verification; and • Name and title of associate who completed the verification. <p>Alternative documentation: Current and active business insurance policy or Errors and Omissions policy, documentation showing registration for remitting sales tax, supplier invoices, etc.</p> |
|--|--|

11.1(h) Tax Returns

Each tax return must be signed by the borrower unless one (1) of the following is obtained:

- Evidence of tax returns were filed electronically (e.g., signed Form 8879, IRS e-file Signature Authorization or equivalent);
- Transcripts that validate the unsigned tax return(s); or
- Completed IRS Form 4506-C, signed by the borrower for the year in question.

The following standards apply with using Income Tax Returns to verify income.

| Tax Return | Requirement |
|------------|-------------|
|------------|-------------|



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| <i>Individual Income Tax Return (Form 1040)</i> | <ul style="list-style-type: none"> • Complete with all schedules and W-2s, 1099s, K-1s, etc. • Borrower's copy filed with the IRS |
| <i>Business Income Tax Return (Form 1120, 1120S, 1065)</i> | <ul style="list-style-type: none"> • Complete with all schedules and W-2s, 1099s, K-1s, etc. • Borrower's copy filed with the IRS |
| Amended Income Tax Returns Filed Prior to the Application Date | Amended tax returns filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the tax return was amended 60 days or less prior to the application, evidence of payment must also be provided. |
| Amended Income Tax Returns Filed After the Application Date | <p>When amended tax returns are filed after the application date, due diligence must be exercised to determine the validity of the amended tax return. Examine the original tax return and the amended tax return for consistency with the previous filings to determine whether the use of the amended return is warranted. The following documentation should be reviewed when income from the amended return is required:</p> <ul style="list-style-type: none"> • A letter of explanation regarding the reason for the re-file; • Evidence of filing; and • Payment and the ability to pay the tax if the check has not been cancelled. <p>The underwriter must provide justification and commentary regarding its use.</p> |
| <i>IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns</i> | If <i>IRS Form 4868 Application for Automatic Extension of Time to File U.S. Individual Income Tax Return</i> is filed, the total tax liability reported on IRS Form 4868 must be reviewed and compared with the borrower's tax liability from the previous two (2) years as a measure of income source, stability, and continuance. If the estimated tax liability is inconsistent with previous years, the current year tax return may be necessary. |
| Use of IRS Forms to Obtain Individual Income Tax Information | Tax Returns Transcripts or Wage and Income Tax Transcripts may be used in lieu of obtaining the income tax returns as long as they contain all of the information that would be included on the tax return. In certain instances, copies of the actual returns, schedules, or forms may be needed because the tax transcripts will not provide the detail required to qualify the borrower. |



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| | <p>In addition, for loans underwritten by DU, Schedules B through F and Schedule K-1 are not required if:</p> <ul style="list-style-type: none"> the income reflected on the applicable schedule transcripts is positive; and the income supported by the schedule or form is not being used for qualifying. <p>If self-employment income from a sole proprietorship (Schedule C) is validated by DU validation service, tax returns may not be required. Document the loan per DU, which may permit a tax transcript rather than tax returns.</p> |
|--|--|

11.1(i) Allowable Age of Individual Income Tax Returns

The below table provides the allowable age of individual income tax returns depending on the application and Note date.

| If Today's Date is.... | | Then the Most Recent Years' Tax Return would be..... |
|--------------------------|---------------------|--|
| February 18, 2025 | | 2023 |
| April 15, 2025 | | 2024 |
| December 15, 2025 | | 2024 |
| Application | Note Date | Documentation |
| 10/16/2024 to 04/14/2025 | 11/1/24 to 5/31/25 | <ul style="list-style-type: none"> Most recent years' tax return Extension is not permitted |
| | 4/15/25 to 5/30/25 | <ul style="list-style-type: none"> Previous year's tax return, if filed If previous year is not filed, obtain previous two years or per DU/LPA |
| 4/15/2025 to 10/15/2025 | 5/31/25 to 10/31/25 | <ul style="list-style-type: none"> Most recent years' tax return <i>OR all of the following</i> 2024 Extension |



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| | | <ul style="list-style-type: none"> ○ For DU loans or LPA loans, in lieu of an Extension one of the following may be obtained: <ul style="list-style-type: none"> ▪ Proof of the e-filing of Form 4868 and/or 7004; or ▪ Confirmation of electronic payments, including the confirmation number, of all or part of the estimated income taxes. • Previous two years' tax returns or per DU/LPA • 1040 Tax transcripts confirming "No Transcripts Available" for 2024 <ul style="list-style-type: none"> ○ When not available, borrower-provided evidence of no transcripts are available when obtained directly from the IRS¹. • Business Tax Transcripts confirming "No Transcripts Available" for 2024 when utilizing LPA and business returns are required |
| 10/15/2025 to 4/14/2026 | 11/1/25 to 4/15/26 | <ul style="list-style-type: none"> • Most recent years' tax return • Extension is not permitted |
| <ul style="list-style-type: none"> • Refer to the applicable section of the Underwriting Guide for complete income documentation requirements for all borrowers (self-employed and non-self-employed) whose income must be documented with tax returns. • If the IRS extends the tax filing due date, the IRS confirmation is required for: <ul style="list-style-type: none"> ○ Application dates on or after the IRS income tax filing due date or May 31, 2025, whichever occurs first; and ○ Note dates on or after the last day of the month following the IRS income tax filing due date or June 30, 2025, whichever occurs first. ○ IRS Form 4868, <i>Application for Automatic Extension of Time to File U.S. Individual Income Tax Return</i> is required for: <ul style="list-style-type: none"> ▪ Application dates on or after the IRS income tax filing due date; and ▪ Note dates on or after the last day of the month following the IRS income tax filing due date. <p>¹ Any documents provided by the borrower must clearly identify the source of information including identifying information in the Internet banner on the document.</p> | | |



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11.1(j) Income Analysis Forms

The following Income Analysis forms are acceptable:

- [Cash Flow Analysis \(Fannie Mae Form 1084\) Income Analysis \(Freddie Mac Form 91\)](#)
- Newrez Income Calculation Worksheet
- [Fannie Mae Comparative Income Analysis \(Form 1088\)](#)
- Fannie Mae or Freddie Mac approved vendor self-employment calculation tools (Delegated Clients only)
- Self-Employment Income Analysis tool/form provided by the MI companies (See MI company websites to access forms) Income calculation comments in the loan file
- The Income Calculator is available through [Fannie Mae Income Calculator](#) a free web interface.

11.1(k) When Tax Returns are Required

Tax returns are always required if the borrower

- Is employed by a family member; however, for DU loans, if a borrower's income is validated by the DU validation service, it is not required to determine if the borrower is employed by a family member or interested party to the property sale or purchase
- is employed by interested parties to the property sale or purchase (property seller, broker, or other interested party to the transaction);
- 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, or other miscellaneous non-employment earnings reported on IRS Form 1099;
- receives income that cannot otherwise be verified by an independent and knowledgeable source (two (2) years' returns);
- uses foreign income to qualify;
- uses interest and dividend income to qualify;
- uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify; or
- receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure in which the borrower has 25% or greater ownership interest.



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11.2 Stable Monthly Income

The continuity of stable and predictable income must be demonstrated. Consider the length of the borrower's employment with any each employer. Borrowers with frequent job changes who earn a consistent and predictable income and are able to pay debt obligations are considered to have a reliable flow of income for loan qualification. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen.

Known economic conditions, such as plant closings, company bankruptcies, etc. that may affect the borrower's income, must be taken into consideration.

11.2(a) Continuity of Income

The continuity of receipt of qualifying income plays a critical role in determining a reliable flow of income. Unless there is knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented, it may be concluded that the income is stable and likely to continue. No additional information need be requested from the borrower.

If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, document the likelihood of continued receipt of the income for at least three years from the Note date.

| Expiration Date Not Defined | Defined Expiration Date |
|--|---|
| <ul style="list-style-type: none">• Automobile allowance• Base salary• Bonus, overtime, commission, or tip income• Capital gains income• Corporate retirement or pension• Disability income – long-term• Foster care income• Interest and dividend income (unless evidence assets will be depleted)• Military income• Part-time, second job | <ul style="list-style-type: none">• Alimony, child support, or separate maintenance• Distributions from a retirement account• Notes receivables• Public assistance• Royalty payment income• Social Security (excluding retirement or long-term disability)• Trust income• VA benefits (excluding retirement or long-term retirement) |



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| <ul style="list-style-type: none">• Rental income• Self-employment income• Social Security, VA, or other government retirement annuity | |
|--|--|

11.2(b) Variable Income

All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received.

| | |
|----------------------|--|
| History of Receipt | <ul style="list-style-type: none">• Two (2) or more years of receipt of variable income is recommended.• Variable income that has been received for 12 to 24 months may be considered acceptable income, as long as there are demonstrated positive factors that reasonably justify the use of the shorter income history. This does not mean that income received for a minimum of 12-months is eligible for use when qualifying the borrower. There must be documented justification with a written analysis to mitigate the use of the shorter history. |
| Frequency of Payment | <p>Determine the frequency of the payment (weekly, biweekly, etc.) to arrive at an accurate calculation of the monthly income to be used in the trending analysis.</p> <p><u>Example 1</u></p> <p>If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three (3) months produces a much higher, inaccurate monthly average.</p> <p><u>Example 2</u></p> <p>If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, are there are legitimate reasons why these amounts may be inconsistent yet still</p> |



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| | <p>eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical, such as landscapers, snowplow operators, etc. The difference between current period overtime and year-to -date earnings must be investigated. Document the analysis before using the income amount in the trending analysis.</p> | |
| Income Trending | <p>After the monthly year-to-date income amount is calculated, it must be compared to the prior years' earnings using the borrower's W-2s or signed individual income tax returns to determine if the income trend is stable, increasing, declining but stabilized or declining.</p> | |
| | <p>Fannie Mae DU</p> <ul style="list-style-type: none"> • If the trend of the amount of income is stable or increasing, the income should be averaged. • If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used. • If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred. | <p>Freddie Mac LPA</p> <ul style="list-style-type: none"> • Refer to 11.3b regarding analysis of fluctuating income which can include varying base, bonus, overtime, commission and tip income. |

11.3 Base Pay, Bonus, Overtime, and Commission

11.3(a) History of Receipt

A minimum history of two (2) years of receipt of income is recommended. Income that has been received



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for 12 to 24 months may be considered acceptable income, if there are demonstrated positive factors that reasonably justify the use of the shorter income history. There must be documented justification with a written analysis to mitigate the use of the shorter history. Gaps of employment must be considered in the history of receipt of income and stability of the employment and income.

If a borrower does not meet the employment history recommendation for the two (2) years prior to the date of the loan application, the following are examples that may support an employment history of less than two (2) years.

| | |
|---------------------------|---|
| New to the Workforce | <p>Provide documentation to support recent attendance in school, in the military, or a training program (e.g., diploma, transcripts, discharge papers).</p> <p>It is recommended that verbal confirmation of the borrower's attendance in school or training program be obtained to verify the validity of the documentation.</p> |
| Re-entering the Workforce | <p>Borrowers re-entering the workforce after an extended absence, for any reason, may have stable employment.</p> <p>Documentation supporting job loss, prior employment in same or related field, education or training supporting new job, etc. should be obtained to support the reason for the absence.</p> |
| Furloughed Borrowers | <p>If a borrower is furloughed or laid off, they are not considered actively employed and any income received may not be used for qualifying.</p> |
| Part-Time Employment | <p>All of the following must be provided for a borrower who has historically been employed on a part-time basis and indicates that he or she will now be working full-time.</p> <p>Written confirmation from the employer that the borrower is working full-time. Paystub evidencing the borrower's full-time pay.</p> |

11.3(b) Base Pay (Salary or Hourly)

Obtain one (1) of the following or follow DU or LPA:

- A completed Written Verification of Employment; or



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- Most recent year-to-date paystub(s); and
- Most recent two (2) years' W-2s.

11.3(b)(ii) Fluctuating Income

When income is derived from fluctuating hourly earnings, the borrower must have at least a 12-month history of employment. The required minimum 12-month history must be derived from either:

- The Borrower's current fluctuating hourly employment, or
- A combination of current and prior fluctuating hourly employment, or
- A combination of current fluctuating hourly employment and prior salaried employment in a similar industry or job type that had an income level consistent with the current income level based on an income trend analysis.

11.3(b)(iii) Fluctuating employment earnings (Base fluctuating hourly earnings additional fluctuating earnings - LPA transactions)

Requirements for history, continuance, calculation and documentation for fluctuating hourly employment earnings are outlined below. Additional documentation may be required to determine the stable monthly income amount. Additional documentation and requirements may apply based on employment characteristics.

Base fluctuating hourly employment earnings

Earnings type: Base fluctuating hourly employment earnings are not pre-determined and may fluctuate each pay period:

- **Example 1:** The pay frequency is weekly. The current YTD paystub shows 37 hours. The prior pay period YTD paystub shows 31 hours. This is typically an indicating that the base hours may fluctuate.
- **Example 2:** The pay frequency is weekly. The paystub shows 37 hours at a pay rate of \$30 per hour and reflects six months of YTD income. If the Borrower's paystub shows 37 hours every week, the YTD earnings are approximately \$28,860. However, the YTD base earnings on the paystub are \$20,240. This income documentation shows fluctuating hourly earnings and additional documentation is necessary to determine otherwise.



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11.3(b)(iv) Base non-fluctuating employment earnings - Primary and Secondary: LPA Transactions

Base non-fluctuating employment earnings are stable and consistent earnings that may be salaried **or hourly**.

Base non-fluctuating earnings may include:

- Exempt (salaried)
- Military Base (basic) pay
- Non-exempt (hourly) earnings:
 - The pay rate and number of hours are reflected on an ongoing consistent basis for each pay period and must be supported by the year-to-date (YTD) income. If the only reason the earnings fluctuate is because of additional employed income (e.g., overtime), the base earnings are still considered non-fluctuating.

Minor Fluctuation in Hours

Minor variations in base hours on paystubs (e.g., Borrower clocked out a few minutes early) are acceptable and may be treated as base non-fluctuating earnings when the variation is no more than an hour per week. Minor variations do not automatically render the base earnings as fluctuating if the historical earnings support the level of pay.

Example: The pay frequency is weekly. The current YTD paystub shows 39.78 hours while the prior paystub shows 40 hours. The YTD income reasonably supports 40 hours per week of gross pay and the prior year W-2(s) supports a similar amount of pay.

Exceptions for non-exempt earnings: Primary Employment earnings with minimum required hours

For Borrowers with primary employment earnings that fluctuate but have a position with a minimum number of required hours, the earnings may be considered non-fluctuating, and the minimum required hours are acceptable to use for gross pay when the following requirements are met:

- Must obtain written documentation from the employer confirming the minimum required hours (i.e., written verification of employment (VOE), offer letter or equivalent documentation)
- The documented minimum required hours must be supported by YTD income and prior year, as applicable

Only the minimum required hours may be considered non-fluctuating. The requirements for fluctuating employment earnings apply to any additional hours used to qualify the Borrower.



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Minimum Required Hours Example:

- Borrower has been with the current employer as a nurse with a hospital for four months; prior to that, the Borrower was in nursing school.
- The written VOE verifies the Borrower works three 12-hour shifts each week, which is common for this profession, and the YTD earnings support at least this level of gross pay.
- Based on this, it is acceptable to consider these the minimum required hours and use 36 hours weekly gross pay for income calculation.

| Topic | Stable Monthly Income Requirements |
|--|---|
| Primary Employment | <p>The borrower should have at least a two-year history of primary employment. Tenure with the same employer or in a similar industry supports employment stability</p> <p>When the borrower has less than a 2-year history of employment, file must contain:</p> <ul style="list-style-type: none">• justification for determining the employment is stable, taking into consideration factors such as income and/or employment characteristics and• the overall layering of risk factors, including the borrower's demonstrated ability to repay obligations. <p>Examples that support less than a two-year history:</p> <p>Example #1: Borrower returning to the workforce after a period of extended absence, for any reason, documentation is provided to support a stable employment history that directly preceded the extended absence</p> <p>Example #2: Borrower new to the workforce, documentation is provided that supports the Borrower's recent attendance at school or in a training program prior to their current employment</p> |
| US Armed Forces and Active duty | <p>Borrowers who are active-duty members, a history of military employment is not required for employment to be considered stable.</p> <p>When the Borrower's employed income is derived from base fluctuating hourly employment earnings, the Borrower must have at least a 12-month history of employment. The required minimum 12-month history must be derived from one of the following:</p> <ul style="list-style-type: none">▪ The Borrower's current fluctuating hourly employment▪ A combination of current and prior fluctuating hourly employment▪ A combination of current fluctuating hourly employment and prior salaried employment in a similar industry or job type that had an income level consistent with the current income level |



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| based on trend analysis described in this table in the row labeled “calculation method and trend analysis for consistent and increasing income trends” below. | |
| Must be likely to continue for at least the next three years | |
| | |
| Employment/Income Documentation | |
| Primary Employment Earnings: Base Fluctuating Earnings | |
| All of the following: <ul style="list-style-type: none"> ▪ YTD paystub(s) documenting all YTD earnings ▪ W-2 form(s)¹ for the most recent calendar year ▪ 10-day PCV | Or all of the following: <ul style="list-style-type: none"> ▪ VOE documenting all YTD earnings and the earnings for the most recent calendar year ▪ 10-day PCV |
| Secondary employment earnings: Base fluctuating hourly earnings | |
| All of the following: <ul style="list-style-type: none"> ▪ YTD paystub(s) documenting all YTD earnings ▪ W-2 forms¹ for the most recent two calendar years ▪ 10-day PCV | Or all of the following: <ul style="list-style-type: none"> ▪ Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years ▪ 10-day PCV |

| Base Fluctuating Hourly Employment Earnings | |
|--|--|
| General requirements for Calculating Income | <p>When calculating qualifying income, the following must be considered:</p> <ul style="list-style-type: none"> ▪ Determine and consider the pay frequency (weekly, bi-weekly, semi-monthly, monthly, quarterly, annually) to accurately analyze and calculate the stable monthly income ▪ Determine if the income trend is consistent, increasing or declining by comparing the YTD income to prior year(s) income and taking into consideration the length of receipt and degree of fluctuation ▪ Evaluate the income trend and use the amount that is most likely to continue for the next three years ▪ Ensure that all documentation in the Mortgage file supports the Seller’s income analysis and calculation |



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| Calculation method and trend analysis for consistent and increasing income trends | Calculation method: consistent and increasing income trends | | | |
| | Must use an average the most recent year(s) and YTD income. The amount of time averaged should be determined based on the requirements for history, documentation and other applicable factors such as time at the current employer, prior employment and consistency of the earnings level. | | | |
| | Note: If the increasing income is due to a pay raise, the Seller may use the calculation method as described in this table in the row labeled “pay raises” below | | | |
| | Examples for calculation of primary employment | | | |
| | Example 1: Current employer five years | | | |
| | Employment History | Documentation and Base Earnings Amount | Degree of Fluctuation | Calculation |
| | Current employer: 5 years | May 31 st YTD Paystub | 5.6% | Average |
| | | YTD base: \$24,200 | Consistent | 17 months |
| | | Prior Year W-2 \$55,000 ¹ | | (YTD+ prior year) |
| | ¹ If W-2s from the most recent two years are in the Mortgage file, only the most recent YTD and prior year earnings must be included in the average if the income is reasonably stable. | | | |
| Example 2: Recent or frequent job changes | | | | |
| Employment History | Documentation and Base Earnings Amount | Degree of Fluctuation | Calculation | |
| Current employer: Three months | March 31 st YTD Paystub | 25% | Average | |
| | YTD average: \$5,000/month | Increasing ¹ | 15 months | |
| Previous employers | Three W-2s from previous employers | | (YTD+ prior year) | |
| Three employers in | w-2 combined | | | |



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| | most recent 12 months; similar job types and industry | average: \$4,000 | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|--|--|--------------------|-----------------------|-----------------------|-------------------------------|---|---|----------------------|-----------|----------------------------------|--------------------|-----------------------|-----------------------|-----------------------|----------------------------|----------------------------|-----------------------|--|----------|-----|
| <div>¹Trend analysis must be completed</div> <div>Exception: The Seller may average using less than the most recent year(s) and YTD income if the income is supported by the employment history, historical earnings and documentation. This depends on individual circumstances, and the level of income must reasonably be expected to continue and represent stable monthly income.</div> <div>Calculation examples for exception:</div> <div><div>Example 1: Current employer less than two years (likely fits within exception)</div><table><tr><th>Employment History</th><th>Degree of Fluctuation</th><th>Exception Calculation</th></tr><tr><td>Current employment: 10 months</td><td rowspan="4">4% Consistent Reasonable based on job type and industry</td><td rowspan="4">Average 10 months (Current employer)</td></tr><tr><td>Previous Employment:</td></tr><tr><td>Two years</td></tr><tr><td>Similar job type and/or industry</td></tr></table><div>Example #2 Current employer less than two years (likely does not fit within exception)</div><table><tr><th>Employment History</th><th>Base earnings amount:</th><th>Degree of Fluctuation</th><th>Exception calculation</th></tr><tr><td>Current employer: 5 months</td><td>YTD average: \$2,500/month</td><td rowspan="2">67% Increasing</td><td rowspan="2">N/A Example likely does not fit within exception due to employment history and historical</td></tr><tr><td>Previous</td><td>W-2</td></tr></table></div> | | | | | Employment History | Degree of Fluctuation | Exception Calculation | Current employment: 10 months | 4% Consistent Reasonable based on job type and industry | Average 10 months (Current employer) | Previous Employment: | Two years | Similar job type and/or industry | Employment History | Base earnings amount: | Degree of Fluctuation | Exception calculation | Current employer: 5 months | YTD average: \$2,500/month | 67% Increasing | N/A Example likely does not fit within exception due to employment history and historical | Previous | W-2 |
| Employment History | Degree of Fluctuation | Exception Calculation | | | | | | | | | | | | | | | | | | | | | |
| Current employment: 10 months | 4% Consistent Reasonable based on job type and industry | Average 10 months (Current employer) | | | | | | | | | | | | | | | | | | | | | |
| Previous Employment: | | | | | | | | | | | | | | | | | | | | | | | |
| Two years | | | | | | | | | | | | | | | | | | | | | | | |
| Similar job type and/or industry | | | | | | | | | | | | | | | | | | | | | | | |
| Employment History | Base earnings amount: | Degree of Fluctuation | Exception calculation | | | | | | | | | | | | | | | | | | | | |
| Current employer: 5 months | YTD average: \$2,500/month | 67% Increasing | N/A Example likely does not fit within exception due to employment history and historical | | | | | | | | | | | | | | | | | | | | |
| Previous | W-2 | | | | | | | | | | | | | | | | | | | | | | |



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| | employment: Two Years Two employers Similar Job type and/or industry | combined average: \$1,500 .month | | earnings 15 months (YTD+ prior year) |
| <p>Trend analysis: consistent and increasing income trends:</p> <ul style="list-style-type: none">▪ Degree of fluctuation $\leq 10\%$ <p>Income trend is considered consistent.</p> <p>No additional analysis or documentation is required when calculating the qualifying income.</p> <ul style="list-style-type: none">▪ Degree of fluctuation $> 10\% - \leq 30\%$ <p>No additional analysis or documentation is required when the increase is supported by the verification of pay raise described in this table in the row labeled "pay raises," below, and/or the documented income breakdown described in the row labeled "documented income breakdown" for bonus, commission, overtime and tips.</p> <p>Otherwise, additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the Borrower.</p> <ul style="list-style-type: none">▪ Degree of fluctuation $> 30\%$ <p>Additional analysis is required, and additional documentation will likely be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the Borrower.</p> <p>When using an average with the YTD and most recent year, the degree of fluctuation is based on the increase between the YTD and the prior year</p> <p>When using an average with the YTD and the prior two years, the degree of fluctuation is based on the increase between the YTD and the prior two years</p> | | | | |



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| Pay Raises | <p>Verification of pay raises and using pay increase in calculation of income</p> <p>Merit, promotional or other types of increases in pay may justify using different averaging methods for fluctuating hourly earnings based on the new pay rate and the average hours worked for the prior year and YTD. While documentation to verify pay raises is not always required, it may be used to support a higher amount of qualifying income and/or support fluctuating hourly earnings when the degree of fluctuation exceeds 10%.</p> <p>Verification method: Use employed income which can be documented with a written VOE and paystubs. Paystubs from the current or prior year that show the new and old rates of pay and when the raise occurred will likely be necessary to complete this verification.</p> <p>Calculation Method:</p> <p>For consistent and increasing income trends, use one of the options below:</p> <ul style="list-style-type: none">• Option 1: Average the most recent year(s) and YTD income, as described in this table in the row labeled “calculation method and trend analysis for consistent and increasing income trends” above• Option 2: Apply the current pay rate to the average number of hours during the prior year and the current year, provided the hours during the prior year and the current year are consistent or increasing and documented |
| Calculation: Excluding Time Period based on specific event unlikely to recur | <p>In certain instances, income may be calculated using a shorter time period; however, the file must include a written justification and/or documentation supporting the months used in the calculation. When excluding a time period based on a specific event that is unlikely to recur, at least 12 months of stable monthly income must still be used in the calculation. These 12 months do not need to be consecutive (i.e., the period impacted by the non-recurring event can be excluded).</p> <p>Example: The Borrower has a 10-year employment history as a restaurant manager. The June 2025 YTD paystub, 2024 W-2 and 2023 W-2 have been provided.</p> <p>While the June 2025 YTD paystub and 2023 W-2 earnings support approximately \$60,000 in base earnings per year, the 2024 W-2 earnings are</p> |



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| | <p>low at \$30,000.</p> <p>Documentation in the file verifies that the restaurant was closed for renovations from April through September of 2024, which supports a justifiable one-time event and the resulting reduced earnings, so it is reasonable to exclude the 2024 earnings from the calculation and average the 2025 YTD and 2023 earnings over 18 months or take the 2024 earnings for 6 months and 2025 YTD earnings of 6 months to get an average across 12 earning months (ignoring the specific event).</p> |
| Calculation method and trend analysis for declining trend | <p>Calculation method and trend analysis: declining trend</p> <p>The calculation must include the YTD Income and must not include the previous higher level unless there is documentation of a one-time occurrence (e.g. injury) that prevented the Borrower from working or earning full income for a period of time and evidence that the Borrower is back to the income amount that was previously earned.</p> <p>If the decline between the prior year(s) and/or YTD earnings exceeds 10%, a further analysis must be conducted, and additional documentation may be necessary to determine whether the income is currently stable. The analysis must include the reason for the declining trend, and support that the current income has stabilized.</p> |

11.3(b)(v) Declining Income:

Income from YTD may be considered and the previous higher level of income can not be included unless there is a documented one-time occurrence (such as an injury) that prevented the borrower from working or earning full income for a period of time. Evidence must also be provided that the borrower is back to the income amount that was previously earned and is stable. If the decline from the prior year(s) and YTD earnings exceeds 10%, further analysis and documentation would be necessary. Analysis must include the reason for the declining trend and support that the current income has stabilized.

11.3(c) Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Hazard or flight pay, rations, clothing allowance, quarters allowance and proficiency pay may be counted as income if they are verified as regular and continuous. Military base pay and entitlements must be documented with the borrower's recent LES.

Provide the most recent YTD Leave and Earnings Statement (LES) or all of the following:

- Written VOE documenting all YTD earnings
- 10-day PCV (Pre-Closing Verification)

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|-------------------------|--|
| Military Reservists and | Use military Reserve or Guard income to qualify. Follow Second-job |
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| National Guard Not Called to Active Duty | employment requirements. |
| Military Reservists and National Guard Called to Active Duty | <p>If one (1) of the borrowers is on active duty or has been called to active duty after the loan application has been taken and is in process, provide documentation regarding the temporary assignment (orders supporting the assignment including duration).</p> <ul style="list-style-type: none">• If the loan is a primary residence rate and term refinance and the mortgage payment is not changing or is decreasing, use the borrower's current employment and income.• For all other transactions, use the lesser of the Reservist or Guard pay or current employment income sources. |

11.3(d) Second-Job Employment

Second-job employment refers to employment that is not the borrower's primary employment. The second job is in addition to the borrower's primary employment.

A borrower should have a minimum of two (2) years history on all second or multiple jobs, in order to include the income for qualification purposes. A borrower may have a history that includes different employers is acceptable as long as the income has been consistently received.

- Fannie Mae DU: There must not be a gap in employment greater than one (1) month in the most recent 12-month period unless the income is considered seasonal income.

Income that has been received for 12 to 24 months may be considered as acceptable income. There must be documentation and written analysis to support the justification for considering the shorter work history and income stability.

11.3(e) Bonus or Overtime

A minimum history of two (2) years of employment income is recommended. However, income that has been received for at least one (1) year may be acceptable as long as the borrower's employment profile demonstrates positive factors to offset the shorter income history.

If the borrower has recently changed positions with their employer, determine the effect of the change on



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the borrower's eligibility and opportunity to receive bonus or overtime pay in the future.

Obtain one (1) of the following or follow DU or LPA documentation requirements:

- A completed Written Verification of Employment; or
- Most recent paystub(s); and
- Most recent two (2) years' W-2s.

DU or LPA must recognize bonus or overtime income. Written verification of employment, employer letter or equivalent may be necessary to itemize the bonus or overtime to accurately calculate the income.

11.3(f) Commission Income

Commission income is variable income defined as a fee or percentage paid to an employee for performing a service and may be acceptable as stable income if the income has been received for at least two (2) consecutive years prior to the date of the application. Commission income that has been received for 12 to 24 months may be acceptable as long as there are demonstrated positive factors to reasonably offset the shorter income history. There must be documented justification with a written analysis to mitigate the use of the shorter history.

Obtain one (1) of the following or follow DU or LPA:

- A completed Written Verification of Employment; or
- Most recent paystub(s); and
- Most recent two (2) years' W-2s.

DU or LPA must recognize commission income. Written verification of employment, employer letter or equivalent may be necessary to itemize the commission to accurately calculate the income.

11.4 Self-Employed Income

A self-employed borrower is an individual who has 25% or greater interest in a business or receives 1099s to document income. Some examples of self-employed individuals include contract workers, real estate agents, or individuals relying on investments as their primary source of income.

Generally, income from self-employment may be considered effective income if the borrower has been self-employed operating the same business in the same location for at least two (2) years.



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Self-employment income received for less than two (2) years, but not less than one (1) year, may be considered stable.

For DU loan transactions, the income of a person who has less than a two-year history of self-employment may be considered, the loan file must contain borrower's most recent signed personal and business federal tax returns reflecting a full year (12 months) of self employment from the current business: Documentation must also support the history of receipt of prior income at the same or greater level and:

- In a field that provides the same products or services as the current business, or
- In an occupation in which they had similar responsibilities to those with the current business

In these cases, careful consideration to the nature of the borrower's level of experience and amount of debt the business has acquired.

A written analysis justifying the determination of stability and supporting documentation is required. When considering self-employment for less than two (2) years, at a minimum:

- The most recent individual income tax returns reflect a history of receipt of income at the same or greater level in the same or similar occupation. The income analysis considers the borrower's experience in the business; and
- The income analysis considers the acceptance of the company's service or products in the marketplace.

Analysis of current business activity through a review of the year-to-date financial statement and/or the most recent three (3) months business bank statements may provide support for this evaluation.

If the borrower is relocating to a different geographic area, the income analysis must consider the acceptance of the company's service or products in the marketplace. Additional information, such as market studies or relevant industry research, may support this evaluation. Provide a written analysis justifying the borrower's income will continue at the same level in the new location.

For LPA loan transactions, self-employed history of less than two years may be considered if,

- The borrower has a combined two-year history of receipt of income from the current self-employment and the prior job in the same or similar occupation or industry, and
- The qualifying income must be determined by using the lesser of the stable monthly income from the new business or the stable monthly income earned in the previous occupation.
- The borrower's federal income tax returns must reflect at least one year of self-employment income.



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11.4(a) Verification of Self-Employed Income

- Follow DU or LPA for documentation requirements
- After April 15, a copy of the filed extension with evidence of any tax payments made, in addition to W-2 for corporations, 1099 forms for commission.
- A year-end profit and loss or year-to-date profit and loss may be required at the underwriter's discretion.

A written evaluation of the self-employed borrower's personal income, including the business income or loss, reported on the individual income tax returns is required.

A written analysis is not required when a borrower is qualified using only income that is not derived from self-employment and self-employment is a secondary and separate source of income (or loss). See [11.5\(b\)](#) Self-Employment Income Not Used for Qualification.

Fannie Mae [Form 1084](#) Cash Flow Analysis, Freddie Mac [Form 91](#) Income Analysis or any other similar form may be used.

See [11.1\(h\)](#) for Allowable Age of Tax Returns/Tax Transcripts based on application date and available tax transcripts for borrowers whose income is based on tax returns (borrowers self-employed and non-self-employed), or allowable age of tax transcripts based on application date and available tax transcripts for borrowers whose income is not based on tax returns (borrowers not self-employed).

Fannie Mae DU: One year of personal and business tax returns may be provided if the following is met:

- All self-employed businesses have been in existence for five years, and
- The borrower has had a 25% or greater ownership interest in the business for the last five consecutive years, and
 - For partnerships, S Corporations and corporations, the federal income tax return for the business must support the information reflected on the application. If the business was in existence prior to the borrower having 25% or ownership, evidence the borrower has had 25% or more ownership for at least five consecutive years.
 - For sole proprietorships, the individual federal tax return and any other documentation must support the number of years the business has been in existence as shown on the application.
- All businesses are assessed separately for the five-years in existence benchmark and the number of years of personal and federal income tax returns required could differ when there are multiple self-



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employment income sources.

- Completion of Fannie Mae's Cash Flow Analysis (Form 1084) or any other type of cash flow analysis form that applies the same principles is required. A copy of the written analysis must be included in the permanent loan file.
- Note, alternative documentation to establish the number of years the borrower has ownership of 25% or more in a business may be obtained as long as the documentation clearly identifies the specific business listed on the Form 1003 and is supported by the most recent year tax returns.

Documentation must be obtained through a reliable source, such as:

- an IRS-Issued Employer Identification Number Confirmation letter, or
- business license, or
- articles of incorporation, or partnership agreements

Freddie Mac LPA:

Business and/or individual tax return(s) - most recent calendar year not yet available

If the Borrower's federal individual and/or business income tax returns for the most recent calendar year, or fiscal year, As applicable, are not available, (e.g. Borrower and/or Borrower's business has filed an IRS extension, tax returns are not yet filed with the IRS), the following are examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but not limited to, the following:

- Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s)
- Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements
- Signed IRS Form 941, Employer's Quarterly Federal Tax Return, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return
- Review of tax liability reported with IRS tax filing extension(s) (e.g. IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s)
- Review of W-2s, 1099s and/or K-1s from the most recent year, if available

If the continued stability of income cannot be determined, then the Borrowers federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination. Additional information about the age of tax return requirements are identified in section 11.1(h)



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Allowable Age of individual Income Tax Returns, for evidence of continued income stability when the most recent calendar year business tax return or transcript is not available.

11.4(b) Self-Employment Income Not Used for Qualification

| Fannie Mae DU | Freddie Mac LPA |
|--|---|
| <p>A borrower who is qualified using only income that is not derived from self-employment (e.g., wage earner) and that self-employment income is a secondary and separate source of income (or loss) does not need to be included for qualification.</p> <p>When co-borrower income that is derived from self-employment is not being used for qualifying purposes, it is not required to document or evaluate the co-borrower's self-employment income (or loss).</p> <p>Any business debt that the borrower is personally obligated to must be included in the DTI.</p> <p>Additional information may be required at the underwriter's discretion.</p> | <p>A borrower who is qualified using only income that is not derived from self-employment (e.g., wage earner) and that self-employment is a secondary source of income (or loss) does not need to be included for qualification.</p> <p>Additional information may be required at the underwriter's discretion.</p> <p>For each borrower who is self-employed and does not have another source of income that is used in qualifying for the loan, the following requirements apply:</p> <ul style="list-style-type: none"> • Page one (1) and two (2) of the individual income tax returns and the applicable schedules (e.g., Schedule C, Schedule E) must be provided to determine if there is a business loss that may have an impact on the stable monthly income. <ul style="list-style-type: none"> ○ If a business loss is reported and the borrower qualifies with the loss, no additional documentation or analysis is required. ○ If a business loss and the borrower does not qualify with the loss, a business and income analysis must be performed to determine whether depreciation adjustments or other factors such as |

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| | |
|--|--|
| | <p>business closure or evidence of a one-time non-recurring event justify a reduction of the reported loss when calculating the stable monthly income. Additional documentation must be obtained to fully evaluate the loss and support the analysis.</p> <ul style="list-style-type: none"> • If the tax returns or other documentation (e.g., tax transcripts, additional Schedule K -1s) reflect positive income from self-employment but that income is not used to qualify, additional documentation (complete business or individual income tax returns) is not required. |
|--|--|

11.4(c) Analysis of Borrower's Business Income

When using self-employment income for loan qualification and business income tax returns are provided, a written evaluation of the borrower's business income must be completed. The borrower's business must be evaluated through knowledge of other businesses in the same industry to confirm the stability of the borrower's business income and estimate the potential for long-term earnings.

The purpose of this analysis is to:

- Consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation;
- Measure year-to-year trends for gross income attributed to expenses and taxable income;
- Determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income; and
- Determine a trend for the business based on the change in these percentages over time.

Fannie Mae [Form 1088 Comparative Income Analysis](#) or any other method of trend analysis may be used to determine the business's viability, as long as the method used fairly presents the viability of the business and results in a degree of accuracy and a conclusion that is comparable to that which would be reached by use of Form 1088.



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A level or upward trend in earnings should be established. Significant increases could affect the stability of the borrower's income and would require a satisfactory explanation and documentation that the increase is stable and likely to continue at the level. Significant decreases in income cannot be included in the average using a previous higher income level unless there is:

- A one-time occurrence prevented the borrower from working or earning full income for a period of time; and
- Proof that the borrower is back to the income amount that they previously earned.

For DU transactions, Fannie Mae [Income Calculator](#) may be used to calculate income for self-employed borrowers documented using tax returns, for loans underwritten manually or through DU.

- A copy of the Income Calculator Findings Report must be maintained in the loan file and can be used to satisfy the requirement for the written analysis of self-employed borrower's income evaluation Fannie Mae [Form 1084](#) Cash Flow Analysis and Fannie Mae [Form 1088](#) *Comparative Income Analysis* or similar form.
- Must comply with the following requirements when using the Income Calculator for DU transactions:
 - Confirm the tax returns meet the allowable age of documentation requirements.
 - Ensure all information submitted to Income Calculator is accurate, complete, and reflects the information on the tax returns being used to document the qualifying income.
 - Any contradictory or conflicting information must be investigated and resolved to support the accuracy of the income calculation.
 - Must comply with all other requirements for loan eligibility, including DU messages and requirements.

For LPA transactions, If the borrower changed their business structure (e.g., sole proprietorship to S-corporation, S-corporation to corporation), the Borrower's ownership interest percentage must not change in order for the current and prior business structures to be considered the same business. Additionally, the Client must not have knowledge, information or documentation that other changes occurred (e.g., change of products and/or services, location), and there must be no indication the change had a negative impact on business revenue or expenses. The Client must document their evaluation in the written income analysis. If any of these requirements are not met, then the current and prior business structures must be treated as different businesses.

Use of Business Assets

Business assets may be used for down payment, closing costs and reserves. A cash flow analysis must be



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performed to determine that the withdrawal of funds will not have a negative impact on the business. If there is a negative impact, the use of the funds will not be permitted. In order to assess the level of impact, additional documentation may be required, such as several months of recent business bank statements in order to see cash flow needs and trends over time, or a current balance sheet. This may be due to the amount of time that has elapsed since the most current tax return filing, or the need for additional information to perform the analysis.

11.5 Individual Tax Returns

11.5(a) Income or Loss from a Sole Proprietorship (Schedule C)

The income or loss from a borrower's sole proprietorship is calculated on IRS Form 1040, Schedule C, then transferred to IRS Form 1040.

Adjustments may be made to the net profit or loss shown on Schedule C to arrive at the borrower's cash flow. For example, Schedule C may include income that was not obtained from the profits of the borrower's business. If such income is not recurring, adjust the borrower's cash flow by deducting the nonrecurring income.

For IRS Form 1099 income received for services performed and reported on Schedule C, refer to Section [11.13\(n\)](#) Income Reported on IRS Form 1099 for additional information to determine whether this income may be treated as non-self-employed income.

11.5(a)(i) Recurring versus Non-recurring Income and Expenses

Determine whether income is recurring or non-recurring.

Non-recurring income must be deducted from the cash flow analysis, including any exclusion for meals and entertainment expenses reported by the borrower on Schedule C.

The following recurring items claimed by the borrower on Schedule C must be added back to the cash flow analysis:

- Depreciation;
- Depletion;
- Business use of a home;
- Amortization; and



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- Casualty losses, as applicable.

11.5(b) Calculating Cash Flow from Schedule D

If the income calculated on the Schedule D shows that the borrower has realized capital gains for the last two (2) years, as may be the case when the borrower's business has a constant turnover of assets that produces regular gains, the recurring gains can be considered in determining the borrower's stable monthly income. In this case, the borrower must provide evidence of ownership of additional property or assets that can be sold if income is needed to make future mortgage payments.

The table below provides the requirements for calculating cash flow from Schedule D and the associated required documentation.

| IF... | THEN.... |
|---|---|
| Recurring capital gains relate to the sale of business property, | Obtain a copy of the <i>applicable Sale of Business Property</i> (IRS Form 4797) to support the recurring nature of the capital gains. |
| Schedule D includes principal payments on an installment sales contract, | Obtain a copy of: <ul style="list-style-type: none">• The <i>Installment Sales Income</i> (IRS Form 6252); and• The Note or contract to verify that the borrower will continue to receive the payments for at least three (3) years. |
| The capital gain on the principal payment and interest from an installment sales contract is determined to be nonrecurring, | The amount must be deducted from the borrower's cash flow. |

Capital losses identified on IRS Form 1040 Schedule D do not have to be considered when calculating income or liabilities, even if the losses are recurring.

11.5(c) Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1

The version of Schedule K-1 that is utilized to report a borrower's share of income (or loss) is based on how the business reports earnings for tax purposes:

- Partnership—reported on IRS Form 1065, Schedule K-1;
- S-corporation—reported on IRS Form 1120S, Schedule K-1; and
- LLC—reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the



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federal income tax returns are filed for the LLC.

Use caution when including income that the borrower draws from the borrower's partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided it can be confirmed that the business has adequate liquidity to support the withdrawal of earnings, as described below:

- 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.
- 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. But if the Schedule K-1 does not reflect a documented, stable history, confirm adequate business liquidity, as discussed below.

11.6 Analyzing Partnership Returns for a Partnership or LLC

11.6(a) Evaluating the Business Income

When the borrower has 25% or more ownership interest in the business and business tax returns are required, perform a business cash flow analysis, and evaluate the overall financial position of the borrower's business to determine whether

- income is stable and consistent; and
- sales and earnings trends are positive.

If these standards are not met, the business income cannot be used to qualify.

11.6(b) Borrower's Proportionate Share of Income or Loss

The borrower's proportionate share of income or loss is based on the borrower's partnership percentage of Ending Capital in the business as shown on IRS Form 1065, Schedule K-1. The borrower's proportionate share of the business income or loss may be considered after making the adjustments to the business cash flow analysis discussed below.

11.6(c) Adjustments to Business Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.



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The following items should be subtracted from the business cash flow:

- travel and meals exclusion;
- other reported income that is not consistent and recurring; and
- the total amount of obligations on Mortgages, Notes, or Bonds that are payable in less than one (1) year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

11.6(d) Income from Partnerships, LLCs, Estates, and Trusts

Income from partnerships, LLCs, estates, or trusts can only be considered with documentation, such as the Schedule K-1, verifying that

- the income was actually distributed to the borrower; or
- 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.

Discretion may be used in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. See [11.11](#) Liquidity Ratios section.

11.7 Analyzing Returns for an S Corporation

When the borrower has 25% or more ownership interest in the business and business tax returns are required, perform a business cash flow analysis, and evaluate the overall financial position of the borrower's business to determine whether

- income is stable and consistent; and
- sales and earnings trends are positive.

If these standards are not met, the business income cannot be used to qualify.

11.7(a) Borrower's Proportionate Share of Income or Loss

The borrower's proportionate share of income or loss is based on the borrower's (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash



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flow analysis should consider only the borrower's proportionate share of the business income (or loss), taking into account any adjustments to the business income that are discussed below.

Business income may only be used to qualify the borrower if the following documentation is obtained verifying that

- the income was actually distributed to the borrower; or
- 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.

Discretion may be used in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. See [11.11](#) Liquidity Ratios section.

11.7(b) Adjustment to Business Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- travel and meals exclusion;
- other reported income that is not consistent and recurring; and
- the total amount of obligations on Mortgages, Notes, or Bonds that are payable in less than one (1) year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

11.8 Analyzing Returns for a Corporation

11.8(a) Corporate Fiscal Year

When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed borrower, time adjustments must be made to relate the corporate income to the borrower's individual tax return, which is on a calendar year basis.

11.8(b) Determining the Corporation's Financial Position

After determining the income available to the borrower for qualifying purposes, evaluate the overall



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financial position of the corporation. Ordinary income from the corporation can be used to qualify the borrower only if the following requirements are met:

- the business income must be stable and consistent;
- the sales and earnings trends must be positive; and
- the business must have adequate liquidity to support the borrower's withdrawals of cash without having severe negative effects.

11.8(c) Borrower's Share of Income or Loss

The cash flow analysis can only consider the borrower's share of the business income or loss, taking into consideration adjustments to business income provided below. Earnings may not be used unless the borrower owns 100% of the business.

11.8(d) Adjustments to Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, net operating losses, and other special deductions that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- travel and meals exclusion;
- tax liability and amount of any dividends; and
- the total amount of obligations on Mortgages, Notes, or Bonds that are payable in less than one (1) year. These adjustments are not required if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

11.9 Analyzing Profit and Loss Statements

A profit and loss statement—audited or unaudited—may be used for a self-employed borrower's business to support the determination of the stability or continuance of the borrower's income. A typical profit and loss statement has a format similar to IRS Form 1040, Schedule C.

A year-to-date profit and loss statement is not required for most businesses, but if the borrower's loan application is dated more than 120 days after the end of the business's tax year, it may be prudent to obtain this document if it needed to support its determination of the stability or continuance of the borrower's income.

If the borrower's year-to-date salary or draws are not included in determining the borrower's qualifying income, they may be added to the net profit or loss shown on the profit and loss statement as well as adding any of the



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allowable adjustments used in analyzing the tax returns for the business, such as nonrecurring income and expenses, depreciation, and depletion.

However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that the borrower can use for qualifying purposes.

11.10 Liquidity Ratios

It is important to that a business has adequate liquidity to support the withdrawal of earnings. Use of the Current Ratio and Quick Ratio are recommended to evaluate the liquidity of the business based on the most recent balance sheet.

| Current Ratio | |
|---------------|---|
| Definition | The Current Ratio is a measure of the quality and adequacy of current assets to meet current obligations as they come due. The composition and quality of the current assets is a critical factor in analyzing liquidity. Generally, companies operating with smaller inventory levels and higher, easily collectible accounts receivable can operate a lower current ratio than those companies operating with high inventory and selling their product/service on credit. |
| Standard | 2:1 |
| Calculation | $\text{Current Ratio} = \text{Current Assets} \div \text{Current Liabilities}$ Assets = cash, marketable securities, inventory, and accounts receivable Liabilities = debt and accounts payable |
| Quick Ratio | |
| Definition | The Quick Ratio measures the company's ability to meet immediate needs for cash. Anything less than a 1:1 ratio implies a dependency on inventory. Inventory is not included in this ratio because it is yet to be sold. The Quick Ratio is appropriate for business that rely heavily on inventory to generate income. |
| Standard | 1:1 |
| Calculation | $\text{Quick Ratio} = (\text{Current Assets} - \text{Inventory}) \div \text{Current Liabilities}$ |



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| | |
|--|---|
| | Assets = cash and accounts receivable |
| | Liabilities – debt and accounts payable |

11.11 Rental Income – Fannie Mae DU

When multiple sources of documentation are provided to verify rental income, evaluation must be completed regarding the qualifying rental income, which must be documented in the loan file, typically on the 1008 and Income Calculation Worksheet. Rental income from the subject property second home cannot be used to qualify.

Loans for investment properties that generate a negative cash flow must be closely scrutinized and must make sense for the borrower's circumstances.

If rental income is reported on Schedule E, only the rental income that relates to properties shown on the Schedule of Real Estate Owned on the borrower's loan application should be included.

11.11(a) Rental Income from a One-unit Primary Residence or Second Home

| | |
|---------------|--|
| Eligibility | Rental income from a 1-unit primary residence or second home may be used to qualify a borrower with a disability provided the rental income is from a live-in aide. Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the borrower. |
| Documentation | All of the following is required: <ul style="list-style-type: none">• Evidence of receipt of the income for the most recent 12 months; and• Documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statement, W-2s) that shows the live-in aide's address as the same as the borrower. |
| Qualification | The rental income may be considered in an amount up to 30% of the total stable monthly income that is used to qualify the borrower for the mortgage. |



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11.11(b) Rental Income from 2–4-unit Primary Residence and 1–4-unit Investment Property

When the subject property will generate rental income and it is used for qualifying purposes, the following is required to document the income-earning potential of the property:

| Transaction Type | History of Receiving Income from Subject Property | Documentation |
|---|---|--|
| Purchase | No | <ul style="list-style-type: none"> • <i>Single-Family Comparable Rent Schedule</i> (Form 1007) or <i>Small Residential Income Property Appraisal Report</i> (Form 1025) and copies of the current, fully executed lease agreement(s) if the property is currently rented. • If there is a lease on the property that is being transferred to the borrower, verify that it does not contain any provisions that could affect the first lien position of the new loan. |
| Refinance | Yes | <ul style="list-style-type: none"> • <i>Single-Family Comparable Rent Schedule</i> (Form 1007) or <i>Small Residential Income Property Appraisal Report</i> (Form 1025); and • Most recent years' signed tax returns including Schedule E |
| Refinance | No | <ul style="list-style-type: none"> • <i>Single-Family Comparable Rent Schedule</i> (Form 1007) or <i>Small Residential Income Property Appraisal Report</i> (Form 1025); and • Current, fully executed lease agreement(s) <ul style="list-style-type: none"> ○ If there is a lease on a property that is being transferred to the borrower, it must not include any provisions that impact NewRez first lien position • See below for Partial or No History of Receiving Rental Income on Tax Return. |
| Rental Income from Other Real Estate Owned | | |



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| | | |
|----|-----|---|
| NA | Yes | <ul style="list-style-type: none">Most recent years' signed tax return, including Schedule E. |
|----|-----|---|

1I.11(c) Partial or No Rental History on Tax Returns

In order to determine qualifying rental income, determine whether or not the rental property was in service for the entire tax year or only a portion of the year. In some situations, alternative rental income calculations or using lease agreements to calculate income may be appropriate methods for calculating the qualifying income from rental properties.

This applies to refinances of a subject rental property or to other rental properties owned by the borrower.

If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year or was in service for only a portion of the previous tax year, determine qualifying rental income by using:

- Schedule E income and expenses and annualizing the income (or loss) calculation; or
- Fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

| IF... | THEN... |
|---|---|
| If the property was acquired during or subsequent to the most recent tax filing year, | <p>Confirm the purchase date using the settlement statement or other documentation.</p> <ul style="list-style-type: none">If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental).If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property. |
| The rental property was out of service for an extended period, | <ul style="list-style-type: none">The Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. Additional documentation may be required to ensure that the expenses support |



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| | |
|--|---|
| | <p>a significant renovation that supports the amount of time that the rental property was out of service.</p> <ul style="list-style-type: none"> Schedule E (Fair Rental Days) will confirm the number of days that the rental unit was in service, which must support the unit being out of service for all of a portion of the year. |
|--|---|

If it is determined that some other situation warrants an exception to use a lease agreement, then an explanation and justification must be provided in the loan file.

11.11(d) Calculating Monthly Qualifying Rental Income or Loss

To determine the amount of rental income from the subject property or non-subject property that can be used for qualifying, use the following:

| IF the borrower... | And rental income is from the... | THEN for qualifying purposes... |
|---|---|---|
| <ul style="list-style-type: none"> currently owns a primary residence (or has a current housing expense); and has at least a one-year history of receiving rental income or documented property management experience | Subject property or non-subject property | there is no restriction on the amount of rental income that can be used. |
| <ul style="list-style-type: none"> Does not currently have a housing expense, and Has at least one-year of receiving rental income from the property | <ul style="list-style-type: none"> Non-subject property (in service for at least a year) | |
| <ul style="list-style-type: none"> currently owns a principal residence (or has a current | <ul style="list-style-type: none"> subject property | <ul style="list-style-type: none"> for a principal residence, rental income in an amount not |

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| | | |
|---|--|--|
| <ul style="list-style-type: none"> housing expense); and has less than one-year history of receiving rental income or documented property management experience | | exceeding PITIA of the subject property can be added to the borrower's gross income; or <ul style="list-style-type: none"> for an investment property, rental income can be used to offset the PITIA of the subject property. |
| | <ul style="list-style-type: none"> non-subject property (new or newly placed in service less than a year) | <ul style="list-style-type: none"> for a principal residence, rental income added to the borrower's gross monthly income is restricted to an amount not exceeding PITIA of the related property. for an investment property, rental income can only be used to offset the PITIA of the related property (in other words, is limited to zero positive cash flow). |
| <ul style="list-style-type: none"> does not own a principal residence; and does not have a current housing expense | Subject Property | rental income from the subject property cannot be used. |
| | Non-subject property (new or newly placed in service less than a year) | rental income from the property cannot be used |
| <p>The lender must establish a history of property management experience with one (1) of the following:</p> <ul style="list-style-type: none"> Borrower's most recent signed individual income tax return, including Schedules 1 and E; Schedule E should reflect rental income received for any property and Fair Rental Days of 365; If the property has been owned for at least one (1) year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the individual income tax return; or A current signed lease may be used to supplement an individual income tax return if the property was taken out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease. | | |



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The borrower must have at least a one-year history of receiving rental income in accordance with the above.

Note: The requirements in *Calculating Monthly Qualifying Rental Income (or Loss)* do not apply to HomeReady loans with rental income from an accessory unit.

Method for Income Calculation

If the property was in service

- for the entire tax year, the rental income must be averaged over 12 months; or
- for less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.

Lease Agreements, Form 1007 or Form 1025

When current lease agreements or market rents reported on Form 1007 or Form 1025 are used, calculate rental income by multiplying the gross monthly rent(s) by 75%.

When using a lease agreement, the lease agreement amount must be supported by:
Form 1007 or Form 1024, as applicable, or

Evidence of the terms of the lease have gone into effect. Evidence may include:

- Two consecutive bank statements or electronic transfers of rental payments for existing lease agreements, or
- Copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements

11.11(e) Treatment of Income or Loss

If the rental income is from the borrower's primary residence:

- The monthly qualifying rental income must be added to the borrower's total monthly income; and
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations.

If the rental income (or loss) is from a property other than the borrower's primary residence:

- If the monthly qualifying rental income minus the full PITIA is positive, add to the total monthly income.
- If the monthly qualifying rental income minus the full PITIA is negative, add the monthly net rental



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loss to the total monthly obligations.

- The full PITIA for the rental property is factored into the amount of the net rental income (or loss), therefore, it should not be counted as a monthly obligation.
- The full monthly payment for the borrower's primary residence (PITIA or monthly rent) must be counted as a monthly obligation in the monthly housing expense.

11.11(f) Rental Property Reported through a Partnership or an S Corporation

If the borrower is personally obligated on the mortgage and gross rents and related expenses are reported through a partnership or S corporation, the business tax returns may be used to offset the property's PITIA.

1. Obtain the borrower's business tax returns, including IRS Form 8825 for the most recent year.
2. Evaluate each property listed on Form 8825.
 - From total gross rents:
 - Subtract total expenses
 - Add back insurance, mortgage interest, taxes, homeowners' association dues, depreciation, and non-recurring property expenses
 - Divide by the number of months the property was in service
 - Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow
3. If the resulting net cash flow is positive, the property PITIA may be excluded from the monthly obligations when calculating the DTI ratio.
4. If the resulting net cash flow is negative (the rental income derived from the investment property is not sufficient to fully offset the property PITIA) the calculated negative amount must be included in the borrower's monthly obligations when calculating the DTI ratio. The proportionate share of the loss is based on the borrower's percentage of capital ownership in the business.

To include positive net rental income in the qualifying income, the guidelines for evaluating income received from a partnership or S corporation must be applied:

- If the business' overall financial position meets the standards, then income from the business may be used for loan qualification.
- The proportionate share of the income is based on the borrower's percentage of capital ownership in the business.



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11.11(g) Reporting Rental Income

The gross monthly rental income and number of bedroom data must be provided for primary residence (2- to 4-units) and investment properties (1- to 4-units), regardless of whether rental income is being used to qualify.

If the borrower is not using any rental income from the subject property to qualify or does not receive rental income, the gross monthly rent must be documented with any of the following:

- *Single Family Comparable Rent Schedule* ([Fannie Mae Form 1007/Freddie Mac Form 1000](#))
- *Small Residential Income Property Appraisal Report* ([Fannie Mae Form 1025/Freddie Mac Form 72](#))
- Current, fully executed lease agreement(s)
- Signed statement from borrower stating the gross monthly rent for each unit
- Verbal statement from borrower, the final executed loan application must reflect gross monthly rent
- Copy of screen print from [HUD Fair Market Rent Documentation System](#) on HUD.gov

11.12 Rental Income – Freddie Mac LPA

To use rental income to qualify from the subject property, each borrower must currently own a primary residence or have a current documented rental housing payment history. For borrowers that currently reside in the same property, an exception is made to the previous requirement to allow rental income if at least one borrower owns a primary residence or has a current rental housing payment. Rental income can only offset the PITIA and when applicable, mortgage insurance premiums, leasehold payments, and payments on secondary financing (full monthly payment) of the new rental property.

If the borrower's current primary residence is being converted to a rental property, rental income can only offset the full monthly payment of the new rental property.

If the rental income exceeds the full monthly payment of the new rental property or the converted primary residence, the excess rental income cannot be added to the gross monthly income unless at least one borrower has a minimum of one-year investment property management experience documented.

When determining stable monthly income, rental income generated from an accessory unit may be considered for a subject one (1) unit primary residence or an investment property. Rental income from the subject property second home or two- and three-unit properties with an accessory unit cannot be used to qualify.



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11.12(a) Rental Income from a One-unit Primary Residence

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| Eligibility | <p>Rental income from a 1-unit primary residence may be used to qualify a borrower with a disability provided the rental income is from a live-in aide.</p> <p>Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the borrower.</p> |
| Documentation | Evidence of receipt of the income for the most recent 12 months. |
| Qualification | The rental income may be considered in an amount up to 30% of the total stable monthly income that is used to qualify the borrower for the mortgage. |

11.12(b) Rental Income from a One-unit Primary Residence with an ADU

| | |
|---|--|
| Eligibility | <ul style="list-style-type: none"> • Purchase • Rate & Term Refi <p>No rental income can be used to qualify if the ADU is illegal. Refer to section 1J.7(I)(ix) for additional appraisal requirements for an illegal ADU.</p> |
| Documentation for Purchase | <p>If a lease is available:</p> <ul style="list-style-type: none"> • The lease must be used to determine the net rental income, and • ADU rental analysis must support the income reflected on the lease. <p>If a lease is not available, the ADU rental analysis must be used to determine the net rental income.</p> |
| Documentation for Rate & Term Refinance | <p>Rental Income from ADU Placed in Service in Current Calendar Year</p> <ul style="list-style-type: none"> • A lease must be used to determine the net rental income • ADU rental analysis must support the income reflected on the lease • Documentation reflecting the date the ADU was placed in service |
| | <p>Rental Income from ADU Owned in Prior Calendar Year</p> <ul style="list-style-type: none"> • Most recent individual income tax returns, including Schedule E, must be used to determine the net rental income, or • A lease and ADU rental analysis may be used to support income and one of the following are met: |



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| | <ul style="list-style-type: none"> ○ The property was out of service for any time period in the prior year with a documented event such as a renovation and the Schedule E supports this by a reduced number of days in use and reflects repair costs; or ○ The property was purchased later in the calendar year and the Schedule E supports this by a reduced number of days in use; or ○ The property was placed in service in the current calendar year as documented in file. <p>In either of the above instances, an ADU rental analysis is required to support the income reflected on the lease.</p> |
| Lease Requirements | <p>When a lease is obtained, lease agreements must be current and fully executed. For newly executed leases, the first rental payment due date must be no later than the first payment due date of the mortgage.</p> <p>Net rental income is 75% of the gross monthly rent or gross monthly market rent, with the remaining 25% adjustment being absorbed by vacancy losses and ongoing maintenance expenses or any other unexpected expenses.</p> |
| Rental Income Calculation | |
| Lease | 75% of the gross monthly rent or gross monthly market rent. |
| Schedule E | Calculate the net rental income from Schedule E using Form 92, Net Rental Income Calculations – Schedule E, or a similar alternative form. |
| The rental income generated from an ADU may be considered in an amount up to 30% of the total stable monthly income. | |
| Landlord Education | <p>Purchase Transactions</p> <ul style="list-style-type: none"> • At least one qualifying borrower must participate in a landlord education program prior to the Note Date unless the borrower has a minimum of one-year investment property management experience or ADU rental management experience. • Landlord education must not be provided by an interested party to the transaction, the lender. • A copy of a certificate evidencing successful completion of the landlord education program must be in the loan file. |



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11.12(c) Rental Income from 2–4-unit Primary Residence and 1–4-unit Investment Property and non-subject Investment Property

When the subject property will generate rental income and it is used for qualifying purposes, the following is required to document the income-earning potential of the property:

| Transaction Type | History of Receiving Income from Subject Property | Documentation |
|---|---|---|
| Purchase | No | <ul style="list-style-type: none">Copies of the current, fully executed lease agreement(s) if the property is currently rented; orIf a lease is not available, <i>Single-Family Comparable Rent Schedule (Form 1007)</i> or <i>Small Residential Income Property Appraisal Report (Form 1025)</i>. |
| Refinance | Yes | <ul style="list-style-type: none"><i>Single-Family Comparable Rent Schedule (Form 1007)</i> or <i>Small Residential Income Property Appraisal Report (Form 1025)</i>; andMost recent years' signed tax returns including Schedule E. |
| Refinance | No | <ul style="list-style-type: none"><i>Single-Family Comparable Rent Schedule (Form 1007)</i> or <i>Small Residential Income Property Appraisal Report (Form 1025)</i>; andCurrent, fully executed lease agreement(s)See below for Property Acquired During or Placed in Service in the Current Tax Year. |
| Rental Income from Other Real Estate Owned | | |
| NA | Yes | <ul style="list-style-type: none">Most recent years' signed tax return, including Schedule E |

11.12(d) Partial or No History of Receiving Rental Income on Tax Returns

If the borrower is able to document that the rental property (subject property, non-subject investment property, including a departing residence) was not in service the previous tax year or was in service for only



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a portion of the previous tax year, qualifying rental income may be determined by using:

- Schedule E income and expenses and annualizing the income (or loss) calculation; or
- Current, fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

Average the rental income over the number of months that the borrower used the property as a rental unit.

| IF.... | THEN... |
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| the property was acquired during or subsequent to the most recent tax filing year, | <p>Confirm the purchase date using the settlement statement or other documentation.</p> <ul style="list-style-type: none"> • If acquired during the year, Schedule E (Fair Rental Days) must confirm a partial year rental income and expenses (depending on when the unit was in service as a rental). • If acquired after the last tax filing year, Schedule E will not reflect rental income or expenses for this property. |
| The rental property was out of service for an extended period, | <p>A signed lease may be used if:</p> <ul style="list-style-type: none"> • the property was out of service for any time during the prior year and file contains documentation of event such as a renovation and the Schedule E (Fair Rental Days) confirms a reduced number of days in use and reflects repair costs; or • The property was purchased later in the calendar year and Schedule E supports this by a reduced number of days in use; AND • Form 72 or 1000 supporting the income reflected on the lease, or Documentation (e.g., bank statements evidencing deposit or electronic transfer of rental payments, canceled rent checks) supporting two (2) months or receipt of rental income. <p>The purchase date or conversion date, as applicable, must be documented.</p> |
| If the subject property refinance was placed in service as a rental property in current calendar year, | <ul style="list-style-type: none"> • Lease must be used to determine net rental income, and Form 72 or 1000 supporting the income reflected on the lease; or |



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| | <ul style="list-style-type: none"> • Documentation verifying receipt of two (2) months of rental payments or receipt of the security deposit and the first months rental payment. Documentation must include: <ul style="list-style-type: none"> ○ Evidence that the payments were cashed or deposited into the Borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks), or ○ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g., a screen shot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screen shot that evidences transfer of the payments and ties the account to the Borrowers bank account), or ○ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the Borrower's personal depository account at a financial institution • Purchase date or conversion date, as applicable must be documented. |
| <p>Non-subject Investment Property or 2-4 Unit Primary Residence</p> <p>Purchased or Placed in Service in the Current Calendar Year</p> | <ul style="list-style-type: none"> • Purchase date or conversion date, as applicable, must be documented • Lease(s) <ul style="list-style-type: none"> ○ The lease must be current and fully executed ○ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage • Income reflected on the lease must be supported by one of the following: <ul style="list-style-type: none"> ○ Form 72 of Form 1000, as applicable ○ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment • Documentation must include one of the following: <ul style="list-style-type: none"> ○ Evidence that the payments were cashed or deposited |



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| | <p>into the Borrower's depository account as a financial institution (e.g. bank statements evidencing deposit or canceled checks).</p> <ul style="list-style-type: none"> ○ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the Borrower (e.g. a screenshot or monthly account statement evidencing transfer of the payments and the Borrower's name, a screenshot that evidences transfer of the payments and ties the account to the Borrowers bank account) ○ For security deposits, evidence of deposit into an escrow of business account established for this purpose, or evidence payment was cashed or deposited into the ○ Borrower's personal depository account at a financial institution. |
| Calculation | <p>Use 75% of the gross monthly rent from the lease</p> <p>Exception: For a property purchased on or up to 45 days before the Note Date of the subject transaction, when the property is not yet rented, a lease is not required and market rent may be documented using Form 72 or Form 1000, as applicable.</p> <p>Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.</p> |
| Limitations on use of Rental Income | <p>The following Limitations on use of rental income apply when property was purchased on or up to 45 days before the Note Date of the subject transaction and is not yet rented:</p> <p>To use rental income to qualify, each borrower must currently own a Primary residence or have a current rental housing payment documented.</p> <p>Exception: For Borrowers currently residing in the same</p> |



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| | <p>property, at least one Borrower must own a Primary Residence or have a current rental housing payment to use rental income to qualify.</p> <ul style="list-style-type: none">○ The full amount of the net rental income can be used only when documentation in the Mortgage file demonstrates that at least one Borrower has a minimum of one year of investment property management experience• If no Borrower has at least one year of investment property management experience, net rental income is limited to the amount that offsets the PITI and, when applicable, mortgage insurance premiums, leasehold payments, HOA dues (excluding unit utility charges) and payments on secondary financing on the non-subject Investment Property |
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If it is determined that some other situation warrants an exception to use a lease agreement, then an explanation and justification must be provided in the loan file.

11.12(e) Calculating Monthly Qualifying Rental Income or Loss

When multiple sources of documentation are provided to verify rental income, evaluation must be completed regarding the qualifying rental income, which must be documented in the loan file, typically on the 1008 and Income Calculation Worksheet.

| Rental Income Calculation | |
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| Individual Income Tax Returns Schedule E | <p>When using Schedule E is used to calculate net rental income (loss), any listed depreciation, interest, taxes, insurance, or homeowners' association dues must be added back in the cash flow. Non-recurring property expenses may be added back, if documented accordingly.</p> <ul style="list-style-type: none">○ If the property was in service for the entire tax year, the rental income must be averaged over 12 months.○ For less than the full tax year, the rental income must be averaged over the number of months after the borrower purchased or converted the property as a rental unit. |



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| | <p>In both scenarios above, qualifying income may be established based on the number of days in service on Schedule E, provided that:</p> <ul style="list-style-type: none"> ○ The property was out of service for any time period during the prior year, and ○ Documentation provided to support an event such as a renovation, as supported by a reduced number of days in use and repair costs as shown on Schedule E. <p>The Schedule E Rental Income Calculator may be used to assist in calculating rental income when using Schedule E</p> |
| Lease Agreements | <p>When a lease is obtained, lease agreements must be current and fully executed. For newly executed leases, the first rental payment due date must be no later than the first payment due date of the mortgage.</p> <p>Net rental income is 75% of the gross monthly rent or gross monthly market rent, with the remaining 25% adjustment being absorbed by vacancy losses and ongoing maintenance expenses or any other unexpected expenses.</p> |
| <i>Single-Family Comparable Rent Schedule or Small Residential Income Property Appraisal</i> | <p>When using the <i>Single-Family Comparable Rent Schedule</i> (Form 1007) or <i>Small Residential Income Property Appraisal Report</i> (Form 1025), the net rental income is 75% of the gross monthly rent provided by the appraiser on the applicable form, with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses. If the appraiser has accounted for vacancy and maintenance expenses, use the net monthly rent provided by the appraiser.</p> |
| <p>The following worksheets may be used to calculate rental income.</p> <ul style="list-style-type: none"> ○ Rental Income Worksheet - Principal Residence, 2- to 4-unit Property (Form 1037) ○ Rental Income Worksheet - Individual Rental income from Investment Property(s) (Form 1038) ○ Rental Income Worksheet - Business Rental Income from Investment Property(s) (Form 1039) <p>See 11.1 (h) for Allowable Age of Tax Returns/Tax Transcripts based on application date and available tax transcripts for borrowers whose income is based on tax returns (borrowers self-employed and non-self-employed) or allowable age of tax transcripts based on application date and available tax transcripts for borrowers whose income is not based on tax returns (borrowers not self-employed).</p> | |



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11.12(f) Treatment of Income or Loss

If the rental income is from the borrower's primary residence:

- The monthly qualifying rental income must be added to the borrower's total monthly income.
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations.

If the rental income (or loss) is from a property other than the borrower's primary residence:

- If the monthly qualifying rental income minus the full PITIA is positive, add to the total monthly income.
- If the monthly qualifying rental income minus the full PITIA is negative, add the monthly net rental loss to the total monthly obligations.
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss), therefore, it should not be counted as a monthly obligation.
- The full monthly payment for the borrower's primary residence (PITIA or monthly rent) must be counted as a monthly obligation.

11.13 Other Income Sources

The documentation required for each income source is described below. The documentation must support the history of receipt, if applicable, and the amount, frequency, and duration of income. **Age of documentation requirements must be met unless otherwise excluded below.**

- Alimony and Child Support Income
- Assets (Depletion) Used as Income
- Auto Allowances and Expense Account Payments
- Boarder Income
- Cannabis Income
- Capital Gains and Losses
- Disability - Long-Term
- Employment by a Relative or any Interested Party to the Transaction
- Employment Contracts
- Foreign Income
- Foster Care Income
- Future Income
- Hemp Income



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- [Housing Choice Voucher Program \(Section 8\)](#)
- [Housing or Parsonage Allowance](#)
- [Income Reported on IRS Form 1099](#)
- [Income Reported on Schedule K-1](#)
- [Interest and Dividend Income](#)
- [Mortgage Credit Certificates](#)
- [Mortgage Differential](#)
- [Non-Occupying Co-Borrower Income](#)
- [Nontaxable Income](#)
- [Notes Receivable Income](#)
- [Public Assistance](#)
- [Restricted Stock Units \(RSU\)](#)
- [Retirement Income](#)
- [Royalty Payments](#)
- [Seasonal Income](#)
- [Social Security Retirement Income](#)
- [Supplemental Security Income](#)
- [Survivor and Dependent Benefit Income](#)
- [Temporary Help Services](#)
- [Temporary Leave](#)
- [Tip Income](#)
- [Trust Income](#)
- [Union Members](#)
- [VA Benefits](#)

11.13(a) Alimony and Child Support Income

The following provides verification requirements for alimony and child support payments.

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| Documentation | A copy of a written legal agreement or court decree describing the payment terms for the alimony or child support, the amount of the award and the period of time over which it will be received, or equivalent documentation confirming the |
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| | <p>amount of the obligation is required.</p> <p>The full amount of qualifying Child support income is non-taxable and can be grossed up according to guidelines without additional documentation to support income is non-taxable.</p> |
| Current Receipt | <p>Document evidence of receipt of the full payments for the most recent six (6) months with any of the following:</p> <ul style="list-style-type: none"> • Court records; • Statement from a government agency(i.e. child support agency) reflecting the borrower's name as the recipient and the amounts paid; • Bank statements or deposit slips showing regular deposit of funds; or • Cancelled checks |
| Continuance | <p>The income must continue for at least three (3) years from the date of the application.</p> <p>The borrower's regular receipt of the full payment due and any limitations on the continuance of the income must be determined.</p> <ul style="list-style-type: none"> • If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child and income continuance; and • The duration of the alimony payments must be determined for continuance. <p>For borrowers who receive child support or alimony as their primary source of income and there is a defined expiration date (even if more than three (3) years) additional analysis must be performed to determine if the legal agreement has other provisions that may allow for termination or reduction of the income. If this is the case, income may not be eligible to include in the monthly qualifying income.</p> |
| Not Considered Stable Income | <p>Income may not be considered stable when a borrower:</p> <ul style="list-style-type: none"> • Has been receiving full, regular, and timely payments for less than six (6) months or has been receiving full or partial payments on an inconsistent or sporadic basis; or • Does not have a court order that specifies alimony or child support; or • Will receive proposed or receives voluntary payments. |



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11.13(b) Assets (Depletion) Used as Income

An income stream from the depletion of assets may be used as income based on compliance with the following tables.

| Fannie Mae DU | |
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| Eligibility | <ul style="list-style-type: none"> • Maximum 70% LTV/CLTV/HCLTV • Maximum 80% LTV/CLTV/HCLTV if the owner of the asset(s) being used to qualify is at least 62 years old at the time of closing <ul style="list-style-type: none"> ○ If the asset(s) is jointly owned, all owners must be borrowers on the loan and the borrower whose employment-related asset is being used as income must be at least 62 years old at the time of closing. • Purchase or rate & term refinance • Primary residence or second home • Credit Score: 620 |
| Asset Requirements and Documentation | <p><u>Retirement Assets</u></p> <ul style="list-style-type: none"> • 401k, Keogh, IRA, and SEP retirement accounts; • Asset must be owned by one (1) or more of the borrowers; • Borrower must have unrestricted access to the funds in the account , meaning as of time of calculation, the borrower has unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to distribution); • Eligible if distribution is not already set up or the distribution amount is not enough to qualify; • If a penalty would apply to a distribution of funds, the amount of the penalty applicable to complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream; and • Document with the most recent monthly, quarterly, or annual statement. <p><u>Non-Self-employed Severance Package or Non -Self-employed Lump-sum Retirement Package</u></p> <ul style="list-style-type: none"> • Borrower must have been the recipient of the lump-sum distribution; |



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| | <ul style="list-style-type: none"> Assets must be owned by one (1) or more of the borrowers; Assets must be liquid and available to the borrower; Distribution letter from the employer (Form 1099-R) and deposit into a verified asset account. <p>Documentation of asset ownership must follow age of documentation requirements.</p> | |
| Value and Income Calculation | <u>Net Documented Assets</u> | |
| | 1. Net documented assets equal the sum of the eligible documented assets minus: <ul style="list-style-type: none"> The amount of the penalty that would apply if the account were completely distributed at the time of calculation. The amount of funds used for down payment, closing costs, and required reserves. | |
| | 2. Divide the “Net Documented Assets” by the amortization term of the loan (in months) | |
| | Example | |
| | IRA (made up of stocks and mutual funds) | \$500,000 |
| | Minus 10% of \$500,000 (Assumes borrower is not yet 59 1/2 at the time this income is being calculated, therefore, subject to a 10% penalty for early distribution. This penalty must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream) | -\$50,000 |
| | Total Eligible Documented Assets | =\$450,000 |
| | Minus fund required for closing (down payment, closing costs, reserves) | -\$100,000 |
| | Net Documented Assets | =\$350,000 |
| Ineligible Assets | Monthly income calculation \$350,000/360 (or applicable term) | \$972.22/month |
| | The following non-employment related assets are not eligible: <ul style="list-style-type: none"> Divorce proceeds | |

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| | <ul style="list-style-type: none"> • Inheritance • Lawsuits • Lottery winnings • Non-vested restricted stock • Sale of real estate • Stock options • Checking and savings accounts: Generally, not eligible as employment-related assets, unless the source of the balance in a checking or savings account was from an eligible employment-related asset (e.g., a severance package or lump sum retirement distribution) <p>This list is not all-inclusive.</p> |
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11.13(c) Automobile Allowance/Expense Account Payments

Auto allowance or expense account payments will be considered stable income for a borrower who has been receiving the income for the most recent two (2) years, provided all associated business expenditures are included in the calculation of the borrower's total DTI ratio. Add the full amount of the allowance to the borrower's monthly income and add the full amount of the lease or financing expense for the automobile to the borrower's total monthly obligations. The automobile allowance may not be subtracted from the monthly automobile financing expense.

11.13(d) Boarder Income

See [11.12](#) Rental Income for allowances for boarder income.

11.13(e) Cannabis Business

Employment or ownership in a Cannabis business is not permitted.

11.13(f) Capital Gains

A capital gain is generally a one-time transaction, and, therefore, should not be considered in determining income. However, if the borrower has a constant turnover of assets that produces regular gains, the capital gain may be considered for qualifying income (e.g., a person who buys old automobiles, restores them, and sells them for profit).

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Capital losses identified on Schedule D of the borrower's individual income tax return do not have to be considered when calculating income or liabilities, even if the losses are recurring.

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| Documentation | <p>All of the following is required:</p> <ul style="list-style-type: none"> • A minimum of the most recent two (2) years' individual income tax returns with all schedules, including Schedule D. In some cases, additional years tax returns may be required; and • Sufficient assets remaining after closing to support continuance of the capital gain income, at the level used for qualifying for at least the next three (3) years. |
| Age of Documentation | <ul style="list-style-type: none"> • Documentation of asset ownership must follow age of documentation requirements. • Current receipt of the income need not comply with age of documentation requirements. |
| Income Calculation | <ul style="list-style-type: none"> • Develop an average income from the last two (2) years and use the amount as part of the borrower's qualifying income as long as the borrower provides current evidence that they own additional property or assets that can be sold if extra income is needed to make future mortgage payments. • If the trend of the amount of income is stable or increasing, the income should be averaged. If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used. • If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred. |

11.13(g) Disability – Long Term

Long-term disability payments (Veteran's disability compensation benefits, Social Security Disability Insurance (SSDI), etc.) may be treated as acceptable, stable income, unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments.

Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. Documentation



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concerning the nature of the disability may not be requested or the medical condition of the borrower may not be questioned.

| | Fannie Mae DU | Freddie Mac LPA |
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| Verification | <p>Obtain a copy of the benefit letter or benefits statement to determine:</p> <ul style="list-style-type: none"> • The income source; • The borrower's current eligibility for the disability benefits; • The payment amount and frequency of the disability payments; and • If there is a contractually established termination or modification date. <p>Document current receipt with one (1) of the following:</p> <ul style="list-style-type: none"> • Bank statement; • Pay statement; or • Equivalent documentation. | <p>Evidence the type and source of income and document the payment amount and frequency and current receipt with one (1) of the following:</p> <ul style="list-style-type: none"> • Copy of the Social Security Administration benefit verification letter; • Award letter; • Pay statement; • 1099; • W-2; • Bank statements; or • Equivalent documentation. <p>If the disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers and private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term</p> |
| New or Newly Established Income | Verification of current receipt is required. | <p>Verification of current receipt is not required. The finalized terms of the new income must be documented with the following:</p> <ul style="list-style-type: none"> • The benefit verification letter; • Notice of award letter; or • Other equivalent documentation from the payor that provides and establishes these terms. |

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| | | <p>The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency and payment amount that will begin prior to or on the first mortgage payment due date.</p> |
| Short-Term Disability Converting to Long-Term Disability | <p>If the borrower is currently receiving short-term disability that will decrease to a lesser amount within the next three (3) years because they are being converted to long-term benefits, the long-term benefits must be used for loan qualification.</p> <ul style="list-style-type: none"> • Document the source, type, amount, and payment frequency of both the short-term and long-term payments; and • Obtain verification of current receipt of the short-term disability payments and verification that the borrower will continue to receive the payments until the date to conversion to long-term disability. <p>The documentation must be dated no more than 120 days prior to the Note Date.</p> <p>If the long-term disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers, private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term.</p> | |

11.13(h) Employment by a Relative or Any Interested Party to the Transaction

A borrower employed by a family member or employed by a family-held business or any interested party to the transaction (e.g., property seller or real estate broker) may be eligible.

| Fannie Mae DU | Freddie Mac LPA |
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| <ul style="list-style-type: none"> • Follow DU documentation requirements; and • Most recent two (2) years' individual income tax returns; or | <ul style="list-style-type: none"> • Follow LPA documentation requirements; and • Most recent one (1) year individual income tax return, or IRS wage and income transcript and |



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| <ul style="list-style-type: none">• If DU Validation service confirmed income, there is not any restriction to determine if borrower is employed by a family member or interested party to the property sale or purchase. | <ul style="list-style-type: none">• Documentation must validate the prior year earnings from current employment and support the current income level. If not supported, may use the validated income amount from the prior year as qualifying income. |
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Additional documentation may be required to determine that the borrower is not self-employed, such as a letter from the business accountant confirming borrower's percentage of interest in the business.

11.13(i) Employment Contracts

If a borrower has an employment contract, it may be considered for the purposes of determining stable income.

11.13(i)(ii) Education Industry

It is common for borrowers who work in the educational industry, such as teachers to be employed under renewable or term employment contracts.

For the educational field, if the borrower provides an annually renewable or term contract, it is reasonable to consider the continuance of receipt, provided you have no knowledge or documentation to the contrary.

When a borrower is employed as a teacher, the annual salary must be verified. If monthly or weekly base pay is provided, the employer must verify the number of pay periods per year if the payout is not clear or the income must be averaged based on the most recent W-2 over 12 months. Stipends or supplemental income must be documented as regular and continuous.

For teacher income paid over a 10-month period and obtaining financing during the summer months when income is not being received, provide all of the following:

- Final year-end paystub from the school;
- Verbal verification of employment; and
- Copy of the contract indicating that the borrower is paid over a 10-month period.

Qualify the borrower based on the income received on the final year-end paystub.



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11.13(i)(iii) Other Industries

| Fannie Mae DU | Freddie Mac LPA |
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| <p>A two-year history of contract employment and income is required.</p> <p>Income received via an employment contract that has been received for 12 to 24 months may be acceptable with documentation evidencing the borrower has been employed in the same or similar field or industry. There must be demonstrated positive factors to reasonably offset the shorter income history. There must be documented justification with a written analysis to mitigate the use of the shorter history.</p> | <p>The following must be considered when determining employment history, income stability and monthly income:</p> <ul style="list-style-type: none">• Is the employment contract reasonably common to the employment field and/or region;• The pay structure within the terms of the contract; and• Has the borrower demonstrated the ability to maintain consistent employment and income with this form of pay structure for the most recent two (2) years. <p>Obtain a documented two-year history of income and employment in the same or similar field or industry when the terms of the employment contract does not include a fixed income pay structure.</p> |

11.13(j) Foreign Income

Foreign income is income that is earned by a borrower (U.S. and non-U.S. citizens) employed by a foreign corporation or a foreign government and paid in foreign currency.

All income must be translated into English or provide a complete and accurate translation, attached to each document, and ensure the translation is complete and accurate.

Foreign income that is not reported on U.S. individual income tax returns is not eligible for use as qualifying income.

| Fannie Mae DU | Freddie Mac LPA |
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| All of the following is required: <ul style="list-style-type: none">• Follow DU documentation requirements; and• Most recent two (2) years' U.S. individual income tax returns that include the foreign income with all schedules. | All of the following is required: <ul style="list-style-type: none">• Follow LPA documentation requirements; and• Most recent years' U.S. individual income tax returns that include the foreign income with all schedules. |
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11.13(k) Foster Care Income

Foster care income may be considered acceptable if it is verified that the borrower has a history of providing foster care services under a recognized state- or county-sponsored program.

| Fannie Mae DU | Freddie Mac LPA |
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| Document the most recent two-year history of receipt of the income. If the borrower has not been receiving foster care income for two (2) years, the income is acceptable if: <ul style="list-style-type: none">• The borrower has at least a 12-month history of receipt of the income; and• The income does not represent more than 30% of the total gross income. | Document the most recent two-year history of receipt of the income. |

11.13(l) Future Income

If a borrower is scheduled to begin employment under the terms of an employment offer or contract after the loan closes, the income and employment may be acceptable in accordance with the below requirements.

11.13(l)(iv) Fannie Mae DU Option One and Two

Fannie Mae DU Option Two is not permitted.

Fannie Mae Option One – Paystub Obtained Before Loan Delivery



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All of the following must be obtained and accepted to use future employment:

- Must be underwritten by DU;
- Must obtain an executed copy of the borrower's offer or contract for future employment and anticipated income.
- Cannot be employed by a family member or by an interested party to the transaction.
- Prior to delivery, the paystub from the borrower must be obtained and includes sufficient information to support the income used to qualify the borrower based on the offer or contract.
- Paystub must be obtained prior to delivery and retained in the mortgage loan file.

11.13(l)(v) Freddie Mac LPA

Freddie Mac Option One - Paystub Not Obtained Before Closing or Delivery

Income from future employment may be acceptable if all of the following are met:

- Must be underwritten by LPA;
- Purchase or Rate & Term Refinance;
- 1-unit primary residence;
- Must be borrower's new primary employment or future salary increase with current employer;
- Income must be non-fluctuating and salaried;
- Cannot be employed by a family member or by an interested party to the transaction; and
- The employment offers
 - Is non-contingent. If there are contingencies to the offer, any contingencies or conditions or employment must be satisfied prior to closing;
 - Is fully executed by the employer and accepted by the borrower; and
 - Clearly identifies the terms of employment, including but not limited to, employment start date and annual base non-fluctuating earnings.
- For a future salary increase provided by the borrower's current employer, the above documentation must indicate that the increase is fully approved and is explicitly granted by the borrower;
- Employment begins within 90 days after signing the Note;
- Adequate income and/or liquid assets to pay the PITIA and all other monthly liabilities between the Note date and the start date of new employment plus an additional one (1)



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month reserves. A partial month is counted as one (1) month for the purpose of this calculation; and

- Verbal VOE no more than ten (10) days prior to closing verifying the terms of the offer letter or employment contract have not changed.

Freddie Mac Option Two – Paystub Obtained Before Delivery

Income from future employment may be acceptable if all of the following are met:

- Must be underwritten by LPA;
- Purchase, No cash out refinance or a cash out refinance;
- 1-4 unit Primary residence; second home or a 1 to 4 unit investment property;
- Must be borrower's new primary employment;
- Income must be non-fluctuating and salaried;
- Cannot be employed by a family member or by an interested party to the transaction;
- Income at delivery date must be no less than that used for borrower qualification;
- Employment start date must be before delivery date;
- The following is required when there are more than 15 calendar days between the Note Date and the start date of the new employment.
 - Verification of additional funds in borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense (PITIA) and other monthly liabilities, multiplied by the number of months between the note date and the start date of the new employment plus one additional month.
 - A partial month is counted as one month for the calculation.
 - The amount of the required additional funds, as stated above, may be reduced by the amount of the verified gross income that any Borrower on the Mortgage is expected to receive between the start date of the new employment, whether or not this income is used to qualify for the mortgage or is expected to continue after the start date of the new employment.
- Note: These funds are in addition to the funds required to be paid by the borrower and borrower reserves.



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11.13(m) Hemp Income

Income derived from hemp may be eligible in states where hemp is legal. The borrower must:

- Provide a written attestation by the hemp grower that they are validly licensed; or
- Obtain a copy of such license.

Hemp income is eligible in all states except the following:

- Washington, D.C.
- Idaho
- Mississippi

11.13(n) Housing Choice Voucher Program (Section 8)

The Housing Choice Voucher Program (more commonly known as Section 8) is also an acceptable source of qualifying income.

| Fannie Mae DU | Freddie Mac LPA |
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| <ul style="list-style-type: none">• Copy of documentation from the public housing agency that issued the homeownership voucher verifying the terms including, but not limited to, the source, benefit type, payment frequency, payment amount and duration of the term limit for assistance;• History of receipt is not required for any period of time prior to application date or after application date for payments to continue for any period of time from the income to be considered stable;• Homeownership Voucher Program assistance does not have to be shown to continue for any period of time; and• Determine from the public agency that issues the vouchers the monthly payment amount and whether the income is nontaxable. If the income is nontaxable, develop an adjusted | <ul style="list-style-type: none">• Copy of documentation from the public housing agency that issued the homeownership voucher verifying the terms including, but not limited to, the source, benefit type, payment frequency, payment amount and duration of the term limit for assistance;• History of receipt is not required for the income to be considered stable;• Homeownership Voucher Program assistance term limit must have a remaining term of at least three (3) years; and• Use the fixed monthly payment amount documented by the public housing agency that issued the voucher. The payments may not be used to offset the monthly housing payment amount used for qualification. |



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| gross income for the borrower. | |
| <ul style="list-style-type: none">• Housing Choice Vouchers payments are only allowed if funds are sent directly to the borrower.• The Housing Authority may not pay the mortgage lender directly. | <ul style="list-style-type: none">• Housing Choice Vouchers payments are only allowed if funds are sent directly to the borrower.• The Housing Authority may not pay the mortgage lender directly. |

11.13(o) Housing or Parsonage Allowance

Non-military housing or parsonage allowance may be considered qualifying income if the income has been received for the most recent 12 months and likely to continue for the next three (3) years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.

All of the following is required:

- Written Verification of Employment, letter from employer, or paystub(s) documenting the amount of the housing or parsonage allowance and the terms under which the housing or parsonage allowance is paid; and
- Proof of receipt of housing allowance for most recent 12 months.

11.13(p) Income Reported on IRS Form 1099

Borrowers who receive income reported on IRS Form 1099 for services performed are generally contractors or contingent workers. Some borrowers may report their Form 1099 income on Schedule C, representing a sole proprietorship. In this case, follow the employment and income documentation requirements for sole proprietorships. When the income is not reported on Schedule C, follow the below requirements.

11.13(p)(vi) Fannie Mae DU

Borrowers who do not report their Form 1099 income on Schedule C must provide all of the following:

- Most recent two (2) years' 1099 (all 1099s received);
- Most recent paystub(s) or earnings statement(s) documenting year-to-date earnings;
- Most recent years' individual income tax return; and
- Any additional documentation necessary to support use of the income and its stability.



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11.13(p)(vii) Freddie Mac LPA

This income must be treated as either self-employed income using schedule C as a sole proprietor or as a non-self-employed borrower when the most recent Schedule C evidence the following:

- Gross receipts or sales are equal to the total amounts reported on the IRS Form 1099s;
- Total expenses are < 5% of gross receipts or sales, after deducting noncash expenses (e.g., depreciation);
- Cost of goods sold = \$0; and
- A minimum 12-month history of 1099 income and reported expenses is present.

If the above expense factor is not met but expenses are within a close range (e.g., 6%), perform additional analysis to determine whether income reported on Schedule C remains characteristic of non-self-employed income. Factors to consider include, but are not limited to, the principal business or profession, gross receipts or sales, cost of goods sold, and the type and level of expenses reported. If it is determined that the borrower is a sole proprietor, follow Schedule C guidelines for self-employed borrowers. If not, follow the below guidance.

- Most recent two (2) years' 1099 (all 1099s received);
- Most recent paystub(s) or earnings statement(s) documenting year-to-date earnings;
- Page 1 and 2 of the most recent individual income tax returns and applicable schedules (e.g., Schedule C, Schedule 1).
- Any additional documentation necessary to support use of the income and its stability.

| Calculation Example | | |
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| Borrower has an 18-month history of documented 1099 income, with 12 months of income and expenses reflected on the most recent Schedule C and reasonably reliable verification of YTD income for the most recent 6 months. Prior employment (W-2) for five (5) years with similar income level and employment field. | | |
| 1099s reported as gross receipts/sales | (+) | \$100,000 |
| Les: Schedule C Expenses (less non-cash expenses) | (-) | \$4,000 (4%) |
| Subtotal (most recent year Schedule C) | | \$96,000 |
| Verified year-to-date income (6 months) | (+) | \$50,000 |
| Less: 4% expense rate (based on most recent year Schedule C) | (-) | \$2,000 (4%) |
| Subtotal: (Current year-to-date) | | \$48,000 |
| Income Calculation: \$144,000 (combined subtotals ÷ 18 months) | | \$8,000/month |



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11.13(q) Income Reported on Schedule K-1

For borrowers with less than 25% ownership of a partnership, S corporation, or limited liability company (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 if it has been confirmed 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.

| | Fannie Mae DU | Freddie Mac LPA |
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| Documentation | <ul style="list-style-type: none"> The most recent two (2) years of signed individual income tax returns; The most recent two (2) years' Schedule K-1; Schedule K-1 must confirm less than 25% ownership; If K-1 reflects a loss, reducing the qualifying income amount of the Schedule K-1 business loss is not required. | <ul style="list-style-type: none"> The most recent two (2) years' Schedule K-1; Documentation of all year-to-date income (most recent paystubs, earnings statements). If unable to obtain, written justification supporting income stability without year-to-date earnings is required; and Schedule K-1 must confirm less than 25% ownership. |
| Verification of Schedule K-1 Income | <p>DU and LPA:</p> <ul style="list-style-type: none"> 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. 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, confirm the business has adequate liquidity to support the withdrawal of earnings. Discretion in method to confirm the business has adequate liquidity may be used. <p>DU Loans:</p> | |

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| | <p>Use of a Schedule K-1 alone may not be used to support the business liquidity if distributions have not been taken, as it does not provide sufficient information for business liquidity.</p> <ul style="list-style-type: none"> ○ Use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. ○ When business tax returns are provided, calculating a ratio may be completed using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities. <ul style="list-style-type: none"> • The Quick Ratio (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities. <p>Quick Ratio = (current assets — inventory) ÷ current liabilities</p> <ul style="list-style-type: none"> • The Current Ratio (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income. <p>Current Ratio = current assets ÷ current liabilities</p> <p>When a result of one or greater is usually sufficient to confirm adequate business liquidity to support the withdrawal of earnings, a documented rationale to support the liquidity using an alternative method should be added to loan file.</p> <p>DU and LPA:</p> <ul style="list-style-type: none"> • 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. A shorter history of receipt (but not less than 12 months) may be considered stable with a written analysis and supporting documentation justifying the determination of stability (e.g., recently changed from an employee of the same firm to a partner with a nominal ownership interest). |
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11.13(r) Interest and Dividend Income

Interest and dividend income is variable income that may be used to qualify. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.

| | Fannie Mae DU | Freddie Mac LPA |
|----------------------|---|-----------------|
| Requirements | Interest and dividend income is variable income that may be used to qualify if the income has been received for the most recent two (2) years. | |
| Documentation | Verify the borrower's ownership of the assets on which the interest or dividend income as earned. Evidence of sufficient assets after closing to support continuance of the interest and/or dividend for the next three years from the date of the application, based on the most recent tax return, and one (1) of the following is required: <ul style="list-style-type: none">• Most recent two (2) years' individual income tax returns with all schedules;• Most recent two (2) years' bank statements; or• Most recent two (2) years' 1099s. | |
| Age of Documentation | Documentation of asset ownership must follow age of documentation requirements. | |
| Income Calculation | <ul style="list-style-type: none">• Develop an average of the income for the most recent two (2) years.• If the trend of the amount of income is stable or increasing, the income should be averaged. If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.• If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred. | |

11.13(s) Mortgage Credit Certificates

State and municipalities can issue mortgage credit certificates (MCC) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time home buyer to obtain a mortgage secured by their primary residence and to claim a federal tax credit for a specified percentage



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(usually 20% to 25%) of the mortgage interest payments.

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| Calculation | <p>The amount of the MCC tax credit may be added to the borrower's income rather than as a reduction to the amount of the mortgage payment. Use the following calculation to determine the available income:</p> $[(\text{Mortgage amount}) \times (\text{Note Rate}) \times (\text{MCC \%})] \div 12 = \text{Amount added to borrower's monthly income.}$ <p><u>Example</u></p> <p>\$100,000 mortgage 7.5% note rate Eligible for 20% MCC credit</p> <p>Amount added to monthly income would be \$125 $[(\\$100,000 \times 7.5\% \times 20\%) \div 12] = \\$1500 \div 12 = \\$125$</p> |
| Qualifying Income | <p>The amount used as qualifying income cannot exceed the maximum mortgage interest credit permitted by the IRS. A history of receipt of the MCC tax credit is not required.</p> |
| <p>The loan file must contain a copy of the MCC and documented calculation of the adjustment to the borrower's income.</p> <p>For refinance transactions, an MCC may remain in place if there is confirmation from the MCC provider that the MCC remains in effect for the new mortgage. Copies of the MCC documents, including reissue certification, must be in the loan file.</p> <p>As the originating/participating lender, you must comply with all IRS reporting requirements for mortgage loans originated and closed with Mortgage Credit Certificates.</p> | |

11.13(t) Mortgage Differential

An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments. These payments can be considered as acceptable stable income:



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- The borrower's employer must verify its subsidy in writing, stating the amount and duration of the payments;
- The payments must continue for at least three (3) years from the date of the mortgage application;
- The differential payments should be added to the borrower's gross income when calculating the qualifying ratio;
- They may not be used to directly offset the mortgage payment; and
- Mortgage differential payments are only allowed if the employer sends the funds to the borrower. The employer may not pay the mortgage lender directly.

11.13(u) Non-Occupying Co-Borrower Income

Non-occupying co-borrower income may be considered acceptable income. This income can offset certain weaknesses of the borrower(s), such as limited financial reserves or limited credit history. However, it may not be used to offset significant or recent instances of major derogatory credit in the occupant borrower's credit history.

11.13(v) Nontaxable Income

Generally, income is taxable unless it is specifically exempted by law. Nontaxable income may be shown on the borrower's tax return but is not taxed. Verify and document that the source of income is nontaxable.

If the income is verified as nontaxable, and the income and its tax-exempt status is likely to continue, the income must be grossed-up only if needed to qualify the borrowers. Develop an "adjusted gross income" for the borrower.

Filing requirements for most taxpayers can be found on the IRS website. The percentage of nontaxable income that may be added cannot exceed the greater of 25% or the same tax rate used to calculate the borrower's income from the previous year.

Verify and document that the source of income is nontaxable using any of the following:

- Individual income tax return; or
- Equivalent documentation evidencing the income is nontaxable; or
- Obtaining IRS tax transcripts that evidence that the income is nontaxable.

To determine the amount to adjust ("gross up") the borrower's income, use:

- 25% of the nontaxable income; or



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- The current federal and state income tax withholding tables.

If the borrower is not required to file an individual income tax return, the nontaxable income may be grossed up by 25%.

11.13(v)(viii) Social Security Income

For Social Security income (e.g., retirement income, disability benefits, survivor benefits and Supplemental Security Income), a certain percentage of the income may be grossed up without additional documentation using the following allowance.

The 15% may be grossed up by 25%, which is the standard gross up percentage.

Example

Social security income = \$1,000

$\$1,000 \times 15\% = \150

$\$150 \times 25\% = \37.50

Total income = \$1,037.50

If the borrower requires the full \$1,000 to be grossed up, evidence the income is tax exempt is required.

Filing requirements for most taxpayers can be found on the [IRS](#) website in addition to the attached [Social Security Benefits Worksheet](#) to determine amount of benefits that are nontaxable.

The following income types are generally nontaxable, or a portion of the income is nontaxable. This list is not all-inclusive.

- Child support income
- Disability income
- Foster care income
- Government assistance programs
- Housing Choice Voucher program (HCV)
- Military allowance
- Parsonage income
- Retirement, pension, annuity income, or IRA distributions



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- Social security income
- Supplemental social security income
- VA benefits

11.13(w) Notes Receivable

Ongoing revenue received from Note income may be eligible for loan qualification if following guidelines are met.

| | Fannie Mae DU | Freddie Mac LPA |
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| Documentation | <ul style="list-style-type: none">• Verify the income can be expected to continue for a minimum of three years from the date of the mortgage application.• Obtain a copy of the note to establish the amount and length of payments.• Document regular receipt of income for the most recent 12 months.• Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income. | <ul style="list-style-type: none">• Verify the income continuance for at least three years from the note date of the mortgage.• Obtain a copy of the note to establish the amount and length of payments.• Document regular receipt of income for the most recent 12 months. |

Document regular receipt of the income for the most recent 12 months with one (1) of the following:

- Bank statements evidencing receipt of income;
- Cancelled checks from payor;
- Most recent tax return; or
- Equivalent documentation.

11.13(x) Public Assistance

Public assistance (e.g., Temporary Assistance for Needy Families (TANF), may be considered as acceptable income. Verify that the income will continue for at least three (3) years.

Document public assistance income payment amount, frequency, and duration of benefit eligibility with



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benefit verification letter(s) or other equivalent documentation from applicable agency

11.13(y) Restricted Stock Units

Restricted stock unit is compensation offered by an employer to an employee in the form of company stock. The employee does not receive the stock immediately, but instead receives it according to a vesting plan and distribution schedule after achieving requirement performance milestones or upon remaining with the employer for a particular length of time. The restricted stock units are assigned a fair market value when they vest. Upon vesting, they are considered income, and a portion of the shares are withheld to pay income taxes. The employee receives the remaining shares and can sell them at any time.

| Restricted Stock (RS) and Restricted Stock Units (RSU) Subject to Performance-Based Vesting Provisions | |
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| History of Receipt and Continuance | RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction. |
| | Fannie Mae DU <ul style="list-style-type: none"> A minimum 24-month history is recommended for restricted stock income from the current employer. Restricted stock income received for 12 to 24 months from the current employer may be considered as acceptable income if there are positive factors to offset the shorter income history such as <ul style="list-style-type: none"> future vesting equal to or greater than previous vesting and that will continue for at least 24 months; or restricted stock income received for the previous 5 years from any employer. <p>Note: Sign-on bonuses received in the form of restricted stock that vest over any length of time cannot be considered as qualifying income.</p> |
| | Freddie Mac LPA <p>Two (2) year consecutive history of receipt.</p> <p>Exception: A history of less than 2 years receipt of income, but not less than one year may be acceptable, if the file contains:</p> <ul style="list-style-type: none"> a written analysis from underwriter and sufficient documentation to justify the determination of stability. <ul style="list-style-type: none"> RS and RSU used for qualifying must have vested and been distributed to the |

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| | <p>borrower from their current employer, without restriction.</p> <ul style="list-style-type: none"> • Must be likely to continue for at least the next three years. |
| Analysis of Stability | <ul style="list-style-type: none"> • Provide analysis of changes in the company's stock price as well as past and future distributions detailed in a vesting schedule. • If year-to-date earnings are consistent with previous year's earnings or trending upward, use calculation method below. • If earnings are not consistent (i.e., the value of vested shares distributed decreases substantially year-over-year), additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income. |
| Documentation Requirements | <p>All of the following is required:</p> <ul style="list-style-type: none"> • Year-to-date paystubs documenting all year-to-date earnings, including payouts of RS or RSU • W-2s for the most recent two (2) years; <p>OR</p> <ul style="list-style-type: none"> • All of the following is required: <ul style="list-style-type: none"> ○ Written VOE documenting all year-to-date earnings, including payouts of RS or RSU Earnings for the most recent two (2) years; and ○ Written VOE through a third-party verification, provided that the documentation clearly identifies and distinguishes the payout(s) of RS or RSU. <p>All of the following additional documentation is required:</p> <ul style="list-style-type: none"> • Evidence the stock is publicly traded; • Documentation verifying that the vesting provisions are performance-based (e.g., RS and/or RSU, agreement, offer letter); • Vesting schedules currently in effect detailing past and future vesting; • Evidence of receipt of previous year(s) payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include: <ul style="list-style-type: none"> ○ Dates of the payouts; and ○ The number of vested shares or its cash equivalent distributed to the |

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| | <p>borrower (pre-tax).</p> <ul style="list-style-type: none"> Documentation of the 200-day simple moving average stock price |
| Calculation | <p>Based on the form in which vested RS or RSU are distributed to the borrower (i.e., as shares or its cash equivalent), use the applicable method below to calculate the monthly income.</p> <p><u>RS or RSU Distributed as Shares</u> <u>Fannie Mae DU and Freddie Mac LPA</u></p> <ul style="list-style-type: none"> Multiply the documented 200-day moving average of share price x total number of distributed vested shares (pretax) in most recent 24 months, then divide by 24 months <p>(e.g., if 200 vested shares were distributed (pre-tax) in the past two (2) years and the documented 200-day simple moving average stock price as of the application date is \$10, multiply 200 x \$10 then divide by 24 = \$83.33 monthly income).</p> <p><u>RS or RSU Distributed as Cash Equivalent</u> <u>Fannie Mae DU</u></p> <ul style="list-style-type: none"> Use total cash distributed (pre-tax) equal to the total value of vested shares in the most recent non taxable 24 months, then divide by 24 months <p><u>Freddie Mac LPA</u></p> <ul style="list-style-type: none"> Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two (2) years, and divide by 24 |
| Restricted Stock (RS) and Restricted Stock Units (RSU) Subject to Time -Based Vesting Provisions | |
| History of Receipt and Continuance | <ul style="list-style-type: none"> One (1) year history of receipt RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction Must continue for at least three years. Nonrecurring awards (e.g. a one-time award) must have at least three years' vesting and distribution remaining on the vesting schedule. |
| Analysis of Stability | <ul style="list-style-type: none"> Provide analysis of changes in the company's stock price as well as past and future distributions detailed in a vesting schedule. If year-to-date earnings are consistent with previous year's earnings or trending |



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| | <p>upward, use calculation method below.</p> <ul style="list-style-type: none"> If earnings are not consistent (i.e., the value of vested shares distributed decreases substantially year-over-year), additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income. |
| Documentation Requirements | <p>All of the following is required:</p> <ul style="list-style-type: none"> Year-to-date paystubs documenting all year-to-date earnings; including payout of RS or RSU W-2 for the most recent calendar year. <p>OR</p> <p>All of the following is required:</p> <ul style="list-style-type: none"> Written VOE documenting all year-to-date earnings, including payout of RS or RSU Earnings for the most recent calendar year; and Written VOE through a third-party verification, provided that the documentation clearly identifies and distinguishes the payout(s) of RS or RSU. <p>All of the following is required:</p> <ul style="list-style-type: none"> Evidence the stock is publicly traded; Documentation verifying that the vesting provisions are time-based (e.g., RS and/or RSU agreement, offer letter); Vesting schedules currently in effect detailing past and future vesting; and Evidence of receipt of previous years payouts of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include: <ul style="list-style-type: none"> Dates of the payouts; and The number of vested shares or its cash equivalent distributed to the borrower (pre-tax). Documentation of the 200-day simple moving average stock price |
| Calculation | <p>Based on the form in which vested RS or RSU are distributed to the borrower (i.e., as shares or its cash equivalent), use the applicable method below to calculate the monthly income.</p> <p><u>RS or RSU Distributed as Shares</u></p> <p>Fannie Mae DU</p> |

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| | <p>Multiply the 200-day simple moving average stock/share price x total number of distributed vested shares (pretax) in most recent 24 months, then divide by 24 months</p> <p><u>Freddie Mac LPA</u></p> <p>Multiply the documented 200-day simple moving average stock price as of the application date by the number of vested shares distributed (pre-tax) to the borrower in the past year, then divide by 12.</p> <p>(e.g., if 50 vested shares were distributed (pre-tax) in the past year and the documented 200-day simple moving average stock price as of the application date is \$10, multiply 50 x \$10 then divide by 12 = \$41.67 monthly income)</p> <p><u>RS or RSU Distributed as Cash Equivalent</u></p> <p><u>Fannie Mae DU</u></p> <p>Use total cash distributed (pre-tax) equal to the total value of vested shares in the most recent non taxable 24 months, then divide by 24 months</p> <p><u>Freddie Mac LPA</u></p> <p>Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12</p> |
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11.13(z) Retirement Income

11.13(z)(i) Retirement, Annuity, and Pension

Evidence the income source and type, payment amount, frequency, and current receipt with one (1) of the following:

- Letter(s) from the organizations providing the income;
- Copy of retirement award letters;
- Copy of financial or bank account statement;
- Copy of signed individual income tax returns;
- W-2s or 1099 forms; or
- Other proof of receipt.



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If income is from a government annuity or a pension account will begin on or before the first payment date, document the income with a benefit statement from the organization providing the income. The statement must specify the income type, amount, and frequency of the payment, and include confirmation of the initial start date.

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years. Eligible account balances may be combined for the purpose of determine whether the three-year continuance requirements is met.

When IRS form 1099 is used to document current receipt of pension income and verifies income type and source, the age of documentation requirements do not apply.

Document that the borrower has unrestricted access without penalty to the accounts and has sufficient assets to evidence continuance for three years from the date of application.

11.13(aa) Distributions from Retirement Accounts Recognized by the IRS (e.g., IRA or Keogh)

If distributions are being taken in accordance with certain IRS rules, such as the Required Minimum Distributions (RMD) rule, (i.e., excise tax penalty applies if distributions are not taken), and evidence of current receipt of the RMD amount is obtained, history of receipt if not required.

Due to the multiple variables inherent with distributions from retirement accounts, including but not limited to, fixed and fluctuating income, the history of receipt necessary to support a stable monthly qualifying income amount may vary. These may include a range of history from zero to 24 months. Determine that the source and amount of the income are stable.

- Frequency and regularity of receipt of the distributions.
- Length of time the distributions have been taken and whether or not they establish a stable pattern of receipt over a given period of time.
- For example, consider whether or not the distributions are fixed amounts occurring with regular frequency or are variable amounts occurring with or without regular frequency.



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For fixed amount occurring with regular frequency, a lesser history of receipt may be needed to determine the amount and stability of the income.

For variable amounts, it may be necessary to obtain a longer history of receipt to determine the amount and stability of the income while considering whether or not the overall payments are similar year over year or quarter over quarter.

Rules governing distributions (e.g., IRS rules governing exceptions to early withdrawal penalties and RMD, employer retirement plan rules and designs governing scheduled distribution terms). Certain rules may provide support for the frequency and regularity of receipt as well as continued receipt, possibly justifying a shorter history to support a stable monthly income.

Evidence the type and source of income and document the distribution amount and distribution frequency, current receipt (as applicable) and history of receipt (as applicable) with the following:

- Most recent retirement account statement(s); and/or
- Documentation from financial institution holding retirement account that verifies regularly scheduled distribution arrangements, 1099s; and/or
- Other equivalent documentation.

If the retirement distributions are not scheduled monthly payments (e.g., annual, semi-annual, quarterly), one (1) of the following is required to document the most recent distributions:

- A retirement account statement;
- 1099; and
- Other equivalent documentation.

Verification of receipt of multiple distributions may be necessary to determine frequency of distributions, history of receipt and amount of stable monthly income.

A written rationale explaining the analysis used to determine the qualifying income must be provided.

Document current receipt with one (1) of the following:

- Bank statement(s), or
- Other equivalent documentation.



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Document that the borrower has unrestricted access without penalty to the accounts and has sufficient assets to evidence continuance for three years from the date of application.

If the retirement account(s) from which the borrower is currently taking distributions is projected to be depleted within three (3) years, additional retirement accounts with eligible retirement assets, may be used in aggregate to support the amount of qualifying income may be considered when determining continuance of income used for qualifying.

The additional retirement assets used to verify continuance may not be used as a source of funds for closing or reserves, as a current source of income, or for the calculation of assets as a basis for repayment of obligations.

11.13(bb) Royalty Payments

Ongoing income received from royalty payments, such as income from a work paid to its author or composer may be eligible for loan qualification.

| | Fannie Mae DU | Freddie Mac LPA |
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| Documentation | <p>All of the following is required:</p> <ul style="list-style-type: none">• Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; and• Most recent individual income tax return with all schedules. | <p><u>Less Than Two Year History of Receipt</u></p> <p>All of the following is required:</p> <ul style="list-style-type: none">• Royalty contract, agreement, or statement confirming amount, frequency, and duration of the income; and• Most recent individual income tax return with all schedules. <p><u>Two Year History of Receipt</u></p> <ul style="list-style-type: none">• Most recent two (2) years' individual income tax return with all schedules. |
| Income Calculation | <ul style="list-style-type: none">• If the trend of the amount of income is stable or increasing, the income should be averaged.• If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, | |



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| | <p>lower amount of the variable income must be used.</p> <ul style="list-style-type: none"> If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred. | |
| Continuance | <p>Confirm that the income has been received for at least 12 months and that the payments will continue for a minimum of three years from the date of the application.</p> | <p><u>Less Than Two Year History of Receipt</u></p> <ul style="list-style-type: none"> Confirm that the income has been received for at least 12 months. Royalty contract(s) and/or lease agreements must evidence continuance for a minimum of three years from the date of the application. <p><u>Two Year History of Receipt</u></p> <ul style="list-style-type: none"> Confirm that the income has been received for at least two (2) years and that the payments are likely to continue for a minimum of three years from the date of the application. |

11.13(cc) Seasonal Income

Seasonal employment may be acceptable if the borrower has worked in the same job or same line of seasonal work for the most recent two (2) years.

| | Fannie Mae DU | Freddie Mac LPA |
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| Documentation | <p>One (1) of the following is required:</p> <ul style="list-style-type: none"> Written Verification of Employment; or Most recent paystub(s) and most recent two (2) years, W-2s or individual income tax returns with all schedules, depending on income type. | |
| Income Calculation | Determine income calculation based on income type and if income is variable. | |



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| Continuance | NA | Not required unless documentation indicates that income will not continue or has a defined expiration date. |
| Seasonal Unemployment Compensation | <ul style="list-style-type: none"> Unemployment compensation must be clearly associated with seasonal employment. Unemployment benefits must have been received for the past two (2) years to be considered stable income. The most recent two (2) years' individual income tax returns with all schedules are required. | <ul style="list-style-type: none"> Unemployment compensation must be clearly associated with seasonal employment. Unemployment benefits must have been received for the past two (2) years to be considered stable income. Proof of receipt of unemployment income (1099-G(s)) or equivalent documentation) for the most recent two (2) years. |

11.13(dd) Social Security Retirement Income

Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) shown in the following table.

| Relationship of Beneficiary | Documentation Fannie Mae DU | Documentation Freddie Mac LPA |
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| Documentation for Borrower's Own Account/Work Record | Document with one (1) of the following: <ul style="list-style-type: none"> Social Security Award letter; Most recent individual income tax return; SSA 1099; or Evidence of receipt. | Document with one (1) of the following: <ul style="list-style-type: none"> Social Security Award letter; Form 1099-SSA for the most recent calendar year; Pages 1 and 2 of the Borrower's most recent federal individual income tax returns (or pages 1-3 if filing 1040-SR). If the tax returns were filed jointly with an individual who is not a Borrower |



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| | | <p>on the transaction, the Seller must obtain additional documentation supporting the amount of Social Security income used for qualifying, or</p> <ul style="list-style-type: none"> Evidence of current receipt. |
| Documentation for Drawing on Another Person's Account/Work Record | <p>Document with all of the following:</p> <ul style="list-style-type: none"> SSA Award letter; Proof or current receipt; and Evidence of three-year continuance. | |
| New Established Income | <ul style="list-style-type: none"> Document the finalized terms of the new income with the Social Security Administration benefit letter documenting the terms that include, but are not limited to, effective date of income commencement, payment frequency, and pre-determined payment amount that will begin prior to or on the first mortgage payment due date. Verification of current receipt is not required. | |
| DU Income calculation "Adjusted Gross Income" | <ul style="list-style-type: none"> 15% of the income may be treated as nontaxable without supporting documentation. Note: if more than 15% of the Social Security Income is grossed up, file must contain documentation to support additional income is nontaxable. This additional non-taxable income is added to the borrower's gross income amount used for qualifying income. | |

11.13(ee) Social Security Disability Income

Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) shown in the following table.

| Relationship of Beneficiary | Documentation Fannie Mae DU | Documentation Freddie Mac LPA |
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| Documentation for Borrower's Own Account/Work Record | <p>Document with one (1) of the following:</p> <ul style="list-style-type: none"> Social Security Award letter, | <p>Document with one (1) of the following:</p> <ul style="list-style-type: none"> Social Security Award letter; |

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| | <ul style="list-style-type: none"> • Most recent individual income tax return; • SSA 1099; or • Evidence of receipt | <ul style="list-style-type: none"> • Form 1099-SSA for the most recent calendar year; • Pages 1 and 2 of the Borrower's most recent federal individual income tax returns (or pages 1-3 if filing 1040-SR). If the tax returns were filed jointly with an individual who is not a Borrower on the transaction, the Client must obtain additional documentation supporting the amount of Social Security income used for qualifying, or • Evidence of current receipt. |
| Documentation for Drawing on Another Person's Account/Work Record | Document with all of the following: <ul style="list-style-type: none"> • Social Security Award letter; • Proof or current receipt; and • Evidence of three-year continuance. | |
| New Established Income | <ul style="list-style-type: none"> • Document the finalized terms of the new income with the Social Security Administration benefit letter documenting the terms that include, but are not limited to, effective date of income commencement, payment frequency, and pre-determined payment amount that will begin prior to or on the first mortgage payment due date. • Verification of current receipt is not required. | |
| DU Income calculation "Adjusted Gross Income" | <ul style="list-style-type: none"> • 15% of the income may be treated as nontaxable without supporting documentation. Note: if more than 15% of the Social Security Income is grossed up, file must contain documentation to support additional income is nontaxable. • This additional non-taxable income is added to the borrower's gross income amount used for qualifying income. | |

11.13(ff) Supplemental Social Security Income

Supplemental Social Security Income (SSI) may be an acceptable source of income. Documentation



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concerning the nature of the disability may not be requested or the medical condition of the borrower may not be questioned.

| | Fannie Mae DU | Freddie Mac LPA |
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| Documentation | Document SSI with all of the following: <ul style="list-style-type: none"> • SSA Award letter; and • Evidence of current receipt. | Document SSI and current receipt with one (1) of the following: <ul style="list-style-type: none"> • SSA Award letter; • 1099; • Bank statement; or • Equivalent documentation. |
| Newly Established Income | Document the finalized terms of the new income with the SSI Award letter. The terms that must be verified include but are not limited to, effective date of income commencement, payment frequency and pre-determined payment amount that will begin prior to or on the first mortgage payment due date. Verification of current receipt is not required. | |
| Continuance | Generally, SSI will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. | |
| DU Income calculation "Adjusted Gross Income" | <ul style="list-style-type: none"> • 15% of the income may be treated as nontaxable without supporting documentation. Note: if more than 15% of the Social Security Income is grossed up, file must contain documentation to support additional income is nontaxable. • This additional non-taxable income is added to the borrower's gross income amount used for qualifying income. | |

11.13(gg) Social Security Survivor Benefit Income

Survivor and dependent benefit income may be considered qualifying income with evidence of the type of survivor and/or dependent benefit income (e.g., Social Security Survivor benefits, Survivors' VA benefits, other similar benefits).

| Type of Benefit | Fannie Mae DU | Freddie Mac LPA |
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| Survivor Benefits Received for Dependent Child and Surviving Spouse | Document with all of the following: <ul style="list-style-type: none"> • SSA Award letter; • Evidence of current receipt. | Document income type and current receipt with one (1) of the following: <ul style="list-style-type: none"> • Social Security Award letter; • 1099; • Bank statement; or • Equivalent documentation. |
| Newly Established Income | Document the finalized terms of the new income with: <ul style="list-style-type: none"> • The Award letter verifying the effective date of income commencement, payment frequency and pre-determined payment amount that will begin prior to or on the first mortgage payment due date. • Verification of current receipt is not required | |
| Age of Documentation | Age of documentation requirements must be met. | |
| Continuance | <p>Survivor Benefits Received for Dependent Child - Evidence of three-year continuance is required (e.g., verification of beneficiary's age).</p> <p>Surviving Spouse - Evidence of continuance is not required.</p> | |
| DU Income calculation "Adjusted Gross Income" | <ul style="list-style-type: none"> • 15% of the income may be treated as nontaxable without supporting documentation. Note: if more than 15% of the Social Security Income is grossed up, file must contain documentation to support additional income is nontaxable. • This additional non-taxable income is added to the borrower's gross income amount used for qualifying income. | |

11.13(hh) Temporary Help Services

Contract firms and temporary staffing firms may contract out the services of their employees to other employers. The employment and income may be considered stable when the borrower has demonstrated the ability to maintain steady and continuous employment and income with this employment structure for the most recent two (2) years.

All of the following is required:

- Follow AUS documentation requirements; and
- Most recent two (2) years W-2s.



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11.13(ii) Temporary Leave

Temporary leave from work is generally short term in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer.

Employer initiated actions, such as furloughs and layoffs are not considered temporary leave and therefore do not need to comply with the requirements in this section.

If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income.

During a temporary leave, a borrower's income may be reduced and/or completely interrupted. It must be determined that during and after temporary leave, the borrower has the capacity to repay the mortgage and all other monthly obligations.

All of the following is required:

- Verification of pre-leave employment and income history in accordance with standard guidelines;
- No evidence or information from employer indicating borrower does not have the right to return to work after leave period;
- Borrower's written confirmation of intent to return to work;
- Agreed-upon date of return evidenced by documentation generated by the employer and provided by the borrower or employer (or third-party service designated by employer).
- Age of documentation compliance requirements not required;
- Verbal Verification of Employment, the borrower is considered employed if the employer confirms the borrower is currently on temporary leave;
- Amount and duration of borrower's temporary leave income (Not required for LPA loans where borrower is returning to work prior to the first mortgage payment) and;
- All available liquid assets used to supplement the reduced income for the duration of leave must be verified.

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| Borrower Returning to Work Prior to First Mortgage Payment | Use the monthly pre-leave income. |
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| Return to Work After First Mortgage Payment | Use the lesser of the monthly leave income or pre-leave income. If the monthly leave income is less than the pre-leave income: <ul style="list-style-type: none">• Supplement with available liquid reserves;• Total qualifying income may not exceed the gross monthly income received upon return to work; and• Assets required to support the payment may not be counted towards available reserves. |
| Supplemental Income Amount | Supplemental Income Amount = Available liquid reserves divided by the number of months of supplemental income: <ul style="list-style-type: none">• Available liquid reserves: subtract funds need to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount• Number of months supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income. |
| Qualifying Income | Total qualifying income = supplemental income plus the temporary leave income. |

11.13(jj) Tip Income

Tip income is considered compensation in addition to an employee's regular wages and must be received for the past two (2) years.

All of the following is required:

- Written Verification of Employment; or
- Most recent paystub(s); and
- Most recent two (2) years' W-2s.

OR

- Most recent two (2) years individual income tax returns with *IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income*, to verify tips not reported by the employer.



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Income Calculation

- Develop an average for the most recent two (2) years.
- If the trend of the amount of income is stable or increasing, the income should be averaged.
- If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.

11.13(kk) Trust Income

| | Fannie Mae DU | Freddie Mac LPA |
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| Documentation | <p>One or more of the following is required to confirm the amount, frequency, type of income being received and the date the trust was created:</p> <ul style="list-style-type: none"> • Copy of the fully executed trust agreement or trustee's statement, the trust's federal income tax returns; or • A letter from accountant or attorney who reviewed the trust documents, when the above documents are not available or when the borrower is the trustee. <p>Note: A borrower who is also the trustee may not supply the trustee's statement.</p> <p>Confirm the trust was established for 12 months of longer, unless all of the following are met:</p> | <p><u>Fixed Payment Amount</u></p> <p>All of the following is required:</p> <ul style="list-style-type: none"> • Copy of fully executed trust agreement specifying the fixed payment amount and frequency (e.g., monthly, quarterly, etc.) and duration of payments, and • Evidence of current receipt with a bank statement or equivalent for the most recent one year; and • Evidence of sufficient assets to support the qualifying income (letter from trustee, bank statements). When the borrower is the trustee, a letter from trustee is not acceptable documentation. <p><u>Variable Payment Amount</u></p> <p>All of the following is required:</p> |

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| | <ul style="list-style-type: none"> • The trust verification document reflects fixed payments; • The borrower is not the grantor; and • At least one payment is received prior to closing <p>Trusts created in the previous 12 months using a borrower's eligible employment-related assets, may still be used as stable income but must meet the income calculation and all other requirements for employment.</p> <p>Confirm continuance of income which must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined.</p> <p>If any trust fund used for downpayment, closing costs or reserves, they must be subtracted from the total funds to determine if the income meets the Continuity of Income requirements.</p> | <ul style="list-style-type: none"> • Copy of fully executed trust agreement specifying payment terms, and • Most recent two (2) years' complete individual income tax returns verifying receipt of income; and • Evidence of sufficient assets to support the qualifying income (e.g. bank statements, letter from trustee). When the Borrower is the trustee, a letter from the trustee is not acceptable documentation. |
| History of Receipt and Continuance | <p><u>Fixed Payment Amount</u></p> <ul style="list-style-type: none"> • Use the fixed payment amount from the trust verification documentation as the borrower's qualifying income | <p><u>Fixed Payment Amount:</u> A history of receipt is not required if the trust specifies the fixed payment amounts occurring at regular intervals will continue for at least three years from</p> |

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| | <ul style="list-style-type: none"> Document current receipt of trust income with one month's bank statement or other equivalent documentation. <p><u>Variable Payment Amount:</u></p> <ul style="list-style-type: none"> A minimum 24-month history of receipt documented with most recent signed two years federal income tax returns; or copy of the trust's federal income tax returns for the most recent two years, and Current receipt of one months bank statement or other equivalent documentation. <p>Note: Income received for 12 to 24 months may be considered as acceptable income when other positive factors are present that reasonably offset a shorter income history in alignment with standard variable guidelines.</p> | <p>the date of the application.</p> <p><u>Variable Payment Amount:</u> A history of receipt for two (2) years is required if the trust payments are variable (e.g., dividend and interest). There must be sufficient assets to support continuance of the trust income for at least three years from the date of the application.</p> |
| Age of Documentation | <p>Unless this income is received monthly, documentation of current receipt of the income is not required to comply with age of documentation requirements.</p> | |

11.13(II) Union Members

Union members may hold several jobs during a year.



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| | Fannie Mae DU | Freddie Mac LPA |
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| Documentation | <p>Verification of income for a union member requires all of the following documentation:</p> <ul style="list-style-type: none"> • Current paystub(s) from present employer. If there has been more than one (1) employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings; • Most recent two (2) years' W-2s from all employers; and • Most recent two (2) years' individual income tax returns with all schedules, if necessary, to document temporary or sporadic employment and unemployment income. See Seasonal Income for borrowers who receive unemployment compensation. | <p>Verification of income for a union member requires all of the following documentation:</p> <ul style="list-style-type: none"> • Current paystub(s) from present employer. If there has been more than one (1) employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings; • Most recent two (2) years' W-2s from all employers |
| | <p>The loan application should reflect the borrower's current employer in the Employment Information and the Union information as the prior employer. All employers in the past two (2) years do not need to be reflected on the loan application.</p> | |
| Income Calculation | <ul style="list-style-type: none"> • Develop an average of the most recent two (2) years. • If the trend of the amount of income is stable or increasing, the income should be averaged. • If the trend was declining but has since stabilized and there is no reason | |



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| | Fannie Mae DU | Freddie Mac LPA |
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| | <p>to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.</p> <ul style="list-style-type: none"> If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred. | |
| Employment at Closing | <p>The borrower does not have to be employed at the time of closing if all of the following are met:</p> <ul style="list-style-type: none"> The borrower works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker; longshoreman, or stagehand); The union provides an executed employment offer or contract for future employment, and Verbal confirmation may be obtained through the union. All other requirements for Future Income above must be met. | <p>The borrower does not have to be employed at the time of closing if all of the following are met:</p> <ul style="list-style-type: none"> The borrower is in between employers; The borrower has had multiple employers during the past two (2) years; and Employment is deemed stable. Verbal confirmation may be obtained through the union. |

11.13(mm) VA Benefits

VA Benefits income (other than disability) may be used to qualify with verification that the income can be expected to continue for a minimum of three years from the date of the loan application. A letter or distribution form from the Veteran's Administration is required to document VA benefits income.

VA education benefits are not an eligible source of income.

11.14 Unacceptable Sources of Income

Income from sources considered ineligible include, but is not limited to:



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- Income derived from business activity that may be permitted by State law but is prohibited by Federal law.
- Income derived from the subject property with land being leased to another party
- Income paid in the form of cryptocurrency
- Income determined to be temporary or one-time in nature
- **Income or employment from Cannabis business**
- Incremental income derived from gambling
- Lump sum payments of lottery earnings that are not on-going
- Lump sum payment such as inheritances or lawsuit settlements
- Non-incidental income received from farming/agricultural use of a property
- Retained earnings in a company
- Taxable forms of income not declared on individual income tax returns
- Trailing co-borrower income
- Unverifiable income
- Use of assets as income (except Employment-Related Assets as Qualifying income described above)
- VA education benefits

| Revision History | Date |
|--|------------|
| <ul style="list-style-type: none">• Freddie Mac Bulletin 2024-16:<ul style="list-style-type: none">▪ Expanded requirements for Restricted Stock and Restricted Stock Units<ul style="list-style-type: none">▪ Calculation of qualifying income for both sources for less than 24 months (but not less than 12 months), when history/receipt of income is between 12 and 24 months.<ul style="list-style-type: none">▪ Written analysis and compensating factors must be documented in file to support a shorter timeframe used for calculation.▪ Awards of RS or RSU on a recurring basis must be likely to continue for at least three years and nonrecurring awards must have at least three years vesting and distribution remaining on the vesting schedule. The agency guide currently states must continue for at least three years.▪ Use of 200-day simple moving average stock price has replaced the 52-week average stock price as the basis for calculating Restricted Stock(RS) and Restricted Stock Units (RSU) income. | 01.30.2025 |
| Cannabis Business added to both income sections to identify overlay for employment ownership is not permitted: | 02.27.2025 |



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| <ul style="list-style-type: none"> • (1) Other Sources of Income and • (2) Unacceptable Sources of income <p>Freddie Mac Bulletin 2025-1 expanded Rental Income from non-subject investment property for requirements/guidelines for Rental income from non-subject investment property purchased or placed in service in the current calendar year</p> | |
| <p>Removed:</p> <ul style="list-style-type: none"> • Reference to Marijuana Income source • Requirement Time Based rewards are not eligible for LPA transactions in RS and RSU Income subject to performance – based vesting provisions <p>Updated Allowable Age of Tax Returns for 2025</p> | 03.27.2025 |
| <p>Clarified following for Trust Income for Fannie Mae/DU loan transactions:</p> <ul style="list-style-type: none"> • Verification of income includes the trust's federal income tax returns • Confirm the trust was established for 12 months of longer, unless all of the following are met: <ul style="list-style-type: none"> ○ The trust verification document reflects fixed payments; ○ The borrower is not the grantor; and ○ At least one payment is received prior to closing • Continuance of income confirmation which must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined. | 04.29.2025 |
| <p>Freddie Mac 2025-06 updates:</p> <ul style="list-style-type: none"> • Non-Fluctuating Earnings: <ul style="list-style-type: none"> ○ Expanded base non-fluctuating earnings that are stable and consistent income hourly earnings. ○ Clarified base non-fluctuating income may include: Exempt (salaried), Military Baae (basic) pay, and non-exempt (hourly) earnings. ○ Detailed examples provided for primary employment for borrowers with less than 2 yr employment history with guidance to justify stability of employment for both base and secondary employment | 05.22.2025 |
| <p>Freddie Mac Bulletin 2025-7 updated Military Earnings (base pay) to remove IRS W2 requirement. Documentation requirements updated to obtain:</p> <p>The most recent YTD Leave and Earnings Statement (LES) or all of the following:</p> <ul style="list-style-type: none"> • Written VOE documenting all YTD earnings • 10-day PCV (Pre-Closing Verification) | 06.26.2025 |



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Conforming Appraisal Requirements

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1J.1 Appraiser Requirements

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

1J.1(a) Appraiser Requirements

Appraiser must be state-licensed or state-certified appraiser, active and in good standing on the ASC registry as of the effective date of the appraisal report. The appraiser must be state-certified when preparing an appraisal for properties with a value greater than or equal to \$800,000.

Verification must be provided by one (1) of the following:

- UCDP clearance;
- A copy of the National Registry Appraiser Report at <http://www.asc.gov/>; and
- A copy of the appraiser's current license (preferred documentation).

The appraiser must:

- Comply with the independent appraiser requirements specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision;
- Comply with real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform or Recovery and Enforcement Act of 1989;
- Be experienced in the appraisal of properties similar to the type being appraised;
- Be actively engaged in appraisal work;
- Must not be an interested party in the subject transaction;
- Subscribe to a code of ethics that is at least as strict as the requirements set forth in the Ethics Rule of the Uniform Standards of Professional; and
- Comply with the Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation.
- Comply with the Appraiser Independence Requirements (AIR).

1J.1(b) Appraiser Trainees

Unlicensed and trainee (or similar classification) appraisers may assist in developing and completing an



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appraisal assignment, provided the supervisory appraiser deems the trainee competent and the trainee's involvement complies with applicable State law. If an appraisal report is signed by an unlicensed or trainee (or similar classification) appraiser, a fully licensed supervisory appraiser must also sign the appraisal report as inspecting or non-inspecting supervisor, as applicable.

- The Supervisory Appraiser is not required to inspect the subject property or comparable sales with the trainee, except the following circumstances:
 - Sales price or market value exceeds FHFA high-cost limits; or
 - The subject property is complex, including but not limited to:
 - Complex or atypical properties;
 - Mixed-use property with residential and non-residential improvements;
 - Dwellings exceeding 5,000 square feet; and
 - Properties with significant or unusual site improvements, such as a large indoor riding area.
 - The Supervisory Appraiser must sign the report.

1J.1(c) Discontinuance of Appraiser Services

Client must inform Newrez immediately if, for any cause, it discontinues using the services of any appraiser who has made appraisals for loans offered for sale to Newrez.

At any time, Newrez may elect not to purchase loans secured by a subject property appraised by a particular appraiser. Newrez will notify Client of its election, and following such notification, Newrez will have no obligation to purchase loans on properties evaluated by that appraiser, even if the loans have been registered or locked.

1J.1(d) MIRR List

The MIRR List is an appraiser performance tracking document produced by the Newrez Collateral Valuations group.

Appraisers' names will appear on the list for issues related to substandard quality of work or unprofessional behavior. Appraisers who appear on Category III of the list are removed and possibly reported, meaning Newrez will not accept work from these appraisers, and Newrez may have reported these appraisers to the relevant state licensing agency, pursuant to Reg. Z (TIL) requirements.

Appraisers who appear on the Newrez Exclusionary List are automatically added to Category III, as are any appraisers whose work is deemed unacceptable by Newrez investors.



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Clients should monitor changes to Category III of the list monthly and ensure that reports from these appraisers, with effective dates occurring after the appraiser is added to the MIRR List, are not used to support collateral value for any loans delivered to Newrez.

1J.2 Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- Consideration of the race, color, religion, sex, sexual orientation, gender identity, age, marital status, disability, familial status, exercise of any federally protected civil right, receipt of income derived from any public assistance program, birthplaces of residents at the property or in the neighborhood, national origin of the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property.
- Use of unsupported or subjective terms to assess or rate, such as, but not limited to, “high,” “low,” “good,” “bad,” “fair,” “poor,” “strong,” “weak,” “rapid,” “slow,” “fast,” or “average,” without providing a foundation for analysis and contextual information.
- Incorporating terminology or veiled language that may be code words that could indicate underlying bias that include, but are not limited to, “pride of ownership,” “crime-ridden area,” “desirable neighborhood or location” or “undesirable neighborhood or location,” “gentrified,” “preferred community,” “up and coming,” predominantly Hispanic or Black neighborhood, substantial amount of Black or Hispanic residents at the property, diverse school system, amenities specifically geared to a race, ethnic or religious group or using terms such as Millennials, Generation X, or Baby Boomer.
- Development of a valuation conclusion based either partially or completely on the sex, race, color, religion, handicap, national origin, familial status, or other protected classes of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property.
- Creation of comparable sales by combining vacant land sales with the contract price of a home that has been built or will be built on the land.
- Development of or reporting an opinion of market value that is not supportable by market data or is misleading.
- Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited.
- Development on an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific



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result, or the occurrence of a subsequent event in order to receive compensation and/or employment for performing the appraisal and/or in anticipation of receiving future assignments.

- Development of and reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) in place as the effective date of the appraisal.
- Failure to comment on negative factors with respect to the subject neighborhood, subject property, or proximity of the subject property to adverse influence.
- Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales.
- Failure to use comparable sales that are most locationally and physically similar to the subject property.
- Failure to make adjustments when they are clearly indicated.
- Misrepresentation of the physical characteristics of this subject property, improvements, or comparable sales.
- Not supporting adjustments in the sales comparison approach.
- Selection and use of inappropriate comparable sales.
- Use of comparable sales in the valuation process where the appraiser has not personally inspected the exterior of the comparable property.
- Use of adjustments to the comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales.
- Use of data, particularly comparable sales data, provided by parties who have a financial interest in the sale or financing of the subject property without the appraiser's verification of the information from a disinterested source.
- Provide "working class" and "inner city" as examples of terminology that could indicate underlying bias
- Inclusion of statements, references or comparisons to crime rates or statistics, in the analysis or appraisal report
- Confirm the scope of work for some appraisals do not require a personal inspection of comparable properties.
- Development of opinion of value based on factors from local, state, or federal law designates as discriminatory is unacceptable.

1J.3 Uniform Collateral Data Portal (UCDP) Compliance

Clients who underwrite and approve loans should apply the following steps prior to delivery of a loan to Newrez to mitigate potential delays related to UCDP hard stops.



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1. Submit all appraisals to the UCDP.
2. Identify all Fannie Mae or Freddie Mac Proprietary Appraisal Messages on the UCDP user interface message tab.
3. Engage the appraisal provider to obtain corrections to address the messages.
4. Submit the revised and final appraisal to the UCDP to ensure all Fannie Mae or Freddie Mac Proprietary Appraisal Messages have been resolved and "Successful" status is received.

Clients who submit their loans to Newrez for underwriting should submit the appraisal to the UCDP and provide the printout in the loan file for underwriting. The above steps should have been completed prior to submission for underwriting.

1J.4 Appraisal Report Forms and Exhibits

The appraisal report must be prepared and signed by an approved appraiser. The appraisal report must be on the current version of the appropriate appraisal form, and include any information, either as an attachment or addendum to the appraisal report form, needed to support the opinion of market value.

1J.4(a) List of Appraisal Report Forms

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| <i>Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)</i> | Use for appraisals of one-unit properties, units in PUDs, (including a one-unit property with an accessory dwelling unit) and detached condominium units based on interior and exterior property inspections. The URAR may be used for two-unit properties if each of the units is occupied by one of the co-borrowers as their primary residence or if the value of the legal second unit is relatively insignificant in relation to the total value of the property (as might be the case for a basement unit or a unit over a garage). In addition, units in condo projects that consist solely of detached dwellings may use the URAR if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance. An interior and exterior inspection of the subject property is required. The appraisal report must be UAD compliant. |
| <i>Desktop Appraisal</i> | AUS must offer an option for a Desktop Appraisal which is an alternative |



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| <p><i>(Desktop) (Fannie Mae Form 1004D/Freddie Mac Form 70D)</i></p> | <p>to traditional interior and exterior inspection appraisals. The appraiser relies on property tax records, multiple listing servicing information, past sales, prior appraisals, and other data to complete the appraisal report. Desktop Appraisal reports must be submitted to UCDP and the SSR must be provided.</p> <p>A floor plan for the desktop appraisal does not have to meet the Square Footage-Method for Calculating: ANSI® Z765-2021 standards.</p> <p>Use for appraisals of one-unit properties, units in PUDs, (including a one-unit property with an accessory dwelling unit) based on interior and exterior property inspections. The URAR may be used for two-unit properties if each of the units is occupied by one of the co-borrowers as their primary residence or if the value of the legal second unit is relatively insignificant in relation to the total value of the property (as might be the case for a basement unit or a unit over a garage).</p> <p>The appraisal report must be UAD compliant.</p> |
| <p><i>Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073/Freddie Mac Form 465)</i></p> | <p>Use for appraisals of one-unit properties in condominium projects. An interior and exterior property inspection is required.</p> <p>The appraisal report must be UAD compliant.</p> |
| <p><i>Manufactured Home Appraisal Report (Fannie Mae Form 1004C/Freddie Mac Form 70B)</i></p> | <p>Use for appraisals of one-unit manufactured homes, including those located in a condominium, PUD, and co-op projects. An interior and exterior property inspection is required.</p> |
| <p><i>Small Residential Income Property Appraisal Report (Fannie Mae Form 1025/Freddie Mac Form 72)</i></p> | <p>Use for appraisals of two- to four-unit properties. An interior and exterior property inspection is required.</p> |
| <p><i>Appraisal</i></p> | <p><i>The Appraisal Update and/or Completion Report is used for all one- to</i></p> |



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| <i>Update/Completion Report</i> (Fannie Mae Form <u>1004D/Freddie Mac Form</u> <u>442</u>) | <p>four-unit appraisal reports.</p> <p>When performing an appraisal update, the original appraiser is expected to research, verify, and analyze current market data, and to perform at least an exterior-only inspection or by using technology to perform a virtual inspection of the subject property.</p> <p>However, the use of a substitute appraiser to perform the appraisal update is acceptable. The substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the effective date of the appraisal report. In addition, the loan file must contain a note explaining why the original appraiser was not used.</p> <p>The type of inspection required is dependent on the nature of the appraisal conditions or changes to the subject property.</p> <p>If the appraisal is completed "as is," an interior inspection is not required unless there are known any changes to the subject property that would have an adverse effect on condition or marketability. At a minimum, a front photograph of the subject property is required. Additional photographs of any factors that affect the marketability or value should be provided if not already part of the report being updated.</p> <p>If the appraisal is subject to completion per plans and specifications, an interior and exterior inspection is required. Interior and exterior photographs are required.</p> <p>If the appraisal is subject to repairs that affect safety, soundness or habitability, an interior and exterior inspection is required if repairs are required for the interior of the dwelling. Exterior and interior photographs are required. Otherwise, an exterior-only inspection with exterior photographs is required.</p> |
| <i>Desktop Underwriter</i> | The <i>Desktop Underwriter Property Inspection Report</i> is not an appraisal |



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| <p><i>Property Inspection Report</i> (Fannie Mae Form 2075)</p> | <p>report. It is a property inspection report that requires an exterior-only inspection of the subject property, completed by a state-licensed or state-certified appraiser without an estimate of market value for the property. No estimate of value is required. If the property inspection reveals adverse physical deficiencies or conditions, or the subject property does not conform to the neighborhood, an upgrade to an interior and exterior appraisal reported on Form 2055 is required.</p> |
| <p><i>Field Review Appraisal</i> (Fannie Mae Form <u>2000</u>/Freddie Mac Form <u>1032</u>)</p> | <p>The following are required when a <i>Field Review Appraisal</i> is required by the Loan Program or at the discretion of the valuation department.</p> <p><u>One-Unit Properties</u></p> <ul style="list-style-type: none"> • <i>One-Unit Residential Appraisal Field Review Report</i> • Original front and street photos of the subject property • Photos of the comparable sales must be used for all review of one-unit residential appraisal reports <p><u>Two- to Four-Unit Properties</u></p> <ul style="list-style-type: none"> • <i>Two- to Four-Unit Residential Appraisal Field Review Report</i> • Original front and street photos of the subject property • Photos of the comparable sales must be used for all review of two-to four-unit residential appraisal report |
| <p><i>Hybrid or Bifurcated Appraisals</i> (Fannie Mae Form 1004 Hybrid/Freddie Mac 70H and 465H) and Fannie Mae Hybrid Form 1073</p> | <p>A hybrid appraisal report may be permitted for certain transactions where AUS initially offered a property data report option but was lost on a subsequent submission to AUS. The minimum scope of work includes consideration by the appraiser of an interior and exterior property data collection by a trained property data collector. The appraiser relies on the data collected and other sources if needed, to identify property characteristics including condition. Property data collection and the hybrid appraisal are separate assignments and may be performed by different people.</p> <p>Fannie Mae Condominiums (Hybrid Form 1073): If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in some cases, it may be possible to obtain a hybrid appraisal, by providing the property data</p> |



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| | <p>collection to an appraiser to perform the assignment.</p> <p>A hybrid appraisal requires the same exhibits as a traditional appraisal with the inclusion of a floor plan conforming to the ANSI standard.</p> |
| <p><i>ACE+PDR</i> (Automated Collateral Evaluation + Property Data Report) (Freddie Mac)</p> | <p>LPA must return an offer for ACE + PDR. The property data collection (PDC) consists of a full interior and exterior inspection capturing data and images throughout the subject property. The property data collection must be completed by a trained and vetted property data collector.</p> <p>The property data collection report is used to confirm property eligibility and must include a detailed description of the property, include a floor plan and significant photos including but not limited to front, rear and side views of the exterior, street scene, all interior rooms including finished and unfinished areas, interior and exterior of all significant outbuildings and any physical deterioration, improvements, amenities and any observed issues or external influences.</p> <p>When the property data collection and/or photos evidences any items failing eligibility requirements or there is uncertainty about the need for repairs, alternations or completion, it may be necessary to obtain a professionally prepared report from a qualified professional to confirm the eligibility of the property and if repairs are required (well, septic, foundation, roof, electrical, mold, etc.). The review of a professionally prepared report may lead to a repair requirement or may resolve the issue.</p> <p>After the property data collection has been completed, it must be submitted to Freddie Mac's Property Data Application Programming Interface (b API). A file may be delivered with an appraisal report that exceeds the minimum collateral assessment on the last feedback certificate, provided the eligibility requirements for the selected appraisal type are met.</p> |



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| | <p>For PDRs completed with required repairs, a Completion Report performed by a property data collector, must verify the repairs have been completed and include:</p> <ul style="list-style-type: none">• All data points and certifications in Freddie Mac Selling Guide addendum C (https://guide.freddiemac.com/ci/okcsFattach/get/1008760_13) and Addendum D (https://guide.freddiemac.com/ci/okcsFattach/get/1008760_15)• Include photos of the completed repairs <p>For PDRs completed with an inspection required to identify if repairs are needed, a licensed professional trained in the specific field of concern must perform the inspection and provide either:</p> <ul style="list-style-type: none">• A signed report that includes their license number stating the repair(s) is not required or <p>A signed report or invoice that includes their license number stating the repair(s) has been completed and the issue corrected.</p> |
| Valuation Acceptance + Property Data (Fannie Mae) | <p>DU must issue an initial message indicating loan is eligible for value acceptance + property data (MSG 3709).</p> <p>The property data collection (PDC) consists of a full interior and exterior inspection capturing data and images throughout the subject property. The property data collection must be completed by a trained and vetted property data collector. Property Data collection must be obtained and submitted to Property DATA API prior to note date</p> <p>The property data collection report is used to confirm property eligibility and must include a detailed description of the property, include a floor plan and significant photos including but not limited to front, rear and side views of the exterior, street scene, all interior rooms including finished and unfinished areas, interior and exterior of all significant outbuildings and any physical deterioration,</p> |

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| | <p>improvements, amenities and any observed issues or external influences.</p> <p>After the property data collection has been completed, it must be submitted to Fannie Mae's Property Data Application Programming Interface (API) and DU rerun to return a final message that the property is eligible for value acceptance + property data (MSG 3713).</p> <p>When the property data collection and/or photos evidences any items failing eligibility requirements or there is uncertainty about the need for repairs, alternations or completion, a professionally prepared report from a qualified professional to confirm the eligibility of the property and if repairs are required (well, septic, foundation, roof, electrical, mold, etc.) may be needed. The review of a professionally prepared report may lead to a repair requirement or may resolve the issue.</p> <p>If repairs are required, refer to Completion Alternatives Attestation letters section below. Since there is no appraisal completed, Form 1004D is not permitted to verify required repairs have been completed.</p> |
| <p>Completion Alternatives <i>Warranty of Completion of Construction (Freddie Mac Form 400 rev.06/05/24)</i></p> | <p>The <i>Warranty of Completion of Construction</i> Form 400 is an option for appraisers and borrowers to confirm the completion of proposed or newly constructed properties where the appraisal was completed subject to completion per plans and specs. Borrowers may use other substantially similar forms to support warranty of completion for construction, required repairs or repairs on a Property Data Report.</p> <p>The completion report must include at least the following photos:</p> <ul style="list-style-type: none"> • Front and rear view of the subject property • A street scene identifying the location of the subject property • Kitchen • All bathrooms • The main living area <p>The completion report must include additional photos, as needed, to show items identified as subject to completion in the original appraisal are now complete. If the photos in the original appraisal report represent the</p> |



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| | subject property's completion accurately, new photos are not required. |
| Completion Alternatives Attestation Letters (Fannie Mae) | <p>Borrower/Builder Attestation Letter is permitted for new or proposed construction to confirm the property was completed and constructed to conform with the plans as specifications, amendments, and change orders. The borrower/builder attestation letter must include the following items (at a minimum):</p> <ul style="list-style-type: none"> • borrower name, • property address or legal description if the address is not available, • certification language that the property was constructed in conformity with the plans and specifications including any amendments or changes, • signatures and dates by the borrower(s) and builder, and • exterior and interior photos of the property (see B4-1.2-01, Appraisal Report Forms and Exhibits). <p>If a letter signed by both parties is not obtainable, then a Form 1004D completed by the appraiser is required.</p> <p>Borrower Attestation letter is permitted for existing construction for certain alterations or repairs. The letter must include the following:</p> <ul style="list-style-type: none"> • borrower name; • property address; • certification language that the alteration or repair was satisfactorily completed; • signed and date of the borrower; • visually verifiable exhibits of the completed work; and one of the following <ul style="list-style-type: none"> • Signature of the qualified professional, • A professionally prepared report, or • Paid invoices for the alterations or repairs |
| Completion Alternatives (Freddie Mac) | For appraisal reports that are subject to an inspection of the property or Property Data Report (PDR) where, the lender's review determines an inspection is required, a licensed professional or other person trained in |



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| | <p>the particular field of concern (i.e. structural engineer, plumber, pest inspector, etc.) must perform the inspection of the property.</p> <p>The file must contain either:</p> <ul style="list-style-type: none">• An inspection report stating that repairs are not required Client reviews to ensure property does not have deficiencies consistent with a C5 or C6 condition rating, or• An inspection report and invoice(s) stating that the required repairs have been completed, and the issues have been corrected. <p>The inspection report and invoice(s) must provide the professional's license number, if applicable.</p> <p>The inspection report and invoice(s) must be:</p> <ul style="list-style-type: none">• Dated before the note date• Retained in the Mortgage file |
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1J.4(b) Desktop Appraisal

The use of the Desktop Appraisal is subject to the following:

- DU Approve/Eligible with a message indicating the loan is eligible for a Desktop Appraisal;
- Maximum 90% LTV:
 - The LTV may exceed 90% based on the Desktop Appraisal value if the loan amount did not increase and all other eligibility requirements are met, including the requirement that the LTV ratio calculated, using the sales price, is less than or equal to 90%;
 - LTV ratios greater than 90%, that occur as a result of loan amount changes, require an upgrade to an *Interior and Exterior Inspection Appraisal* (Form 1004/70) prior to closing.
- The appraisal report must be upgraded to Fannie Mae Form 1004/Freddie Mac Form 70, and include an interior and exterior inspection, when any of the following exist:
 - The appraiser has already physically inspected the subject property;
 - The appraiser cannot obtain sufficient information about both the interior and exterior physical characteristics of the subject property from third-party data sources to develop an accurate and adequately supported appraisal;
 - The appraiser cannot reconcile significant discrepancies (e.g., room count, gross living area,



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- size, condition, etc.);
- The subject property is undergoing renovation or rehabilitation; and
- The subject property has a condition rating of C5 or C6 or a quality rating of Q6.
- A Desktop Appraisal cannot be used for a subsequent refinance transaction.
- Ineligible Transactions
 - 2-4 units
 - Community Seconds with a subsidized sales price
 - Condos
 - Construction-to-permanent (single-close and two-close)
 - DU/LPA casefiles with an Ineligible recommendation
 - HomeReady
 - Manufactured homes
 - Non-arm's length transactions
 - Fannie Mae: Properties with resale price restrictions
 - Freddie Mac LPA:
 - Resale restrictions except for age-based restrictions permitted
 - Mixed Use Properties
 - Purchases when the property owner is a lender or government entity
 - Refinance transactions
 - Second homes and investment properties

1J.4(c) Appraiser Certifications and Limiting Condition

Each appraisal report form includes an appraiser's certification (and, if applicable, a trainee appraiser's certification) and a statement of assumptions and limiting conditions. Appraisers may not add limiting conditions.

The appraiser may not make changes or deletions to the existing certifications; however, the appraiser may make additional certifications that can be included on a separate page or form. Acceptable additional certifications might include:

- Those required by state law;
- Those related to the appraiser's continuing education or membership in an appraisal organization;
- Those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and shortage of an appraisal and the information on which it is based; and
- Any additional certifications must be reviewed to ensure they do not conflict with those policies or



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standard certifications on the appraisal report form. The appraiser's certification #23 is an acknowledgment by the appraiser that certain parties to a mortgage transaction that are not the lender/client and/or intended user may rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

The following additional notice or statement is acceptable when appraisers believe the lender/client is the only intended user is acceptable:

"The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the state scope of work, purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market value. No additional intended users are identified by the appraiser."

1J.4(d) Appraisal Attachments

The appraisal attachments must be prepared and signed (if applicable) by an approved appraiser. The appraisal attachments must be on the current version.

| Attachments | URAR Forms 1004/70 1004D/70D | Condo Forms 1073/465 |
|---|------------------------------------|-------------------------|
| Exterior photographs-clear, descriptive photographs showing the front, back and street scene of the subject property and the front of each comparable sale. Original photographs, electronic images, copies from MLS, or copies from appraiser's files. Photographs of comparable rentals utilized in Form 1025 are not required. | X | X |
| Interior photographs must include the following: kitchen, all bathrooms, main living area (all living areas, including gathering rooms, family room, dining room, all bedrooms, and finished and unfinished | X | X |



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| <p>basement areas, etc.), examples of any physical deterioration, examples of recent property updates.</p> <p>Interior photographs on proposed or under construction properties may be taken by the appraiser at time of final inspection.</p> | | |
| <p>Interior building footprint sketch or floor plan and calculations (required on <u>Form 1004/70</u>) if floor plan is atypical or functionally obsolete, thus limiting the market appeal).</p> <p>A floor plan is required for the following:</p> <ul style="list-style-type: none"> • all property data collections, • hybrid appraisals, • desktop appraisals • traditional appraisals (if the layout of the dwelling unit(s) is atypical or functionally obsolete, limiting the appeal of the property in comparison to competitive properties in the market area). <p>A footprint sketch can only be used for a traditional appraisal if the layout of the dwelling unit(s) is not atypical or functionally obsolete.</p> <p>A separate footprint sketch including exterior dimensions and room labels must be provided for each additional structure.</p> <p>For a unit in an apartment-style condo or co-op project, the floor plan or footprint sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for unit square footage(s) shown in the condo documents are acceptable)</p> | NA | X |
| Exterior building sketch and calculation | X | NA |
| Street map showing the location of the subject property and comparable sales. | X | X |
| <i>Single Family Comparable Rent Schedule (Form 1007/100)</i> for all one-unit investment properties, if applicable (not required when rental income is not being used to qualify). | X | X |



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1J.4(e) Appraisal Transfer

An appraisal assignment is the transfer of the appraisal from one lender to another lender.

Transferred appraisals are permitted for Delegated Clients who underwrite and close their own loans; **except for either a Hybrid or PDR (Property Data Report) appraisal are not permitted**. The Delegated Client remains responsible for compliance with all Appraisal Independence Rules (AIR) standards.

For Non-Delegated Clients, Newrez will accept an appraisal that was transferred from another lender, **except for either a Hybrid or PDR (Property Data Report) appraisal are not permitted**, provided it was completed in compliance with Fannie Mae and Freddie Mac requirements.

The original lender must email the following documentation to the Appraisal Support team and identify the need for a transferred appraisal to CorrespondentUnderwritingSupport@NewRez.com:

- Appraiser Independence Certification;
- Appraisal XML file;
- Original appraisal invoice submitted when the appraisal was completed for the original lender; and
- Signed and dated transfer letter from the original lender to Newrez releasing the appraisal.

You will be notified of the acceptance of the existing appraisal or the need for a new appraisal.

1J.4(f) Electronically Transmitted Appraisal Reports

Electronically transmitted appraisal reports are acceptable provided the appraisal report:

- Adequately identifies the appraiser;
- Is created by the appraiser identified on the appraisal report;
- Includes a reproduced signature of the appraiser whose name appears on the report;
- Is the unaltered report submitted by the appraiser;
- Photographs of the subject property and comparable sales are clear; and
- The appraiser electronically transmits the electronic appraisal or inspection report directly to Client or any third party specifically authorized by Client, as applicable.

Electronically transmitted appraisal reports must comply with Electronic Verification requirements and must be in a standard format as outlined in Required Appraisal Forms.



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1J.4(g) Value Acceptance (Appraisal Waiver) and ACE (Automated Collateral Evaluation)

Value acceptance (appraisal waiver) is Desktop Underwriter's offer to accept the lender-submitted value without an appraisal for eligible transactions. ACE (Automated Collateral Evaluation) is Loan Product Advisor's offer to accept the lender-submitted value without an appraisal for eligible transactions. The ACE appraisal waiver offer must be dated 120 days from the LPA offer to note date.

Neither the Value acceptance (appraisal waiver) or ACE option can be exercised if:

- An appraisal has been obtained.
- An appraisal is required by law.
- There is information known about the property that would warrant an appraisal, such as but not limited to, a contaminated site or hazardous substance exists affecting property or neighborhood and any adverse physical property conditions known based on review of documentation in file.
- Changes to the estimated property value have been completed in LPA for the purposes of obtaining ACE for more favorable mortgage terms.

| | DU Value Acceptance (Appraisal Waiver) | LPA ACE (Automated Collateral Evaluation) |
|----------|--|---|
| Eligible | <p>A value acceptance (appraisal waiver) offer may be considered for the following transactions:</p> <ul style="list-style-type: none">• DU approve eligible recommendation• 1-unit properties, including condos• Primary residence• Second home• Investment property refinances <p>Certain purchase, LCOR and cash-out refinance transactions</p> | <p>An ACE offer may be considered for the following transactions:</p> <ul style="list-style-type: none">• LPA accept eligible recommendation• 1-unit properties, including condos• Primary residence• Second home• Certain purchase and rate & term refinances• Cash out refinances:<ul style="list-style-type: none">○ Primary residence: 70% LTV○ Second Home: 60% LTV• An ACE appraisal waiver may be accepted when adverse physical property conditions are minor. |



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| Ineligible | <ul style="list-style-type: none"> • DU Approve Ineligible recommendation • 2- to 4-units • Construction to permanent financing (single and two close) • Proposed construction • Co-ops • Gifts of equity • Investment property purchases • Leasehold properties • Manufactured housing • Texas Home Equity transactions (50(a)(6) or 50(a)(4)) • Transactions where either the purchase price or estimated value provided to DU is \$1,000,000 or more • Loans for which the mortgage insurance provider requires an appraisal • Properties with resale price restrictions • Community land trust homes | <ul style="list-style-type: none"> • LPA caution recommendation • 1-unit with an ADU generating rental income being used to qualify • 2- to 4-units • Construction to permanent financing • Co-ops • Investment properties • Leasehold properties • Manufactured housing • Non-arm's length transactions • Properties with income-based resale restrictions • Purchase of REO properties • Texas Home Equity transactions (50(a)(6) or 50(a)(4)) • Texas 50(f)(2) Mortgages • Transactions where either the purchase price or estimated value is \$1,000,000 or more • Loans for which the mortgage insurance provider requires an appraisal • Community land trust homes |
|------------|--|---|

1J.4(h) Value Acceptance + Property Data (DU) and ACE + PDR (LPA)

Value acceptance + property data is Desktop Underwriter's offer to accept the lender-submitted value without an appraisal **but is subject to the completion of a property data report**. ACE + PDR is Loan Product Advisor's offer to accept the lender-submitted value without an appraisal **but is subject to the**



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completion of a property data report.

The ACE + PDR report must be dated 120 days from the LPA offer to note date. The PDR effective date may be no more than 12 months prior to note date.

Neither the value acceptance + property data or ACE + PDR option can be exercised if:

- An appraisal has already been ordered.
- An appraisal is required by law.
- There is information known about the property that would warrant an appraisal, such as but not limited to a contaminated site or hazardous substance exists affecting property or neighborhood and any adverse physical property conditions known based on review of documentation in file.
- The loan requires an upgrade to an appraisal (for example but not limited to adverse site conditions or external factors or condition).
- Changes to the estimated property value have been completed in LPA for the purposes of obtaining, ACE+PDR for more favorable mortgage terms.

| | DU Value Acceptance + Property Data | LPA ACE + PDR |
|------------|---|---|
| Eligible | DU may offer value acceptance + property data for certain 1-unit properties, including condos, with an approve eligible recommendation. | <ul style="list-style-type: none"> • LPA accept eligible recommendation • 1-unit, including condos • Primary residence • Second home • Certain cash out and no cash-out transactions |
| Ineligible | <ul style="list-style-type: none"> • DU approve ineligible recommendation • 2- to 4-units • Co-op units • Manufactured homes • Proposed construction • Construction to permanent financing (single and two close) • Gifts of equity • Investment properties when rental income is used to qualify | <ul style="list-style-type: none"> • LPA caution recommendation • 1-unit with an ADU generating rental income being used to qualify • 2- to 4-units • Construction to permanent financing • Proposed Construction • Co-ops • Investment properties • Leasehold properties |



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| | <ul style="list-style-type: none">• Leasehold properties• Texas Home Equity transactions (50(a)(6) or 50(a)(4))• Transactions where either the purchase price or estimated value is \$1,000,000 or more• Loans for which the mortgage insurance provider requires an appraisal• Properties with resale price restrictions• Community land trusts | <ul style="list-style-type: none">• Manufactured housing• Properties with income-based resale restrictions• Texas Home Equity transactions (50(a)(6) or 50(a)(4))• Transactions where the estimated value is greater than \$1,000,000• Loans for which the mortgage insurance provider requires an appraisal• Community land trusts• Non-arm's length transactions |
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1J.5 Hybrid Appraisal

1J.5(a) Eligible Property Types

A hybrid appraisal may be completed for a purchase, limited cash out refinance or cash out refinance transaction. The following property types are eligible for a Hybrid Appraisal

- Existing one-unit properties, including a condominium (attached or detached) or unit in a PUD, including those with an ADU;
- Principal residence, second home or investment properties;
- Under construction properties;
- Existing properties with incomplete construction or renovation project; and
- Texas 50(a)(6) loans.

1J.5(b) Exercising a Hybrid Appraisals

The following must be completed when exercising a hybrid appraisal:

DU Loan Transactions



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- Obtain a property data collection and successfully submit to Fannie Mae Property Data API.
- Provide the property data collection to an appraiser for the completion of a hybrid appraisal based on property type using either Form 1004 Hybrid or Form 1073 Hybrid.
- Submit the hybrid appraisal to the Uniform Collateral Data Portal (UCDP).
- Perform an appraisal review in accordance with standard procedures.

Note:

- A hybrid appraisal may be obtained, if a loan loses value acceptance + property data eligibility after submitting the property data collection to the Property Data API.
- A DU message will specify if the loan is eligible for the hybrid appraisal option.
- The property data collection must be obtained in compliance with the Uniform Property Dataset and submitted to Fannie Mae's Property Data API prior to loan closing.

LPA Loan Transactions

- If the Mortgage is eligible for a hybrid appraisal report LPA will indicate on the Last Feedback Certificate.
- If the last feedback certificate does not indicate the Mortgage is eligible for delivery with an appraisal reported on Uniform Appraisal Report (Hybrid) [Form 70H](#), or [Form 465H](#), Individual Condominium Unit (Hybrid Appraisal), or a desktop appraisal, the loan may be delivered with a Hybrid Appraisal report, if the Mortgage is eligible for any of the following
 - ACE Appraisal waiver or,
 - ACE+PDR or
 - A Desktop appraisal.
- [Form 70H](#), or [Form 465H](#) can be used for a hybrid appraisal report with a PDR (Property Data Report). The Appraiser must contact the property data collector to verify any information in the PDR and adjust that information, as necessary to complete [Form 70H](#), or [Form 465H](#).
- The PDR must be retained in the mortgage loan file and be submitted to Freddie Mac through the ([bace API](#)) interface.

The appraiser must:

- Analyze the information in the PDR and review the photographs
- Identify the name of the property data collector in the body of the appraisal report



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- Report the effective date of the appraisal report as the date the appraiser developed the opinion of market value
- Complete the Appraisal Assignment Type fields, located in the Additional Comments section of [Form 70H](#), or [Form 465H](#) according to the requirements as shown below:

| Appraisal Assignment Type | |
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| Field Label | Required Entry |
| Appraisal Assignment Type | Hybrid |
| Subject Property Data Collection Type | Physical |
| Subject Property Data Collection Date | YYYY-MM-DD |
| Subject Property Data Workforce* *select the applicable identifier to describe the data collector who completed the PDR | <ul style="list-style-type: none">• Appraiser• AppraiserTrainee• RealEstateAgent• HomeInspector• InsInspector (Insurance Inspector)• Other |

Form 70 or Form 465 Upgrade Requirements

The appraiser must perform an interior and exterior inspection on Form 70H or [Form 465H](#) when one or more of the following conditions exist:

- The PDR does not provide sufficient information about both the interior and exterior physical characteristics of the subject property for an appraiser to develop a credible and adequately supported appraisal report.
- The appraiser cannot reconcile significant discrepancies (e.g. room count, living area, size, condition, etc.) among available data sources, including the PDR, to develop a credible and adequately supported appraisal report.

1J.5(c) Ineligible Transactions

Hybrid Appraisals are not eligible for the following transactions:

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| Fannie Mae (DU Transactions) | Freddie Mac (LPA Transactions) |
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| <ul style="list-style-type: none">• Two-to four- unit properties;• Manufactured homes;• Construction to-permanent loans (single close and two-close);• DU loan casefiles that receive an ineligible recommendation. | <ul style="list-style-type: none">• Two-to four- unit properties• Proposed Construction• Co-op units• Manufactured Homes.• Construction Conversion Mortgages |
|--|--|

1J.6 Definition of Market Value

Market value is the most probable price which a property should bring in a competitive and open market under all conditions request to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sales as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are motivated;
- Both parties are well informed or well advised, and each acting what they considers in their own best interest;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangement comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Adjustments to the comparable sales must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs that are normally paid by sellers as a result of tradition or law in a market area; those costs are readily identifiable because the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar costs of the financing or concession, but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.



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1J.7 Appraisal Review

The following must be analyzed:

- Current contract for sale for purchase money transactions;
- Current offering or listing sale for both purchase and refinance transactions when the home was listed for sale;
- Comparable sales for both purchase and refinance transactions; and
- Current ownership for the subject property.

In addition, the following must be validated:

- The property meets Newrez's eligibility criteria; and
- The appraiser has provided an accurate and reliable opinion of value that reflect the market value, condition, and marketability of the subject property in compliance with Newrez requirements.

All descriptions of the property and market area must be factual, unbiased and use specific terms.

1J.7(a) Subject Section

The appraiser must identify the subject property by its complete property address and legal description.

The appraiser must provide the physical property address, including the unit number for a condo, in a format that conforms to the USPS address standards in the *Postal Addressing Standards (Publication 28)* for complete addresses. Address standards can be found at usps.com. The subject address must be populated consistently throughout the form.

When the legal description is lengthy, the appraisal may attach the full legal description as an addendum to the appraisal report. The appraiser must also identify the property rights to be appraised.

The appraiser must research and identify whether the subject property is currently for sale or if it has been offered for sale in the twelve months prior to the effective date of the appraisal. If the subject property has been offered for sale, the appraiser must report the:

- Offering price(s);
- Offering date(s); and
- Data source(s) used.



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1J.7(b) Contract Section

The appraiser must be provided with a copy of the complete, ratified contract. The appraiser must indicate whether an analysis was or was not performed on the contract for sale. If an analysis was performed, the appraiser must provide the results of the analysis. If an analysis was not performed, the appraiser must provide an explanation why the analysis was not performed.

It is not necessary to provide the appraiser with an updated sales contract unless the updated terms impact the physical description or condition of the property. In such cases an updated appraisal would be required.

For UAD compliant appraisals, the appraiser must also indicate the type of sale for the transaction. The appraiser may report any other relevant information regarding the sale type, including whether more than one sale type applies.

The appraiser must:

- Enter a contract amount and contract price if a purchase transaction; and
- Indicate if the property seller is the owner of record.

The appraiser must indicate if there is any financial assistance such as loan charges, sales concessions or gift, or down payment assistance to be paid by any party on behalf of the borrower, including any closing costs or other payments from the seller or other third party. If there is financial assistance, the appraiser must:

- Report the total dollar amount of the loan charges or concessions that will be paid (if the appraiser is not able to determine a dollar amount for all or part of the financial assistance, the number must reflect the total known dollar amount); and
- Provide a description of items being paid.

Financial assistance or concessions paid by any party on behalf of the borrower includes both monetary and non-monetary items, including below- market-rate financing, gifts of personal property, and payment of property taxes or HOA dues for a period of time.

1J.7(b)(i) Owner of Record

| Transaction Type | Requirements |
|------------------|--------------|
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| Purchase | <ul style="list-style-type: none"> Confirm the property seller listed on the sales contract is the owner of record of the subject property; If the transaction involves the sale of land separate from the dwelling, the property seller listed on the sales contract for the land is the owner of record for the land; or When the transaction is part of a corporate relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract. The appraiser must comment. <p>Acceptable sources of confirmation include copies of recorded deeds, tax statement or a chain of title on the title commitment.</p> |
| Refinance | The borrower is an owner of record of the subject property. |
| Land Contract | The property seller is the vendor on the recorded land contract and the owner of record of the subject property; and the borrower is a vendee on the recorded land contract. |
| If the seller is a corporation, partnership, or any other business entity, ensure the borrower is not an owner of the business entity selling the subject. | |

1J.7(c) Neighborhood Analysis

The neighborhood characteristic and trends influence the value of one- to four-unit properties. The appraiser must perform an objective neighborhood analysis by identifying neighborhood boundaries, neighborhood characteristics, and the factors that affect the value and marketability of the properties in the neighborhood.

1J.7(c)(i) Neighborhood Boundaries

The appraiser should provide an outline of the neighborhood boundaries, which should be clearly delineated using North, South, East, and West. These boundaries may include, but are not limited to streets, legally recognized neighborhood boundaries, waterways, or other natural boundaries that define the separation of one (1) neighborhood from another. Appraisers should not reference a map or other addendum as the only example of the neighborhood boundaries.



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1J.7(c)(ii) Neighborhood Characteristics

Neighborhood characteristics can be addressed by the types of structures (detached, attached) and architectural styles in the neighborhood (such as row or townhouse, colonial, ranch, Victorian); current land use (such as single-family residential, commercial, or industrial); typical site size (such as 10000 sf, or 2.00 ac); or street patterns or design (such as one-way street, cul-de-sac, or court).

1J.7(c)(iii) Factors that Affect Value and Marketability of Properties in the Neighborhood

Factors that affect value and marketability of properties in the neighborhood can be addressed by such things as proximity of the property to employment and amenities, employment stability, appeal to the market, changes in land use, access to public transportation, and adverse environmental influences.

The appraiser must consider all of the value-influencing characteristics in the neighborhood and arrive at an appropriate neighborhood description and an opinion of value for the subject property, even if this requires more extensive research for particular property types or for properties in certain geographic locations.

An appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the subject property, based on the actions of typical buyers. The results of a neighborhood analysis enable the appraiser to not only identify the factors that influence the value of properties in the neighborhood, but also to define the area from which to select the market data to perform the sales comparison analysis.

In performing a neighborhood analysis, the appraiser:

- Collects pertinent data;
- Conducts a visual inspection of the neighborhood to observe its physical characteristics and determine its boundaries; and
- Identifies land uses and any signs that the land uses are changing.

The appraiser and underwriter must be aware of the varying conditions that characterize different types of neighborhoods. Conditions that are typical in certain neighborhoods may not be present in other neighborhoods. This does not mean that the existence of certain types of conditions or characteristics are unacceptable; rather it is an indication that they must be viewed in context with the



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nature of the neighborhood in which the subject property is located. Some neighborhoods may consist of a variety of property types that have different uses. Some properties may have mixed -uses, such as residential property that also have child-care facilities, a doctor's office, and other types of business or commercial uses. The presence of mixed-use properties or a variety of property types within a neighborhood should be viewed as a neighborhood characteristics that the appraiser considers when performing the neighborhood analysis and describing the neighborhood boundaries.

The appraiser must consider the influence of market forces, including but not limited to, economic, government, and environmental factors on property values in the neighborhood. Economic forces that must be considered include such things as the existence of vacant or boarded-up properties and the level of essential local support services. Environmental forces that must be considered include, but are not limited to, the existence of a hazardous waste site on or near the property and the proximity of an airport to the property, or the FEMA designated flood zone in which the property is located. Certain other factors that are not appraisal factors, such as the racial or ethnic composition of a neighborhood or the age or sex of the individuals who live in a neighborhood, must not be considered in the valuation process either partially or completely. Also no reference to any protected class of either the prospective owners or occupants of the subject property of the present owners or occupants of the properties in the vicinity of the subject should be considered or reported.

The appraiser must determine, analyze, and consider factors in the valuation process based on their identification of all forces or factors that have the potential to influence the value of the property. The appraiser must report neighborhood conditions in factual, specific terms and be impartial and specific in describing favorable or unfavorable factors in a neighborhood. If an appraiser can demonstrate by market evidence that a characteristic has an effect on the value or marketability of the properties in the neighborhood, he or she must consider it in the valuation process. The appraiser must not affect the use and value of a property.

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| Degree of Development and Growth Rate | <p>The degree of development of a neighborhood, referred to as "built-up", is the percentage of the available land in the neighborhood that has been improved. The degree of development of a neighborhood may indicate whether a particular property is residential in nature.</p> <p>When reviewing an appraisal on a property located in a rural or relatively undeveloped area, focus on the characteristics of the property, zoning, and</p> |
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| | <p>present land use to determine whether the property should be considered residential in nature.</p> <p>Because mortgages secured by agricultural-type properties, undeveloped land, or land-development-type properties, the appraisal must be reviewed for properties that have sites larger than those typical for residential properties in the neighborhood. Special attention must be given to the appraiser's description of the neighborhood, zoning, the highest and best use determination, and the degree of comparability between the subject property and the comparable sales. If the subject property has a significantly larger site than the comparable sales used in the appraiser's analysis, the subject property may not be a typical residential property for the neighborhood.</p> | | |
| Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time | The appraiser must report the primary indicators of market conditions in the subject neighborhood by noting: | | |
| | Trend of Property Value | Supply of Properties in Subject Neighborhood | Marketing Time |
| | Increasing | Shortage | Under three months |
| | Stable | In-balance | Three- to six-months |
| | Declining | Over-supply | Over six months |
| | <p>The appraiser's analysis of a property must take into consideration all factors that affect value. This is particularly important for neighborhoods that are experiencing significant fluctuations in property values. The underwriter must confirm that the appraiser analyzes listing and contract sales as well as closed or settled sales and uses the most recent and similar sales available as part of the sales comparison approach.</p> <p>Special attention must be paid to sales or financing concessions in neighborhoods that are experiencing either declining property values, an over-supply of properties, or marketing times over six (6) months, which must be explained by the appraiser.</p> | | |

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| | <p>When completing the One-Unit Housing Trends, the trends must be reflective of those properties deemed to be competitive to the subject property. If the neighborhood contains properties deemed to be competitive to the property being appraised. If the neighborhood contains properties that are truly competitive, the all the properties within the neighborhood would be reflected in the One-Unit Housing Trends section. However, when a segmented market is present, the One-Unit Housing Trends portion must reflect those properties from the same segment of the market as the subject property. This ensures that the analysis is being performed is based on competitive properties. For example, if the neighborhood contains a mix of property types not considered competitive by market participants, then a segmented market is present.</p> |
| Price Range and Predominant Price | <p>The appraiser must indicate the price range and predominant price of properties in the subject neighborhood. The price range must reflect high and low prevailing prices for one-unit properties, two- to four-unit properties and condo units, depending on the property type being appraised. Isolated high and low extremes should be excluded from the range, which means that the predominant price will be that which is the most frequently found in the neighborhood. The appraiser may state the predominant price as a single figure or as a range, if more appropriate.</p> |
| Over-improvements | <p>An over-improvement is an improvement that is larger or costlier than what is typical for the neighborhood. Furthermore, a home with an in- ground pool in an area where pools are not typical may also be considered an over-improvement. The appraiser must comment on over- improvements and indicate their contributory value in the Sales Comparison Approach.</p> <p>Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range, such as a property with an in-ground pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements.</p> <p>The fact that the property is an over-improvement does not necessarily make the property ineligible. Appraisal reports on properties with over-improvements that may not be acceptable to the typical purchaser must be</p> |



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| | reviewed to ensure that only the contributory value of the over-improvement is reflected in the analysis. |
| Age Range and Predominant Age | <p>The appraiser must indicate the age range and predominant age of properties in the subject neighborhood. The age range should reflect the oldest and newest ages for one-unit properties, two- to four-unit properties, or condo units, depending on the property. Isolated high and low extremes should be excluded from the range. The predominant age is the one that is the most common or most frequently found in the neighborhood. The appraiser may state the predominant age as a single figure or as a range, if more appropriate.</p> <p>When the age of the subject property is significantly different than the predominant age range, the appraiser must explain why the age is outside the range and comment on the marketability of the property and the adjustments that were made in the Sale Comparison Approach adjustment grid to reflect that condition.</p> |
| Present Land Use | <p>The appraiser must report the relative percentages of the developed land in the neighborhood when discussing the present land use, rather than simply referring to the zoning classifications. The appraiser must separately report the percentage of developed one-unit sites and two- to four-unit sites. In addition, if there is a significant amount of undeveloped land in the neighborhood, the appraiser must include comments to confirm that he or she adequately described the neighborhood. If the present land use in the neighborhood is not one of those listed on the appraisal, such as parkland, the appraiser also must indicate the type of land use and its related percentage. The total of the types of land uses must equal 100%.</p> <p>Typically, dwellings best maintain value when situated in neighborhoods consisting of similar dwellings. However, some factors that are typical of a mixed -use neighborhood, such as easy access to employment centers and a high level of community activity, can actually enhance the market value of the property through increased buyer demand. Neighborhoods may frequently reflect a blend of residential and nonresidential land uses.</p> |



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| | When different land uses and property types are present in a neighborhood, it should be considered a neighborhood characteristic that the appraiser needs to take into consideration when performing the neighborhood analysis and defining the neighborhood boundaries. To confirm that any positive or negative effects of the mixed land uses are reflected in the sale comparison analysis, the appraiser should select comparable sales from within the same neighborhood, whenever possible. If this is not possible, the appraiser may need to make neighborhood or location adjustments for any sales that are not subject to the same neighborhood characteristic. |
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1J.8 Site Section

The property site should be of a size, shape, and topography generally acceptable in its market area. It must have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in their analysis and evaluation.

The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the subject property.

1J.8(a) Site Analysis

The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property. For example, the appraiser may not appraise only five (5) acres of an un-subdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel.

Refer to our Product Summaries for restrictions.

1J.8(b) Subject Property Zoning

The appraiser must report the specific zoning class, along with a general statement as to what the zoning permits, such as one- or two-unit, when he or she indicates a specific zoning such as R-1 or R-2. The appraisal must indicate whether the subject property presents:

- A legal conforming use;
- A legal non-conforming (grandfathered use);



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- Illegal use under the zoning regulations; or
- That there is no local zoning.

The improvements should constitute a legal conforming use of the land. A property that constitutes a legal non-conforming use of the land may be eligible.

| Fannie Mae DU | Freddie Mac LPA |
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| <ul style="list-style-type: none">• If the property is a 1-4 unit property or located in a PUD and the use of the land and the appraisal analysis does not reflect any adverse effect that the non-conforming use has on the value and marketability of the property.• If the property is a condo unit and the improvements can be rebuilt to current density in the event of its partial or full destruction. One of the following must be obtained:<ul style="list-style-type: none">○ Copy of the applicable zoning regulations; or○ A letter from the local zoning authority authorizing reconstruction to current density. | <p>If the property is a 1-4 unit property or located in a condo or PUD and the use of the land and the appraisal analysis does not reflect any adverse effect that the non-conforming use has on the value and marketability of the property.</p> |

Properties subject to certain land-use regulations, such as coastal tideland or wetland laws, that create setback lines or other provisions preventing the reconstruction or maintenance of the property improvements if damaged or destroyed are ineligible. The intent of these types of land-use regulations is to remove existing land uses and stop land development, including the maintenance or construction of seawalls, within specific setback lines.

1J.8(c) Highest and Best Use

Properties must represent the highest and best use for the site. If current improvements do not represent the highest and best use of the property, the property is unacceptable. If the current improvements clearly



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do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report.

The appraiser determines highest and best use of a site as reasonable and probable use that supports the highest present value. For improvement to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible and must provide more profit than any other use of the site would generate.

The appraiser's highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognized that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements contribute to the value of the subject reports so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

1J.8(d) Multiple Parcel Requirements

| Fannie Mae DU | Freddie Mac LPA |
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| <p>The subject property may consist of more than one (1) adjoining parcel subject to all of the following requirements:</p> <ul style="list-style-type: none">• Each parcel must be conveyed in its entirety;• Each parcel must have the same basic zoning (for example; residential, agricultural);• Only one parcel may have a dwelling unit (limited nonresidential improvements such as a garage are acceptable).• An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable;• The mortgage must be a valid first lien on each parcel; and | <p>The subject property may consist of more than one (1) adjoining parcel subject to all of the following requirements:</p> <ul style="list-style-type: none">• Each parcel must be conveyed in its entirety;• Each parcel must have the same basic zoning (for example; residential, agricultural);• Only one parcel may have a dwelling unit• Limited non-residential improvements such as garages or outbuildings are acceptable on any parcel);• An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable;• An accessory unit is only allowed on the parcel |

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| <ul style="list-style-type: none"> Two separate deeds are not permitted. <p>Parcels must be adjoined to each other, with the following exception:</p> <ul style="list-style-type: none"> Parcels are divided by a road; and Parcel without a residence is non-buildable (such as waterfront properties where the parcel without the residence provides access to the water). Loan file must contain evidence from the local municipality that the lot is non-buildable. Evidence may not be supplied by the appraiser. | <ul style="list-style-type: none"> that contains the residence; The mortgage must be a valid first lien on each parcel; Two separate deeds are not permitted; The site description must accurately describe the land and any improvements included in each of the parcels; <p>Parcels must be adjoined to each other, with the following exception:</p> <ul style="list-style-type: none"> Parcels are divided by a road; and Parcel without a residence is non-buildable (such as waterfront properties where the parcel without the residence provides access to the water). Loan file must contain evidence from the local municipality that the lot is non-buildable. Evidence may not be supplied by the appraiser. |
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1J.8(e) Hobby Farm

Newrez will accept property that may have an additional use as a “hobby farm.” Examples include semi-rural or rural property, residential in nature, where some of the acreage is used to grow grapes, have a small orchard, or a small barn and riding rings, etc. The requirements for the property to be considered are:

- Property must be residential in nature;
- Single-family, owner occupied property;
- Property must be appraised as residential real estate, with commercial/agricultural value not included in the appraiser’s market value;
- Appraiser must comment on any affect the commercial/agricultural use has on marketability and compatibility with the subject’s neighborhood; the market value of the property is primarily a function of its residential characteristics rather than of the business use;
- Appraiser must state property’s highest and best use is as residential and supply photos of the non-residential use;



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- Agricultural use should generally not exceed 20% of the total acreage;
- Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value, provided the outbuildings are typical of other residential properties in the subject area, and the appraiser can demonstrate (via comparable sales) that there is an active, viable market;
- Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals may indicate that property is agricultural in nature, and regardless of whether the appraiser assigns a value, would be ineligible for financing;
- Gross income should be minimal; any loss must be considered in the DTI;
- Commercial use should not result in any significant alterations; and
- The commercial/agricultural use must be allowed by zoning and the subject must conform to zoning.

1J.8(f) Adjoining Properties

The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

1J.8(g) Site Utilities

The utilities serving the subject property must meet community standards. If public sewer and/or water are not supplied and regulated by the local government, community or private well and septic facilities must be available and used by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Private well or septic facilities must be located on the subject site, unless the subject property has the right to access off-site private facilities and there is an adequate, legally binding agreement for its access and maintenance.

If there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraiser must address the effect of the hazards on the value and marketability of the subject property. See [1J.8 \(n\)](#) Environmental Hazards.

1J.8(h) Off-site Improvements

Off-site improvements include, but are not limited to, streets, alleys, sidewalks, curbs and gutters and streetlights. The subject property should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by the area residents. If a property fronts on a street that is not typical of those found in the community, the appraiser must address the effect of that location on the



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value and marketability of the subject property.

The presence of sidewalks, curbs and gutters, streetlights, and alleys depends on local custom. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the value and marketability of the subject property.

1J.8(i) Community Owned or Privately Maintained Streets

1J.8(i)(i) Fannie Mae DU

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- Responsibility for payment of repairs, including each party's representative share,
- Default remedies in the event a party to the agreement or covenant fails to comply with their obligations, and
- The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the above requirements, the Client must indemnify Newrez/Fannie Mae against all losses incurred by Newrez/Fannie Mae due to the physical condition of the street or to establish and or retain access to the road.

1J.8(i)(ii) Freddie Mac LPA

The appraiser should use comparable sales with street access, ownership, maintenance, and materials similar to the subject property. When differences in street access, ownership, maintenance, or materials exist between the subject property and a comparable sale, the appraiser must justify and support adjustments, or lack of adjustments, made to the comparable sale. The appraiser should



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evaluate and explain the effect these differences have on the subject property's value or marketability.

Mutual easement agreements agreement must allow all present and future owners and their heirs, successors, and assigns forever, unlimited use and enjoyment of the driveway or party wall without any restriction other than restriction by reason of the mutual easement owners' rights in common and duties for joint maintenance.

1J.8(j) Special Flood Hazard Areas

The appraiser must indicate on the appraisal report whether or not the property is located in a Special Flood Hazard Area as identified by the Federal Emergency Management Agency (FEMA). The appraiser must also indicate the specific FEMA flood zone, map number, and map date.

1J.8(k) Gas, Oil, and Subsurface Mineral Rights

Properties with gas, oil and/or subsurface mineral rights are acceptable if common to the area and:

- The exercise of such rights will not result in damage to the subject property;
- The exercise of such rights will not result in the impairment of the use or marketability of the subject property; and
- There is no right of surface or subsurface entry within 200 feet of the residential structure.

1J.8(l) Improvements

The appraisal must provide a clear, detailed, and accurate description of the improvements. The description must be as specific as possible, commenting on such things as needed repairs, additional features, and modernization, and should provide supporting addenda, if necessary. If the subject has an accessory dwelling unit, the appraisal should describe it.

1J.8(l)(i) Conformity of Improvement to Neighborhood

The subject improvements should conform to the neighborhood in terms of age, type, design, and materials used for its construction. If there is market resistance to a property because its improvements are not compatible with the neighborhood or with the requirements of the competitive market due to adequacy of plumbing, heating, or electrical services; design; quality; size; condition; or any other reason directly related to market demand, the appraiser must address the impact to the value and marketability of the subject property. However, many older neighborhoods have favorable heterogeneity in architectural styles, land use, and age of housing. This variety may be a positive



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marketing factor.

1J.8(I)(ii) Unique Housing Types

Special consideration must be given to properties that represent unique housing for the subject neighborhood. Loans secured by unique or nontraditional types of housing, including, but not limited to, earth houses, geodesic domes, and log homes, are eligible provided the appraiser has adequate information to develop a reliable opinion of market value. It is not necessary for one (1) or more of the comparable sales to be of the same design and appeal as the subject property, although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property. Both the appraiser and underwriter must independently determine whether there is sufficient information available to develop a reliable opinion of market value. This will depend on the extent of the differences between the unique property and the more traditional types of houses in the neighborhood and number of such properties that have already been sold in the neighborhood.

When appraising unique properties, if the appraiser cannot locate recent comparable sales of the same design and appeal the property is eligible if the appraiser is able to determine sound adjustments between the comparable sales that are available the subject property and can demonstrate the marketability of the property based on:

- Older comparable sales;
- Comparable sales in competing neighborhoods;
- The existence of similar properties in the market area; and
- Any another reliable market data.

There is no minimum size or living area requirements for properties unless specified by product.

1J.8(I)(iii) Actual and Effective Age

There is no restriction on the age of eligible dwellings. Older dwellings that meet the general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood.

The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained will generally have an effective age somewhat lower than its actual age. A property that has an effective age higher than its actual age probably has not been well-maintained or may have a particular physical problem. In such cases, pay particular



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attention to the condition of the subject property in its review of any appraisal report. When the appraiser makes adjustments for the "Year Built," they must provide an explanation for the adjustment.

1J.8(I)(iv) Remaining Economic Life

Newrez does not have any requirements related to the remaining economic life of the property. However, related property deficiencies must be addressed in the improvements analysis and comments on the condition of the property. The appraiser is not required to complete the remaining economic life. If the remaining economic life is reported, it need not be considered because any related property deficiencies will be addressed in the improvements analysis.

1J.8(I)(v) Energy Efficient Improvements

An energy efficient property is one that uses cost effective design, materials, equipment, and site orientation to conserve non-renewable fuel.

Special energy saving items must be recognized in the appraisal process and noted on the appraisal report. The nature of these items and their contribution to value will vary throughout the country due to climactic conditions and differences in utility costs, and overall market reaction to the cost of the feature.

Appraisers must compare energy efficient features of the subject property to those of comparable properties in the Sales Comparison Approach. Appraisers may augment the Sales Comparison Approach in evaluating any impact (either positive or negative) to the value of energy efficiency improvements with either the income or cost approach; however, appraisers cannot adjust the value of the property:

- On a mechanical dollar-for-dollar basis on equipment and installation costs, or the discounted present value of expected cost savings of the equipment over the useful life of the equipment, or
- Solely based on the cost or income approach. The appraiser must also analyze the market reaction to the energy efficient feature.

The following table summarized some of the specific underwriting criteria for appraisals that include Solar Panels.

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| IF the solar panels are... | THEN the appraiser.... |
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| Owned (cash purchase, consumer debt not collateralized by solar panels or debt paid-off) | May include the solar panel value based on standard appraisal requirements |
| Financed (panels as fixture to real estate) | May consider the solar panels in the value of the property (based on standard appraisal requirements (provided that the panels may not be repossessed for default on the financing terms. |
| Financed (panels as personal property) | May not provide contributory value of the solar panels towards the appraised value, because the panels are collateral for another debt. |
| Leased or Covered by a Power Purchase Agreement | May not include the value of the solar panels in the appraised value of the property. |

See Chapter 1D Property Types, Properties with Solar Panels for additional eligibility requirements.

1J.8(I)(vi) Layout and Floor Plans

Dwellings with unusual layouts, peculiar floor plans generally have limited market appeal. A review of the room list and floor plan for the dwelling unit may indicate an unusual layout such as bedrooms on a level with no bath, or a kitchen on a different level from the dining room. If the appraiser indicates that such inadequacies will result in market resistance to the subject property, he or she must make appropriate adjustment to reflect this in the overall analysis. However, if market acceptance can be demonstrated through the use of comparable sales with the same inadequacies, no adjustments are required.

1J.8(I)(vii) Gross Living Area

Appraisers must follow the Square Footage-Method for Calculating: (ANSI® Z765-2021) when measuring, calculating, and reporting the gross living area and non-gross living areas (basement, additional structures, etc.) of the subject property. Appraisals requiring interior and exterior inspections must follow this standard; interior and exterior appraisals performed without using this standard will not be acceptable.



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The most common comparison for one-unit properties, including units in PUD, condo projects, is the above-grade gross living area and below-grade square footage. The appraiser must be consistent when calculating and reporting the finished above-grade room count and the square feet of gross living area that is above-grade. The need for consistency also applies from report to report. For example, when using the same transaction as a comparable sale in multiple report, the room count, and gross living area should not change.

When using sketching or 3D scanning software, the resulting output must also conform to the Square Footage Method for Calculating: ANSI® Z765-2021 standards.

When calculating gross living area:

- The appraiser should use the exterior building dimensions per floor to calculate the above-grade gross living area of a property;
- For units in a condominium project, the appraiser should use interior perimeter unit dimensions to calculate the gross living area; and
- Garages and basements, including those that are partially above-grade, must not be included in the above-grade room count.

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for gross living area. A level is considered below grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count. Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the finish is high. The appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustment for them in the Sale Comparison Approach adjustment grid.

For consistency in the analysis, the appraiser should compare above-grade areas to above-grade areas and below-grade areas to below-grade areas. The appraiser may need to deviate from this approach if the style of the subject property or any of the comparable sales does not lend itself to such comparisons. For example, a property built into the side of a hill where the lower level is significantly out of ground, the interior finish is equal throughout the house, and the flow and function of the layout is accepted by the local market, may require the gross living area to include both levels. However, in such instances, the appraiser must be consistent throughout the appraisal in their analysis and explain the reason for the deviation, clearly describing the comparisons that were made.



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Detached structures with finished square footage must be reported on a different line in the adjustment grid and not included as part of the subject's reported gross living area.

When the subject property has an area that does not meet the ANSI minimum ceiling height requirements, the additional square footage must be reported on an additional line in the adjustment grid and an appropriate market adjustment applied, if warranted. Additionally, the appraiser must provide an explanation in the report for how this area was handled in order to comply with the ANSI standard and also acknowledge any contribution of the additional square footage.

If the appraiser is unable to adhere to the Square Footage-Method for Calculating: ANSI® Z765-2021 standard, they must enter "GXX001" at the beginning of the Additional Features field of the appraisal and provide an explanation of why they were not able to comply. For example, if the appraiser is performing an appraisal in a state that requires adherence to a different measuring standard, then the loan may still be eligible.

1J.8(I)(viii) Gross Building Area

The gross building area:

- Is the total finished area including any interior common areas, such as stairways and hallways based on exterior measurements;
- Is the most common comparison for two- to four-unit properties;
- Must be consistently developed for the subject property and all comparable sales used in the appraisal;
- Must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms, etc.; and
- Cannot count exterior common areas such as open stairways.

The use of other comparisons for two-to four-unit properties, such as the total above-grade and below-grade areas as discussed above are acceptable as long as the appraiser explains the reasons he or she did not use a gross building area comparison and clearly describes the comparisons used.

1J.8(I)(ix) Accessory Dwelling Units (ADU)

When reporting the living area of an ADU, it should not be included with the gross living area



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calculation of the primary dwelling. It should be reported and adjusted for on a separate line in the grid, unless the ADU is contained within or part of the primary dwelling with interior access and above grade. If a standalone structure does not meet the ADU minimum requirements, it should be treated as any other ancillary structure and included as a separate line item in the sales comparison approach then adjusted based on its contributory value to the subject property.

The appraiser must include the following information on the ADU:

- General condition of the unit
- Square Feet of finished area
- Total number of rooms, including number of bedrooms and baths
- Must indicate the ADU is allowed per zoning and land use

The following applies when the ADU complies with local zoning, legal non-conforming zoning, or no zoning.

| ADU Complies with Local Zoning, Legal Non-conforming Zoning or No Zoning | |
|--|---|
| Fannie Mae DU | Freddie Mac LPA |
| <ul style="list-style-type: none">• At least one (1) comparable sale must be provided to demonstrate that the improvements are typical for the market. An aged, settled sale will qualify as a comparable, and an active listing or under contract sale is acceptable as a supplement to show marketability. | <ul style="list-style-type: none">• At least one comparable sale with an ADU, must be provided to demonstrate that the improvements are typical for the market. If a recent comparable sale is not available, aged sales with an ADU may be used as a comparable sale or as supporting marketing data;• The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to ADU.• If a lease is not available, the ADU rental analysis must be used to determine net rental income.• If there are no comparable sales with an ADU available, a comparable sale in the subject |



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| | <p>neighborhood without an ADU as long as the appraiser can justify and support such use.</p> <ul style="list-style-type: none"> • A one-unit property with an ADU generating rental income being used to qualify requires an interior and exterior appraisal report. An ACE is not permitted. |
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If the property contains an ADU that is not allowed under zoning, it may be eligible under the following conditions.

| The Property Contains an ADU Not Allowed Under Zoning | |
|---|---|
| Fannie Mae DU | Freddie Mac LPA |
| <ul style="list-style-type: none"> • The illegal use conforms to the subject neighborhood and to the market. • The property must be appraised based upon its current use. • The appraiser must report state that the improvements represent a use that does not comply with zoning (illegal use). • At least two (2) comparable sales with an ADU the same non-compliant zoning and land use requirements are provided demonstrating that the improvements are typical for the market area. Aged, closed sale(s) with the same non-compliant zoning used are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three (3) closed sales. • Confirmation that the existence will not jeopardize future hazard insurance claims that might need to be filed for the property. | <ul style="list-style-type: none"> • 1-unit ADU • The illegal use conforms to the subject neighborhood and to the market. • The property must be appraised based upon its current use. • The appraiser must report that the improvements represent a use that does not comply with zoning (illegal use). • At least two (2) comparable sales with an ADU and the same non-compliant zoning and land use requirements are provided demonstrating that the improvements are typical for the market area. • Confirmation that the existence will not jeopardize future hazard insurance claims that might need to be filed for the property. • A one-unit property with an illegal ADU cannot use rental income to qualify. An interior and exterior appraisal report is required. An appraisal waiver is not |

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| | permitted. |
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1J.8(l)(x) Additions without Permits

If the appraiser identifies addition(s) that do not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

1J.8(l)(xi) Properties with Outbuildings

Special consideration must be given to properties with outbuildings to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Sales Comparison Approach adjustment grid.

| Type of Outbuilding | Acceptability |
|---|--|
| Minimal outbuildings, such as small barns or stable, that are of relatively insignificant value in relation to the total appraised value of the subject property. | The appraiser must demonstrate that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists through use of comparable sales with similar outbuildings. |
| An atypical minimal outbuilding. | The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it. |
| Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals | The presence of the outbuildings may indicate that the property is agricultural in nature. It must be determined whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings. |

1J.8(m) Selection of Condition, Quality and Other Characteristic Ratings

The Condition and Quality ratings must be based on a holistic view of the property and any improvements. When selecting the Condition and Quality ratings, an appraiser must:



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- Consider all improvements to determine an overall Condition and Quality rating;
- The appraiser should select the rating that best reflects the property as a whole and in its entirety; and
- Describe and the subject property as of the effective date of the appraisal, based on its own merits. The rating should not be selected on how the property relates or compares to other properties in the neighborhood. Additionally, the Condition and Quality ratings for the comparable sales must be rated in the same manner.

These requirements also apply to all other ratings or descriptions, including the View and Location.

When an appraiser selects a rating and/or description of the subject property for a sales transaction, the selected rating and/or description must remain the same when reflecting that specific transaction. For example, if a C4 rating is selected for the sale of the subject property, then that property remains a C4 when using those specific sales as a comparable sale in future reports. When a comparable sale is used in a subsequent appraisal, the ratings and descriptions of that property should not change from one (1) appraisal to the next when it reflects the same sale transaction.

Properties can have the same rating or description and still require an adjustment. This does not only apply to Quality ratings and can apply to other ratings or descriptions as well. For example, all water views may not be equal. An adjustment should be made and explained.

1J.8(m)(i) Property Condition Requirements

- The appraiser report must express and opinion about the condition of the improvements based on the factual data of the improvement analysis;
- Appraisals based on interior and exterior inspections must include complete visual inspections of the accessible areas of the property;
- Appraisers are not responsible for hidden or unapparent conditions;
- Appraisal reports must reflect adverse conditions that were apparent during the inspection or discovered while performing research, such as, but not limited to, needed repairs, deterioration, or the presence of hazardous wastes, toxic substances, or adverse environmental conditions;
- Detrimental conditions of the improvements must be reported even if the conditions are typical for competing properties **or on the subject property site**;
- The appraiser must consider and describe the overall condition and quality of the property



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- improvements;
- The appraiser must identify:
 - Items that require immediate repair; and
 - Items where maintenance may have been deferred, which may or may not require immediate repair.
- The Additional Comments section must address needed repairs and physical, functional, or external inadequacies.

The appraiser must consider and describe the overall condition of the property improvements.

1J.8(m)(ii) Detrimental Conditions

The appraiser must note the presence of detrimental conditions, such as expansive soils, underground mines or subsidence in the immediate area or on the subject property site. If the detrimental conditions are located on the subject property site, the appraisal report must be made subject to an inspection by an appropriately licensed professional or another person trained in the particular field of concern to determine if a repair or alteration is required. The appraiser must also consider the effect the condition(s) may have on estimating the subject property's market value and/or any effect on marketability.

The appraiser should be specific about needed repairs, additional features, modernization, etc., and should provide a supporting addenda, if necessary. For any appraisal report that is made subject to an inspection(s) due to a detrimental condition(s), the mortgage file must include evidence of repair, alteration or an inspection report that indicates the condition does not require repair or alteration.

1J.8(m)(iii) Property Condition Ratings

For UAD compliant appraisals, the appraiser must assign one (1) of the following standardized Condition ratings in the table below when identifying the condition of the improvements for the subject property and comparable sales.

| Rating | Description |
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| C1 | The improvements have been very recently constructed and have not previously been occupied. The entire structure and all components are new, and the dwelling has no physical depreciation. |

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| | <p>Note: Newly constructed improvements that feature recycled materials and/or components can be considered a new dwelling provided that the dwelling is placed on a 100% new foundation and the recycled materials, and the recycled components have been rehabilitated/re-manufactured into like -new condition. Recently constructed improvements that have not been previously occupied are not considered "new" if they have any significant physical depreciation (newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).</p> |
| C2 | <p>The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction.</p> |
| C3 | <p>The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well-maintained.</p> |
| C4 | <p>The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building component have been adequately maintained and are functionally adequate.</p> |
| C5 | <p>Improvements feature obvious deferred maintenance and are in need of some significant repairs.</p> <p>Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability is somewhat diminished due to condition, but the dwelling remains usable and functional as a residence.</p> |
| C6 | <p>The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components.</p> |



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1J.8(m)(iv) Identifying Property Condition

It would be inappropriate to select either a lower or higher overall rating on the basis of one (1) or two (2) minor inferior or superior areas of the property improvements. However, the C6 rating is an exception because it indicates that the property impacted by one (1) or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. If any portion of the dwelling is rated a C6, the whole property must be rated a C6.

Properties with a condition rating of C1, C2, C3, or C4 are acceptable in "as is" condition. Properties with a condition rating of C5 or C6 in "as is" condition or "subject to repairs" are not acceptable.

It is acceptable for an appraisal to be completed subject to repairs or alterations required for the subject property to be rated C4 (or better). If the appraisal is completed subject to repairs or alterations, the Condition rating must reflect the overall condition of the subject property as if the repairs or alterations have been completed (C4 or better).

Examples of deficiencies that indicate the property is in C5 or C6 condition include, but are not limited to:

- Active roof leaks
- Missing or damaged exterior siding or soffits that would allow water or other elements to enter the dwelling
- Missing or damaged interior drywall or plaster such that the functional utility of the subject property is negatively impacted
- Standing water in the property, water seepage/intrusion or significant plumbing leaks
- Uncapped wiring
- Curled, cupped, or missing roof shingles
- Damaged or unfinished floor coverings such that the subfloor is exposed in one or more rooms such that the functional utility of the subject property is negatively impacted
- Damaged or failing foundations
- A mechanical system where it is apparent it has exceeded its expected life or mechanical systems that are non-functional, or
- A sanitary system with evidence of failure

Properties with a C5 or C6 condition at time of inspection should be appraised subject to all repairs and



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alterations necessary to bring the property into C4 (or better) condition. The Condition rating on the appraisal report must show C4 (or better) as if the repairs or alterations have been completed.

An Appraisal Update/Completion Report (Form 1004D/Form 442) must be completed prior to closing or loan purchase.

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| C5 Rating | <p>The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability are somewhat diminished due to condition, but the dwelling remains useable and functional as a residence.</p> <p>Some significant repairs are needed to the improvements due to the lack of adequate maintenance. It reflects a property in which many of its short-lived building components are at the end of or have exceeded their physical life expectancy, but remain functional.</p> |
| C6 Rating | <p>The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components.</p> <p>Substantial repairs are needed to the improvements due to the lack of adequate maintenance or property damage. It reflects a property with conditions severe enough to affect the safety, soundness, or structural integrity of the improvements.</p> |

Existing properties with minor needed repairs or deficiencies or deferred maintenance can allow an appraisal report to be completed “as is” . The appraiser must make appropriate adjustments for these conditions in the appraisal report, when necessary. Examples of acceptable minor needed repairs or deficiencies, or deferred maintenance items include, but are not limited to:

- Worn floor finishes or coverings
- Minor cracks in windows
- Minor damage to interior walls



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- Damaged or missing interior doors
- Damaged or missing window screens or cabinetry doors
- Missing handrails
- Damaged or deteriorating countertops
- Missing hardware such as handles
- Missing light fixtures, electrical panel/breaker box covers, electrical switches or faceplates
- Damaged or missing trim
- Minor plumbing leaks that do not cause damage (such as dripping faucets) or
- Deteriorated sidewalks

1J.8(m)(v) Not Updated, Updated, and Remodeled

For appraisals required to be completed using the UAD, as a subset of identifying the condition of the subject property, the appraiser must also identify the level of updating, if any, that the subject property has received by using the definitions in the table below.

| Level of Updating | Description |
|-------------------|---|
| Not Updated | <p>Little or no updating or modernization. This description includes, but is not limited to, new homes.</p> <p>Residential properties of 15 years of age or less often reflect an original condition with no updating if no major components have been replaced or updated. Those over fifteen years of age are also considered not updated if the appliances, fixtures, and finishes are predominantly dated. An area that is 'Not Updated' may still be well-maintained and fully functional, and this rating does not necessarily imply deferred maintenance or physical/functional deterioration.</p> |
| Updated | <p>The area of the home has been modified to meet current market expectations.</p> <p>These modifications are limited in terms of both scope and cost. An updated area of the home should have an improved look and feel, or functional utility. Changes that constitute updates include refurbishment and/or replacing components to meet existing market expectations. Updates do not include significant alterations to the</p> |



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| | existing structure. |
| Remodeled | <p>Significant finish and/or structural changes have been made that increase utility and appeal through complete replacement and/or expansion.</p> <p>A remodeled area reflects fundamental changes that include multiple alterations. These alterations may include some or all of the following: replacement of a major component (cabinet(s), bathtub, or bathroom tile), relocation of plumbing/gas fixtures/appliances, significant structural alterations (relocating walls, and/or the addition of square footage). This would include a complete gutting and rebuild.</p> |

1J.8(m)(vi) Appraisal Completed "As Is"

Appraisals may be based on the "as is" condition of the property provided existing conditions are minor and do not affect the safety, soundness, or structural integrity of the subject property. Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property. While such conditions generally do not rise to the level of a required repair, they must be reported. Examples of minor conditions and deferred maintenance include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass.

Condition Ratings C1, C2, C3, and C4, and as previously defined are eligible for delivery in "as is" condition. **Properties with the initial Condition Rating C5 and C6 indicate one or more deficiencies that impact safety, soundness, or structural integrity of the property. Therefore, the appraisal must be completed subject to completion of the deficient item(s).**

1J.8(m)(vii) Quality of Construction Rating

For UAD compliant appraisals, the appraiser must assign one (1) of the following standardized quality ratings in the table below when identifying the quality of construction for the subject property and comparable sales.

| Rating | Description |
|--------|---|
| Q1 | Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are |

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| | constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exception high-quality exterior refinement and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality. |
| Q2 | Dwellings with this quality rating are often custom designed for construction on an individual property owner's site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality. |
| Q3 | Dwellings with this quality rating are residences of higher quality build from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner's site. The design includes significant exterior ornamentation and interior that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from "stock" standards. |
| Q4 | Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades. |
| Q5 | <p>Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwellings feature a plain design using readily available or basic floor plans featuring minimal fenestration* and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive stock materials with limited refinements and upgrades.</p> <p>*Fenestration-the design and disposition of windows and other exterior openings of a building.</p> |
| Q6 | Dwellings with this quality rating are of basic quality and lower cost; some may not be |



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| | suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans, often utilizing the lowest quality building materials. Such dwellings are often built or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or nonexistent. Older dwellings may feature one (1) or more substandard or nonconforming additions to the original structure. |
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1J.8(m)(viii) Identifying Quality of Construction

The selected quality rating must reflect a holistic view of the quality of construction. However, a Q6 is an exception because it indicates that the property is impacted by one (1) or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. If any portion of the dwelling is rated a Q6, the whole property must be rated a Q6.

A Quality rating of Q6 is not acceptable. The issues that caused the Q6 rating must be cured prior to closing. Items that may be required to be cured include:

- Modifying the property to make it habitable for year-round occupancy;
- Upgrading electrical, plumbing, and other mechanical systems to community standards;
- Correcting substandard or nonconforming additions to the original structure; and
- Curing any other quality related items needed to make the subject property acceptable to typical buyers in the market area.

Newrez will close or purchase loans with an appraisal report with a Q1, Q2, Q3, Q4, or Q5 quality rating in either “as is” condition or “subject to repairs.”

An Appraisal Update and/or Completion Report (Form 1004D/442) must be completed prior to closing or loan purchase for any appraisal report “subject to repairs” prior to closing or purchase.

1J.8(m)(ix) Physical Deficiencies that Affect Safety, Soundness, or Structural Integrity of the Subject Property

The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations. In these



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instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final value. The revised appraisal report must be reviewed to confirm that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the alterations or repairs have been completed.

A certification of completion is required to confirm the necessary alterations or repairs have been completed prior to delivery of the loan.

1J.8(m)(x) Infestation, Dampness, Settlement

If the appraiser indicates evidence of wood boring insects, dampness or abnormal settlement, the appraiser must comment on the effect on the subject property's marketability and value. Provide either satisfactory evidence that the condition was corrected or a professionally prepared report, indicating that the condition does not pose any threat of structural damage.

1J.8(n) Environmental Hazards

Loans secured by properties affected by environmental hazards may be acceptable if the effect of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and the appraiser reflects any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazards.

In some circumstances, a particular environmental hazard may have a significant effect on the value of the subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data available, such as sales, contract sales, or active listings that are available to reflect the effect of the hazard. In such cases, the loan is not eligible.



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1J.8(n)(i) Appraisal Requirements

When the appraiser has knowledge of any hazardous condition, whether it exists in or on the subject property or on any site within the vicinity of the property, including but not limited to, the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, or radon gas, the appraiser must:

- Note the hazardous condition;
- Comment on any influence the hazard has on the property's value and marketability, if it is measurable through an analysis of comparable market data as of the effective date of the appraisal, or indicate that the comparable market data reveals no buyer resistance to the hazard; and
- Make appropriate adjustments in the overall analysis of the property's value.

The appraiser must consider and use comparable market data from the same affected area because the sales prices of settled sales, the contract sales prices of pending sales, and the current asking prices for active listings will reflect any negative effect on value and marketability of the subject property.

The appraiser is not considered to be an expert in the field of environmental hazards. The appraiser, however, has the responsibility to note any adverse conditions that were observed during the inspection of the subject property or information that he or she became aware of through the normal research involved in performing the appraisal.

1J.8(n)(ii) Disclosure Requirements

Any information regarding environmental hazards must be disclosed to the appraiser and note the loan file accordingly if the real estate broker, property seller, property purchaser, or any other party to the transaction informs Newrez that an environmental hazard exists in or on the property, or in the vicinity of the property.

Newrez will make the final decision about the need for inspections and the adequacy of the subject property. For example, because the appraiser is required to comment on the effect of a hazard on the value and marketability of the subject property, the appraiser would have to note when there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities. If Newrez has reason to believe that private well water that is on



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or available to a property might be contaminated as a result of the proximity of the well to hazardous waste sites, a "well certification" would be required to determine whether the water meets community standards.

1J.8(o) Sales Comparison Approach

The sales comparison approach to value is an analysis of comparable sales, contract sales, and listings of properties that are the most comparable to the subject property.

The appraiser's analysis must take into consideration all factors that have an effect on value. The appraiser must analyze all closed sales, contract sales, and offerings or listing of properties that are most comparable to the subject property in order to identify any significant differences or elements of comparison that could affect their opinion of value for the subject property. This is particularly important in changing (increasing or decreasing) markets. Analyzing closed sales, contract sales, and offerings or listings in an important analysis in any market and will result in more accurate reporting conditions, including trends that indicate that sales prices for contract sales and asking prices for recent offerings or listing have changed.

1J.8(o)(i) Data and Validation Sources of Comparable Sales

Data and verification sources for each comparable sale must be reported. Examples of data sources include, but are not limited to, a multiple listing service, deed records, tax records, realtors, builders, appraisers, appraiser's files, and other third party sources and vendors. The appraiser must state the specific data source and refrain from using broad categories, such as "public records." Data sources must be reliable sources for the area where the subject property is located.

Tools or information that may be relied upon to support market condition adjustments over time include, market data (e.g. analysis of comparable listings, pending sales or closed sales); home price indices; multiple listing services; public records; and commercial services, models and data. The appraisal report must include commentary describing the market analysis the appraiser performed.

Examples of verification sources include, but are not limited to, the buyer, seller, listing agent, selling agent, and closing documents. Regardless of the source(s) used, there must be sufficient data to understand the conditions of sale, existence of financing concessions, physical characteristics of the subject property, and whether it was an arm's-length transaction.

It is acceptable to obtain comparable sales data from parties that have a financial interest in either the



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sale or financing of the subject property; however, the appraiser must verify the data with a party that does not have a financial interest in the subject transaction.

1J.8(o)(ii) Prior Sales History of the Subject and Comparable Sales

The appraiser is required to report the three (3) year subject property and 12-month comparable sales history.

1J.8(p) Comparable Sales

1J.8(p)(i) Selection of Comparable Sales

The appraiser is responsible for determining which comparable sales are the best and most appropriate. The appraiser must account for all factors that affect value. Comparable sales should have similar physical and legal characteristics when compared to the subject property. These include, but are not limited to, site, room count, gross living area, style, and condition. External factors including, Federal Emergency Management Agency (FEMA) designated flood zone, should be given consideration when selecting comparable sales.

When choosing comparable sales, the appraiser should examine the market area of the subject property, assess its characteristics, and identify similar comparable sales. Market area is defined as the geographic region, for a subject property, from which most demand comes and in which most of the competition is located. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparable sales that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable sales.

Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible. Sales activity from within the neighborhood is the best indicator of value for properties in that neighborhood as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.

The use of comparable sales that are located in competing neighborhoods are allowed, as these may be the best comparable sales available and the most appropriate for the appraiser's analysis. However,



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the appraiser must not expand the neighborhood boundaries just to encompass the comparable sales selected. The appraiser must indicate the comparable sales are from a competing neighborhood and address any differences that exist. The appraiser must also provide an explanation as to why specific comparable sales were used in the appraisal report and explain how a competing neighborhood is comparable to the subject neighborhood.

If a property is located in an area in which there is a shortage of truly comparable sales, either because of the nature of the property improvements or the relatively low number of sales transactions in the neighborhood, the appraiser might need to use as comparable sales, properties that are not truly comparable to the subject property. In some situations, sales of properties that are not truly comparable may be the best available and the most appropriate for the appraiser's analysis. The use of such sales is acceptable as long as the appraiser adequately documents their analysis and explains why these sales were used.

When describing the proximity of the comparable sale to the subject property, the appraiser must be specific with respect to the distance in terms of miles and include the applicable directional indicator. The distance between the subject property and each comparable property is measured using a straight line between properties.

1J.8(p)(ii) Minimum Number of Comparable Sales

A minimum of three (3) closed comparable sales must be reported. Additional comparable sales may be reported to support the opinion of market value. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listing can be used as supporting data.

The appraiser may not create comparable sales by combining vacant land sales with the contract purchase price of a home (improvements only). While these transactions cannot be used to meet the required minimum three (3) closed comparable sales, these transactions may be included as additional support.

1J.8(p)(iii) Age of Comparable Sales

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Comparable sales that have closed within the last 12 months should be used; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.

Additionally, older comparable sales that are the best indicator of value for the subject property may be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate three truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as he or she comments on their use.

Comparable sales that have closed within the last six (6) months should be used; however, comparable sales that have closed within the last 6-12 months may be used if accompanied by an appraiser explanation for use. The best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.

Additionally, older comparable sales that are the best indicator of value for the subject property may be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate three truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as he or she comments on their use.

1J.8(p)(iv) Additional Requirements for Detached Condominium Units

The appraiser must use similar detached condo unit comparable sales from the same project or from the same market area. The appraiser may use other types of 1-unit detached comparable sales that are not located in a condo project only if the appraiser supports the use of such sales in the appraisal report and reflects any effect that the condo form of ownership has on the market value and marketability of the subject property.



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1J.8(p)(v) Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDs

If the subject property is located in a new (or recently converted) condo, subdivision, or PUD, then it must be compared to other properties in the neighborhood as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and the properties within them. Generally, a subdivision is considered new when there are limited or no resales or the builder or developer is involved in the marketing or sale of the properties.

The appraiser must first attempt to use at least:

- One (1) comparable sale from the inside the subject subdivision or project;
- One (1) comparable sale from outside the subject subdivision or project; or
- One (1) comparable sale from inside or outside the subject subdivision or project.

Closed comparable sales or resales from within the subject condo project, subdivision, or PUD are preferable to closed sales from outside the condo project, subdivision, or PUD provided the builder or developer of the subject property is not involved in those transactions.

1J.8(p)(vi) Fannie Mae DU

If the subject property is part of a newly built or recently converted condo project, subdivision, or PUD that has two to 20 units and there are no closed or pending sales, the appraiser may use comparable sales from a competing project, subdivision, or PUD. The following applies:

- Competing projects, subdivisions, or PUDs must be of a similar size and type;
- Explain why the comparable sales were chosen and demonstrate market acceptance; and
- Describe how the condo project, subdivision, or PUD chosen compares to the subject property.

If the subject property is not the first unit under contract in the condo project, subdivision, or PUD, the appraiser must include one (1) under contract sale from the subject's project, subdivision, or PUD as a supplemental exhibit.

To meet the requirement that the appraiser use one (1) comparable sale from inside the subject project, subdivision, or PUD, the appraiser may need to rely solely on the builder of the subject



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property. It is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the Closing Disclosure from the builder's file.

When providing builder sales from competing projects that are not available through traditional data sources, the appraiser must verify the sale from the applicable Closing Disclosure and indicate on the appraisal report that the Closing Disclosure was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades for each builder sale.

1J.8(p)(vii) Freddie Mac LPA

If there are no closed sales inside a new subject project or subdivision, the appraiser must use the following.

- One (1) pending sale from inside the subject project or subdivision in lieu of a closed sale and may be a sale by the builder or developer of the subject property; and
- Three (3) closed comparable sales from outside the subject subdivision or project.

If the subject subdivision or project is so new that a closed sale or a contract sale is not available, comparable sales from outside the subject subdivision or project may be used. However, the appraiser must comment on the marketability of the new subdivision or project and justify and support the use of the comparable sales from outside the new subdivision or project.

Comparable sales that are resales from within the subject subdivision or project are preferable to comparable sales from outside the subdivision or project provided the builder or developer of the subject property is not involved in the sale transaction. At a minimum, at least two comparable sales must be outside the influence of the builder or developer of the subject property.

1J.8(p)(viii) Rural Properties

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property. In such cases, the appraiser must use their knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparable sales were selected.



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1J.8(p)(ix) Use of Foreclosures and Short Sales

It is acceptable to use foreclosures and short sales as comparable sales if the appraiser believes they are the best and most appropriate sales available. The appraiser must address the prevalence of such sales in the subject's neighborhood and the impact, if any, of such sales. The appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether any stigma has been associated with it. The appraiser cannot assume it is equal to the subject property. For example, a foreclosure or short sale property may be in worse condition when compared to the subject property, especially if the subject property is new construction or was recently renovated. For appraisals that required to be UAD compliant, the appraiser must identify the sale types as REO sale or Short Sale, an appropriate.

1J.8(q) Adjustments to Comparable Sales

1J.8(q)(i) Analysis of Adjustments

There is no specific limitation or guidelines associated with net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. Ideally, the best and most appropriate comparable would require no adjustment; however, this is rarely the case as no two properties or transactions are identical. The appraiser's adjustment must reflect the market's reaction to the difference in properties. The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market based on adjustments without regard to arbitrary limits on the size of the adjustments.

If the extent of the appraiser's adjustments to the comparable sales is great enough to indicate that the property may not conform to the neighborhood, the underwriter must determine if the opinion of value is adequately supported.

When there are no truly comparable sales for a particular property because of the uniqueness of the property or other conditions, the appraiser must select sales that represent the best indicators of value for the subject property and make adjustment to reflect the actions of typical purchasers in the market.

1J.8(q)(ii) Sales or Financing Concessions

Comparable sales that include sales or financing concessions must be adjusted to reflect the impact, if



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any, on the sales price of the comparable sales based on the market at the time of the sale.

Examples of sales or financing concessions include :

- Interest rate buydowns or other below-market financing;
- Loan discount points;
- Loan origination fees;
- Closing costs customarily paid by the buyer;
- Payment of condo, PUD fees or assessment charges;
- Refunds of (or credit for) the borrower's expenses;
- Absorption of monthly payments;
- Assignment of rent payments; and
- Inclusion of non-realty items in the transaction.

The dollar amount of the sales or financing concessions paid by the seller must be reported for the comparable sales if the information is reasonably available. Sales or financing data should be obtained from parties associated with the comparable transaction, such as the broker, buyer or seller, or a reliable data source. If information is not available because of legal restrictions or other disclosure - related problems, the appraiser must explain why the information is not available.

The amount of negative dollar adjustment for each comparable sale with sales or financing concessions should be equal to any increase in the purchase price of the comparable the appraiser determines to be attributable to the concessions. The need to make negative dollar adjustments for sales or financing concessions and the amount of the adjustments to the comparable sales is not based on how typical the concessions might be for a segment of the market area. Large sales or financing concessions can be relatively typical in a particular segment of the market and still result in sales prices that reflect more than the value of the real estate. Adjustments based on dollar-for dollar deductions that are equal to the cost of the seller concessions to the seller, as a strict cash equivalency approach would dictate, are not appropriate.

The effect of sales or financing concessions on sales prices can vary with the amount of the concessions and differences in various markets. Adjustments must reflect the difference between what the comparable sales actually sold for with the sales or financing concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the reaction of the market to the concessions. If the appraiser's analysis determines that the market's



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reaction is the full amount of the financing concession, a dollar-for-dollar adjustment is acceptable.

Positive adjustments for sales or financing concessions are not acceptable. For example, if local common practice or law results in virtually all of the property sellers in the market area paying a 1% loan origination fee for the purchaser, and a property seller in that market did not pay any loan fees or concessions for the purchaser, the sale would be considered as a cash equivalent sale in that market. The appraiser must recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparable sales if they are the best indicators of value for the subject property. Such sales also can be useful to the appraiser in determining those costs that are normally paid by sellers as the result of common practice or law in the market area.

1J.8(q)(iii) Market Conditions Analysis/Date of Sale and Time Adjustments

The date of sale and the time adjustment (market conditions) are critical elements in determining an accurate value because the appraisal is based on a specific date in time (effective date of the appraisal). The comparable sales being considered must be analyzed by the appraiser to determine if there have been any changes in market conditions from the time the comparable sale went under contract to the effective date of the appraisal. This analysis will determine whether a time adjustment is warranted. Adjustments may be either positive or negative depending on the market changes over the time period analyzed.

Because the appraisal is for a specific point in time (the effective date of the appraisal), the appraiser must analyze comparable sales for any changes in market conditions from their contract dates through the effective date to determine whether time adjustments are warranted.

Time adjustments, or the lack of, must be supported by evidence. Use of home price indices (HPIs) to support time adjustments is consistent with policy. The adjustment rates can also be determined through:

- statistical analysis,
- modeling, paired sales, or
- other commonly accepted methods.

The appraisal report must, at a minimum,

- summarize the supporting evidence, and
- include a description of the data sources,

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- tool(s) and techniques used.

Time adjustments should be supported by other comparable (such as sales, contracts) whenever possible; however, in all instances the appraiser must provide an explanation for the time adjustment.

1J.8(q)(iv) Appraiser's Comments and Indicated Value in the Sales Comparison Approach

The appraiser must provide fact-based and objective appropriate comments reflecting the logic and reasoning for the adjustments provided, especially for the characteristics reported on the appraisal report form between the Sales or Financing Concessions and the Condition line items. A statement only recognizing that an adjustment was made is not acceptable. When appropriate, the appraiser's analysis should also include narrative comments about a current contract, offering, or listing for the subject or comparable sales, current ownership, and recent prior sales or transfers. Additionally, the appraiser's comments must reflect their reconciliation of the adjusted (or indicated) values for the comparable sales and identify why the sale(s) were given the most weight in arriving at the indicated value for the subject property. It should be noted that the indicated value in the Sales Comparison Approach must be within the range of the adjusted sales price of the comparable sales.

1J.8(r) Condo Appraisal Requirements

The appraisal of an individual unit in a condo project requires the appraiser to analyze the condo project as well as the individual unit. The value and marketability of the individual units in a project depend on the marketability and appeal of the project itself. Therefore, the appraiser must pay special attention to:

- The location of the individual unit within the project;
- The project amenities; and
- The amount and purpose of the owner's association assessment.

See section 1J.8 (p) Comparable Sales for general requirements regarding comparable selection and Chapter 1D Property Types and Project Standards for Condominium Project requirements.

1J.8(s) Leasehold Appraisal Requirements

A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" give the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met. When the lease



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holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property. **Newrez does not allow community land trusts.**

1J.8(s)(i) Appraisal Requirements for Leaseholds

The appraisal requirements for leasehold interest properties are:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding the lease agreements or ground leases and include this information as an addendum to the appraisal report; and
- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

1J.8(s)(ii) Comparable Selection Requirements for Leaseholds

When there are sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.

However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms, or, if necessary, sales with similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate and must make appropriate adjustments to reflect the market reaction to the different lease terms or property rights appraised.

See section [1J.8 \(p\)](#) Comparable Sales for general requirements regarding comparable selection and Chapter [1A.11 \(b\)](#) Eligibility for Leasehold Estate requirements.

1J.8(t) Mixed-use Property Appraisal Requirements

The appraiser must:

- Provide a detailed description of the mixed-use characteristics of the subject property;
- Indicate that the mixed-use of the property is a legal, permissible use of the property under the local zoning requirements;
- Report any adverse impact on marketability and market resistance to the commercial use of the property; and
- Report the market value of the property based on the residential characteristics, rather than the



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business use or any special business-use modifications that were made.

Refer to Mixed-use Property in Chapter 1D Property Types and our Product Summaries for more information.

1J.8(u) Manufactured Housing Appraisal Requirements

The following provides requirements and standards for manufactured housing appraisals.

- Purchase transactions
 - A complete copy of the executed contract for sale of the manufactured home and land, or
 - A complete copy of the executed contract for both if the manufactured home and land are purchased separately.

The appraiser must analyze the contract(s) and provide a summary in the appraisal report.

All of the following information, including but not limited to, must be on the *Manufactured Home Appraisal Report (Form 1004C/70B)*:

- Manufacturer's name;
- Trade or model number;
- Year of manufacture;
- Serial number;
- Certification Label number(s) from either the HUD Data Plate or Certification Label(s);
- Type of foundation and utility connections;
- Detailed and supported cost approach;
- Opinion of the market value of the site;
- Property's conformity to the neighborhood; and
- The appraiser must indicate a value conclusion based solely on the real property as completed consisting of the
 - manufactured home;
 - site improvements;
 - land on which the home is situated; and



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The appraisal report must indicate whether the site is compatible with the neighborhood and must comment on the conformity of the manufactured home to other manufactured homes in the neighborhood.

The value conclusion cannot include any non-realty items including, but not limited to, insurance, warranties, and furniture.

1J.8(u)(i) Manufactured Housing Appraisal Site Requirements

The appraiser must base their opinion of value on the characteristics of the subject property, including the site area. The appraisal report must indicate whether or not the site is compatible with the neighborhood and must comment on the conformity of the manufactured home to other manufactured homes in the neighborhood.

- The property site must be of a size, shape, and topography that is conforming and acceptable in the neighborhood.
- It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities.
- Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in their analysis and valuation.
- The appraiser must comment if the site has adverse conditions or is not typical for the neighborhood.

1J.8(u)(ii) Manufactured Housing Appraisal Comparable Selection Requirements, Excluding MH Advantage

The appraiser must use a minimum of two (2) comparable sales that are manufactured homes. If the subject property is a single-width manufactured home, one comparable must be a closed sale of the same single-width configuration, when available. If the appraiser is unable to find a single-width comparable sale, an active listing or "under contract" sale will qualify as a supplemental exhibit to show marketability. The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. The appraiser must explain why site-built housing, or a different type of factory-built housing is being used for third comparable sale and make and support appropriate adjustments in the appraisal report.



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In markets where condo projects with manufactured homes are more common, at least two (2) comparable sales should be manufactured homes located in a condo project. In markets where condo projects with manufactured homes are atypical, the appraiser may select comparable sales from a mixture of manufactured homes and manufactured home condos provided the appraiser is able to provide adequate written explanation and make appropriate adjustments.

An appraiser that is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing neighborhood to establish a baseline for the “sales comparison analysis” and determine sound adjustments to reflect the differences between comparable sales that are available and the subject property.

The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the home. This type of information may be used as additional supporting documentation.

1J.8(u)(iii) MH Advantage and CHOICEHome Appraisal Comparable Selection Requirements

The appraiser must follow the below table for comparable sale requirements.

| Fannie Mae MH Advantage | Freddie Mac CHOICEHome |
|--|---|
| <ul style="list-style-type: none">• At least three (3) MH Advantage comparable sales.• If three (3) comparable sales are not available the appraiser must supplement with most appropriate comparable sales available with a minimum of two (2) site-built homes.• If non-MH Advantage factory-built homes are used, the appraiser must include an explanation to support using the comparable sale(s) selected. | <ul style="list-style-type: none">• At least one (1) CHOICEHome comparable sale.• If no CHOICEHome comparable sales are available, appraiser may use site-built homes or other manufactured homes of similar quality.• The appraiser must include an explanation to support using non-CHOICEHome comparable sale(s) selected. |



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| | |
|---|--|
| <p>Verify via the appraisal the presence of:</p> <ul style="list-style-type: none"> • A driveway leading to the home (or to the garage or carport if one is present). The driveway must consist of blacktop, pavers, bricks, concrete, cement, or gravel (gravel must have a minimum depth of four inches); and • A sidewalk connecting either the driveway, or a detached garage or carport, to a door or attached porch of the home. The sidewalk must consist of blacktop, pavers, flagstone, bricks, concrete, or cement. | Silent |
| <p>The Manufactured Home Appraisal Report (1004C), Appraisal Update and/or Completion Report (Form 1004D), or completion alternatives must include photos of the MH Advantage Sticker, HUD Data Plate, HUD Certification Label(s), and the site showing all driveways, sidewalks, and detached structures located on the site.</p> | <p>The Manufactured Home Appraisal Report (1004C), Appraisal Update and/or Completion Report (Form 1004D), or completion alternatives must include photos of the CHOICEHome Label, HUD Data Plate, HUD Certification Label(s), and the site showing all driveways, sidewalks, and detached structures located on the site.</p> |

1J.8(u)(iv) Manufactured Housing Appraisal Cost Approach Requirements

A detailed and supported cost approach to value for all manufactured homes which must, at a minimum, contain the information indicated on the *Manufactured Home Appraisal Report (Form 1004C/70B)* is required. The appraiser may choose to report the results of the cost approach on Form 1004C or by using a report form from a published cost service as an addendum to the appraisal report form. Whatever form is used by the appraiser to report the cost approach, the information must be sufficient to allow the cost figures and calculations to be replicated during lender review. The sales comparison and cost approach to value are complementary for the valuation of manufactured housing and must support the final value conclusion.

A properly developed and detailed cost approach will provide the information necessary for an

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appraiser to

- recognize differences in manufactured home construction quality;
- understand the difference between the comparable sales and the subject property;
- extract from the market appropriate adjustments for the sales comparison analysis; and
- identify sales of manufactured homes that are similar enough to the subject property to use as comparable sales.

1J.8(u)(v) Sources of Manufactured Housing Data

Traditional appraisal data sources do not provide enough quality manufactured home data for the appraiser to develop a supportable and well-documented manufactured home appraisal. While sources such as MLS and public records are important and may contain some data, appraisers must utilize other data sources, such as manufactured home dealers and construction companies/builders experienced in the installation of manufactured homes.

One important source of manufactured housing information is the NADA Manufactured Housing Appraisal Guide. That publication

- lists general manufactured home depreciated replacement values based on original factory construction categories; and
- offers a step-by-step process for arriving at the average retail book value for a manufactured home and can be used to develop a cost approach.

Note: NADA chart values assume the home is in average condition. The publication provides definitions for “excellent,” “good,” “average,” “fair,” and “poor” to appropriately identify the condition of the manufactured home.

Another source of information is *Marshall & Swift’s Residential Cost Handbook*. *Marshall & Swift* provides

- information that enables the user to arrive at an estimate of the cost of the manufactured home when new and the replacement cost based on, among other things, the construction quality, and
- an explanation of the items that enables the appraiser to support their conclusion of the overall construction quality of the manufactured home.

The appraiser must support their opinion about both the quality and the condition of the

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manufactured home because they play a very important role in the value and marketability of manufactured homes. The *NADA Guide* or the *Marshall & Swift Handbook* may be used as additional sources to provide support for the appraiser's conclusions about the quality and value of a manufactured home.

1J.8(v) Special Assessment or Community Facilities Districts Requirements

Alternative methods for raising the capital necessary to satisfy utility and infrastructure requirements are sometimes used in the development of new residential communities. In some instances, this involves the creation of local districts called special assessment districts or community facilities districts that have the authority to assess homeowners for the cost the developing utility services and various infrastructure facilities, including, but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

1J.8(v)(i) Special Assessment Districts

Special Assessment Districts (also known as special tax districts or municipal utility districts) provide a specific service to homeowners living in a designated area. They are most often established to provide water or other utilities in areas that are not served by existing city or municipal utility services. The need for these districts arises when an existing utility service does not have sufficient capacity or may not find it economically feasible to provide services for newly created subdivisions that are located beyond its current operating area. State law governing the establishment of special assessment districts varies greatly, as does the financial strength of the individual districts. These districts are granted the authority to assess owners of properties within their boundaries for funds that will be used to cover their operating costs and debt service.

Special assessment districts that are established to serve newly developing subdivisions with utilities often based their financial plans on the amount of the assessment to be charged to each property owner on the expected number of properties in the area to be served. The district then depends on the continuation of development to maintain its budget expectations. If, for any reason, development stops short of the degree of development that the district anticipated in preparing its budget, the district can become financially distressed and may need to impose an additional assessment on the existing homeowners.

The appraiser must:

- Report any special assessments that affect the property; and



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- Report if the special assessment district is experiencing financial difficulty and if that difficulty has an effect on the value or marketability of the subject property.

To ensure that the reaction of the market to the potential liabilities that may arise within a financially troubled special assessment district is reflected in the analysis, the appraiser must consider current and expired listings or properties for sale within the district and any pending contract sales and recent closed sales within the district.

There may be some instances in which the financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because there is no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value. In this case, the loan is not eligible for delivery to Newrez until an active market develops enabling the appraiser to demonstrate the value and marketability of the subject property.

1J.8(v)(ii) Community Facilities Districts (Mello-Roos)

Some jurisdictions have passed legislation that creates community facilities districts and permits them to levy a special tax to fund the capital costs of a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services. Proceeds from the special tax are used to support the sale of tax-exempt bonds for the various capital improvements that are allowed under the legislation, including but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

The assessment that will be used to repay the tax-exempt bonds becomes an ongoing responsibility of the property owner, similar to state and local property taxes. The assessment lien and the obligation to pay the assessment passes with the title to the property when ownership of the property is transferred.

This type of legislation generally requires full disclosure of the special assessment to any purchaser of a property located in a community facilities district. Therefore, any known information must be disclosed to the appraiser.

The appraiser must be aware of whether the subject property and the comparable sales are located within or affected by a community facilities district because properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly



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different assessment or no assessment at all. Appraisers must consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales and note the effect of the assessment in the appraisal report.

1J.8(w) Cost Approach to Value

The cost approach to value is only required for the valuation of manufactured homes. However, USPSP requires the appraiser to develop and report the result of any approach to value that is necessary for credible results. For example, when appraising proposed or newly constructed properties, if the appraiser believes the cost approach is necessary, then the cost approach must be provided. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

The cost approach assumes that a potential purchaser will consider building a substitute residence that has the same use as the property being appraised. This approach, then, measures value as a cost of production. It may be appropriate to use the cost approach when appraising new or proposed construction, a property that is undergoing renovation, a unique property or a property that features functional depreciation, to support the sales comparison approach analysis. The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values.

If the cost approach was completed, thoroughly review the information provided to confirm that the appraiser's analysis and comments for the cost approach to value are consistent with the comments and adjustment mentioned elsewhere in the appraisal report. Examples are:

- If the neighborhood or site description reveals that the property backs up to a shopping center, lenders should expect to see an amount indicated for external depreciation in the cost approach; or
- If the improvement analysis indicates that it is necessary to go through one bedroom to get to another bedroom, lenders should expect to see an amount indicated for functional depreciation.

1J.8(x) Income Approach to Value

The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. The income approach to value is required for all two- to four-unit properties and may be appropriate in neighborhoods that consist of one-unit properties when there is a substantial rental market. The income approach to value may not be appropriate in areas that consist mostly of owner-occupied properties because adequate rental data does not exist for those areas. However, USPAP requires the appraiser to develop and report the result of any approach to value that is



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necessary for credible results. If the appraiser believes the income approach is necessary, then the income approach must be included. Appraisal that rely solely on the income approach as an indicator of market value are not acceptable.

When the income approach is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. Thoroughly review the information provided to confirm that the appraiser's analysis and comments for the income approach are consistent with the comments mentioned elsewhere in the report.

1J.8(y) Valuation and Final Reconciliation

The valuations section enable an appraiser to develop and report, in a concise format, an adequately supported opinion of market value based on the cost, sales comparison, and income approaches to value, as applicable. If the appraiser believes that additional information needs to be provided because of the uniqueness of the property or some other condition, they should provide additional supporting data in an addendum to the report.

The reconciliation process, the appraiser considers the reliability and applicability of each of the approaches to value that was utilized. After consideration of each approach to value, the appraiser will provide a final value opinion.

The appraisers must

- reconcile the reasonableness and reliability of each applicable approach to value;
- reconcile the reasonableness and validity of the indicated values;
- reconcile the reasonableness of available data; and
- select and report the approach or approaches that were given the most weight.

This reconciliation is based on the appraiser's judgment of the results developed as part of the valuation process and must never be an averaging technique with the exception of the use of a weighted average technique that includes proper explanation. The final reconciled indicated value must be within the range of the values indicated by the approaches used.

1J.8(y)(i) Reconciling Multiple Opinions of Market Value

If the initial appraisal report was not rejected and a second or subsequent appraisal report (which may include an appraisal desk review or field review) was obtained, review the two (2) appraisals to



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determine which of the opinions of market value is the most accurate. The most reliable appraisal, rather than the appraisal with the highest value must be used. If the opinions of market value are equally accurate and well supported, then the lower of the opinions of market value must be used to underwriting the loan. The underwriter must provide justify the use of the chosen appraisal report.

1J.8(y)(ii) Changes to the Appraised Value

Appraisal reports must be complete, and any changes made to the report were made by the appraiser who originally completed the report. If there are any concerns with any aspect of the appraisal that result in questions about the reliability of the value, an attempt must be made to resolve those concerns with the appraiser who originally prepared the report. If unable to resolve concerns with the appraiser, a replacement report must be obtained prior to making a final underwriting decision on the loan. Any request for a change in the appraised value must be based on material and substantive issues and must not be made solely on the basis that the market value as indicated in the appraisal report does not support the proposed loan amount.

Pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or when the value of the property has experienced significant appreciation in a short time period since the prior sale.

1J.8(y)(iii) Guidance on Addressing Appraisal Deficiencies

If an appraisal is considered deficient, any of the following options are available:

- Contact the appraiser to address deficiencies contained in the appraisal report;
- Obtain a desk or field review of the original appraisal; or
- Obtain a new appraisal of the subject property.

The appraisal report may be returned to the appraiser who completed the assignment, identify the deficiencies found, and provide justification for requesting correction of the deficiencies the lender believes make the report unreliable.

If the revised appraisal report does not adequately address all concerns, a desk or field review of the report may be obtained and must be completed in accordance with the USPAP.

In lieu of a desk or field review, a new appraisal report may be obtained. When a review appraisal or new appraisal is obtained, the opinion of market value as stated in the review or new appraisal must



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be used because the original appraisal was rejected. It is not acceptable to exercise blanket discretion by arbitrarily changing the opinion of market value from a report for use in the lending process. For example, it is not acceptable to simply average the two (2) opinions of market value in order to arrive at a final value conclusion.

1J.9 Reconsideration of Value

The Reconsideration of Value process is a review and resolution for the borrower(s) to appeal an appraisal when it is believed the opinion of value.

- Is unsupported,
- May be deficient due to unacceptable appraisal practices, or
- Reflects prohibited discriminatory practices.

A disclosure must be provided at time of loan application and again when the appraisal report is received and include the requirements for reviewing and responding to both the borrower(s) and appraiser.

The following information is required from the borrower to initiate the ROV:

- Borrower's name
- Property Address
- Effective date of the appraisal
- Appraiser name, and
- Date of the ROV request.
- Description and identification of unsupported, inaccurate, or deficient areas in the appraisal report.
- Additional data, information, and comparable properties (not to exceed five), and the related data sources (e.g. MLS Listing number, etc.)
- An explanation of why the new data supports the ROV (Reconsideration of Value)

After a loan has closed, a Reconsideration of Value request is no longer allowed to be submitted by the borrower.

| Revision History | Date |
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| Fannie Mae SEL2024-08 identified guidance for Market/Time Adjustments: <ul style="list-style-type: none">• Clarified language to remind the use of home price indices (HPIs), statistical analysis, modeling, paired sales, or other commonly accepted methods are acceptable for supporting appraisal time adjustments. | 01.30.2025 |

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| <ul style="list-style-type: none"> These tools provide supporting evidence for market trends and conditions. Failure to make market derived time adjustments when indicated by market data is an example of an unacceptable appraisal practice. Appraisal reports must summarize all supporting evidence and should include a description of the data sources, tools, and techniques used to determine the overall valuation. | |
| <p>Updated Manufactured Housing per Fannie Mae Guide B4-1.4-01 to identify the following (previously released from Fannie Mae):</p> <p><u>Appraisal Site requirements</u></p> <ul style="list-style-type: none"> The property site must be of a size, shape, and topography that is conforming and acceptable in the neighborhood. It must also have competitive utilities, street improvements, adequate, vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in their analysis and valuation. The appraiser must comment if the site has adverse conditions or is not typical for the neighborhood. <p><u>Comparable Sale requirements</u></p> <ul style="list-style-type: none"> If the subject property is a single-width manufactured home, one comparable must be a closed sale of the same single-width configuration, when available. If the appraiser is unable to find a single-width comparable sale, an active listing or “under contract” sale will qualify as a supplemental exhibit <p><u>Cost Approach Requirements:</u></p> <ul style="list-style-type: none"> The appraiser may choose to report the results of the cost approach or by using a report form from a published cost service as an addendum to the appraisal report form. Whatever form is used by the appraiser to report the cost approach, the information must be sufficient to allow the cost figures and calculations to be replicated during lender review. <p><u>Cost Approach to Value</u></p> <p>Examples added:</p> <ul style="list-style-type: none"> If the neighborhood or site description reveals that the property backs up to a shopping center, lenders should expect to see an amount indicated for external depreciation in the cost approach; or If the improvement analysis indicates that it is necessary to go through one bedroom to get to another bedroom, lenders should | <p>02.27.2025</p> |



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expect to see an amount indicated for functional depreciation.

Fannie Mae SEL 2025-01 released the following on 02.05.2025 for:

Hybrid Appraisal Eligibility

Eligible Property Types are:

- Existing one-unit properties, including a condominium or unit in a PUD;
- Principal residence, second home or investment properties;
- Under construction properties;
- Existing properties with incomplete construction or renovation project;
- Community land trusts, or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature; and
- Texas 50(a)(6) loans.

Hybrid Appraisals are not eligible for the following transactions:

- Two-to four- unit properties;
- Co-op units;
- Manufactured homes;
- construction to-permanent loans (single close and two-close);
- DU loan casefiles that receive an ineligible recommendation; and

Appraisal requirements have been expanded for floor plan requirements, footprint sketch and calculations

Freddie Mac Bulletin 2025-1 Updates: effective 02.24.2025:

- ACE Appraisal Waiver:
 - For Purchase transactions of a Primary residence or Second Home has increased to maximum 90% LTV/TLTV from previous 80% LTV/TLTV.
 - An ACE appraisal waiver may be accepted when adverse physical property conditions are minor.
- ACE+ PDR Appraisals

For Purchase transactions for a primary residence or second home, the maximum LTV/TLTV ratio is based on mortgage product/ program limits

- ACE or ACE + PDR Appraisals:

Texas 50(f)(2) Mortgages are not eligible for either ACE or ACE+PDR appraisal methods



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| <p>Freddie Mac Bulletin 2025-1 announced the following Updates for Hybrid Appraisals effective 04.7.2025:</p> <ul style="list-style-type: none">• Separate sections created for DU and LPA Transactions for Hybrid Appraisals• LPA will identify if Hybrid appraisal is eligible for subject transaction• Identified if the last feedback certificate <u>does not</u> indicate the Mortgage is eligible for a Hybrid Appraisal, the loan may be delivered with a Hybrid appraisal <u>if the Mortgage is eligible for any of the following:</u><ul style="list-style-type: none">○ ACE Appraisal waiver or,○ ACE+PDR or○ a Desktop appraisal.• Appraiser requirements for PDR review for eligibility and data entry through base API interface.• All appraisal documents must be retained in loan file.• Added Hybrid Appraisal Form 465 as eligible appraisal form• Ineligible Property Types for Hybrid Appraisals for LPA transactions are:<ul style="list-style-type: none">▪ Two-to four- unit properties▪ Proposed Construction▪ Co-op units▪ Manufactured Homes▪ Construction Conversion Mortgages | 03.27.2025 |
| <p>Freddie Mac Bulletin 2025-1 with following updates effective 05.06.2025:</p> <ul style="list-style-type: none">• Added section for Detrimental Conditions including both agency guidelines If the detrimental conditions are located on the subject property site, the appraisal report must be made subject to an inspection by an appropriately licensed professional or another person trained in the particular field of concern to determine if a repair or alteration is required. The appraiser must also consider the effect the condition(s) may have on estimating the subject property's market value and/or any effect on marketability.• The appraiser should be specific about needed repairs, additional features, modernization, etc., and should provide a supporting addendum, if necessary. For any appraisal report that is made subject to an inspection(s) due to a detrimental condition(s), the mortgage file must include evidence of repair, alteration or an inspection report that indicates the condition does not require repair or alteration• Appraisal Report Form and Exhibits expanded to reflect: Completion Alternatives (Freddie Mac) to identify:<ul style="list-style-type: none">○ Inspection report or invoices are required○ Inspection must be performed by the professional who performed or completed the repair | 04.29.2025 |



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| <p>Documentation requirements are:</p> <ul style="list-style-type: none">○ Inspection report stating repairs are not required (After Client reviews to ensure property does not have deficiencies consistent with a C5 or C6 condition rating), or○ Inspection report and invoice(s) stating required repairs have been completed | |
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Chapter 2A Eligibility

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2A.1 Overview

This Underwriting chapter sets out underwriting standards that apply to all FHA Loan Programs. Generally, underwriting standards that vary from one (1) Loan Program to another are described in our Product Profiles. In most cases, differences will not be referenced in this chapter. In addition, guidelines contained in this chapter are applicable to loans underwritten by TOTAL Mortgage Scorecard and for manually underwritten loans.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

All Newrez overlays will be highlighted in yellow.

2A.2 Home Ownership Centers

FHA maintains four (4) main processing and underwriting centers nationwide, called Home Ownership Centers (HOC). Each HOC has jurisdiction over several states and has standardized policies and procedures for all states in their jurisdiction. See the [FHA Connection \(FHAC\)](#) for the local HOC serving your state.

HOCs may be contacted through the FHA Resource Center: 1-800-CALLFHA (800-225-5342).

2A.3 FHA Connection

The [FHAC](#) is HUD's interactive internet system providing FHA-approved lenders with real-time access to Single Family Origination functions. All processes relating to the origination and insurance of FHA mortgages must be completed in the [FHAC](#).

The [FHAC](#) must be used to order case numbers. A case number can be obtained only when the Client or Newrez has an active loan application for the subject borrower and property.

FHA case numbers are assigned to properties, not to borrowers. Appraiser information must not be entered when the case number is ordered.

2A.4 Excluded Parties

Newrez's Exclusionary List, HUD's LDP list, and SAM must be checked to confirm eligibility for all participants



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involved in the transaction and must be evidenced in the loan file.

The borrower(s) and other parties to the transaction are not eligible if they appear on the Newrez Exclusionary List or either of the following exclusionary lists:

- HUD Limited Denial of Participation (LDP) list; and
- System for Award Management (SAM) Advanced Search-Exclusion. Follow the appropriate procedures defined by SAM.

The "Yes" box on form HUD-92900-LT must be checked if the borrower appears on either LDP or SAM list.

Other Parties to the Transaction include but is not limited to:

- Seller (except when selling the primary residence)
- Listing and selling real estate agent
- Builder
- Developer
- Loan originator
- Loan processor
- Underwriter
- Appraiser
- Closing agent
- Title company
- Notary
- Insurance agents
- Trustees on deed

See Chapter 1C, Representations, Warranties and Covenants, C102.AT No Individuals or Businesses on the Exclusionary List and Excluded Parties Checklist for guidance.

2A.5 Credit Alert Interactive Voice Response System

All borrowers must be screened using HUD's [Credit Alert Interactive Voice Response System](#) (CAIVRS) except those borrowers involved in a streamline refinance.

The borrower is not eligible for an FHA-insured mortgage if CAIVRS indicates that they are presently delinquent on a federal debt or has had a claim paid within the previous three (3) years on a loan made and insured by FHA.



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A loan may not be denied solely on the basis of CAIVRS information that has not been verified by the by the Company. If resolved either by determining that the information in CAIVRS is no longer valid or by resolving the delinquent status as stated above, the application process may continue.

FHA will delete erroneous information regarding a borrower falsely indicated as having defaulted on an FHA mortgage, such as incorrect Social Security Number reporting.

A clear CAIVRS approval may not be relied upon when in possession of independent evidence of delinquent federal obligations and must document the resolution of any conflicting information.

If there is reason to believe the CAIVRS message is erroneous or needs to establish the date of claim payment, contact the appropriate FHA Homeownership Center (HOC) for instructions or documentation to support the borrower's eligibility.

FHA cannot alter or delete CAIVRS information reported from other Federal agencies, such as the Department of Education, Veterans Affairs, etc. The borrower and/or the Company must contact those agencies to correct or remove erroneous or outdated information.

2A.6 Delinquent Federal Debt

2A.6(a) Delinquent Federal Non-Tax Debt (CAIVRS)

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| Verification | Borrowers with delinquent federal non-tax debt, including deficiency judgments, and other debt associated with past FHA-insured mortgages are ineligible. Information on delinquent federal non-tax debt may be obtained from public records, credit reports or equivalent. In addition, all borrowers must be checked against the Credit Alert Interactive Voice Response System (CAIVRS), that indicates whether or not the borrower is presently delinquent or has had a default claim paid in the last three (3) years through any government loan program. Non-borrowing spouse does not need to be checked against CAIVRS. |
| Resolution | In order for a borrower with a verified delinquent federal debt to become eligible, the borrower must resolve their federal non-tax debt. The creditor that is owed the debt can verify that the debt has been resolved. |



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| | <p>Resolution involves either:</p> <ul style="list-style-type: none"> • Payment in full; or • A valid repayment agreement with the lien holder to make regular payments on the debt. The borrower must have made at least three (3) months of scheduled payments on time. The borrower may not prepay scheduled payments in order to meet the required minimum of three (3) months payments. The monthly payment must be included in the DTI ratio. |
| Documentation | <p>Documentation must be included from the creditor agency to support the verification and resolution of the debt. For a debt reported through CAIVRS, evidence of resolution may be obtained with a clear CAIVRS report or with documentation from the creditor agency.</p> <p>Except for federal tax liens, an open tax lien must be subordinate to the Newrez first mortgage. Verification of sufficient funds to satisfy these obligations must be documented, if applicable. A letter of explanation is required for all federal tax debt.</p> |

2A.6(b) Delinquent Federal Tax Debt

Public records and credit information must be checked to verify that the borrower is not delinquent on any federal debt and does not have a tax lien placed against their property for a debt owed to the federal government.

Borrowers with delinquent federal tax debt are ineligible. All delinquent federal tax debt must be satisfied prior to or at closing unless the debt has been resolved in one (1) of the following ways:

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| Tax Debt with Lien | <ul style="list-style-type: none"> • Payment in full; or • A valid repayment agreement with the lien holder to make regular payments on the debt. The monthly payment must be included in the DTI ratio. The borrower must have made at least three (3) months of scheduled payments on time. The borrower may not prepay scheduled payments in order to meet the required minimum of three (3) months payments. |
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| | An open tax lien must be subordinate to the Newrez first mortgage. A letter of explanation is required for all federal or state tax liens. |
| Tax Debt without Lien | <ul style="list-style-type: none">• Payment in full; or• A valid repayment agreement with the lien holder to make regular payments on the debt. The monthly payment must be included in the DTI ratio. <p>Verification of sufficient funds to satisfy these obligations must be documented, if applicable.</p> |

2A.7 Loan Application

The initial Uniform Residential Loan Application (URLA) and page two (2) of form HUD-92900-A must be complete and signed before underwriting the loan application. The debt of a non-borrowing spouse must also be included on the URLA if the borrower resides in or the property to be purchased is located in a community property state. See Chapter FHA Liabilities and Debt Ratios, 2H.1 (I), Non-Borrowing Spouse Debt in a Community Property State.

The loan originator identified on the URLA must be the actual licensed loan originator regardless of whether the interviewer is employed by a sponsored Third-Party Originator (TPO) or Newrez. The URLA must contain the loan originator's name, Nationwide Mortgage licensing System and Registry (NMLS) identification number, telephone number and signature.

All declaration questions must be marked indicating the method of taking the application: face-to-face, by telephone, or by mail. The loan originator's name and employer must be completed, and all applications must be signed and dated by the borrower(s).

The final application for closing must adhere to the requirements above, including the borrower's complete and accurate financial information relied upon by the underwriter, and be signed and dated by all borrowers. All debt incurred during the application process and through loan closing of the mortgage must be disclosed on the final application. See Chapter Credit, 2F.5 Undisclosed Liabilities.

Borrower must receive the most recent version of all required federal and state disclosures during the origination process.



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All transactions are reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims, and the overall financial picture of the borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the loan file.

A loan application may not be retaken for a borrower where misrepresentations are identified, such as under reported income to the IRS, fraudulent W-2s or paystubs. Due diligence must be exercised when determining whether to allow an application to proceed due to a change of borrower and occupancy representation.

See the Chapter [6A](#) Fraud chapter for red flag indicators.

2A.8 Identity Verification

The identity must be confirmed for each borrower whose credit is used for loan qualification prior to extension of credit.

The closing agent, notary public or signing attorney, as appropriate, must provide evidence that the identification document has been confirmed for each borrower. Acceptable forms of identification include:

- Valid state driver's license with photo;
- Military photo ID;
- Permanent Resident Alien card with photo;
- Valid state non-driver's license with photo;
- Military dependents photo ID;
- Department of Public Welfare photo ID; or
- US passport with photo.

2A.9 Social Security Number Validation

Evidence of a valid social security number is required for all borrowers. In addition, each borrower must sign Part IV of form *HUD-92900-A* to verify the borrower's Social Security Number (SSN) with the Social Security Administration (SSA).

Individuals employed by the World Bank, a foreign embassy or equivalent employer identified by HUD, state and local government agencies, Instrumentalities of Government, and HUD-approved non-profit organizations



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are not required to provide a social security number.

Comply with the following:

- Validate and document a social security number for each borrower on the transaction by:
 - Entering the borrower's name, date of birth, and SSN in the borrower/address validation screen through FHAC.
 - Examining the borrower's original paystubs, IRS forms, W-2s, Wage and Tax Statement, valid Tax Returns obtained directly from the IRS, social security card, or by processing *Form SSA-89 Authorization* for the SSA to Release Social Security Number Verification, or other documents in the loan file
- Resolve any inconsistencies or multiple social security numbers for individual borrowers that are revealed during the mortgage process using a service provider to verify the social security number with the SSA.

The credit report must indicate the non-borrowing spouse's SSN (where an SSN exists) was matched with the SSA, or provide one (1) of the following:

- Separate documentation indicating that the SSN was matched with the SSA; or
- A statement that the non-borrowing spouse does not have an SSN. The credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two (2) years.

2A.10 Documentation Age

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| Age of Credit Documents | All documents must not be more than 120 days old on the disbursement date, except for appraisals, which are subject to separate validity period requirements. Documents whose validity for underwriting purposes is not affected by time, such as divorce decrees, is not subject to a document expiration date. |
| Appraisal Validity | <ul style="list-style-type: none">• Case Numbers Assigned on or After June 1, 2022:<ul style="list-style-type: none">○ The initial appraisal validity period is 180 days from the effective date of the appraisal report to the disbursement date.• Case Numbers Assigned Prior to June 1, 2022:<ul style="list-style-type: none">○ The initial appraisal validity period is 120 days from the effective date of the appraisal report to the disbursement date.• The reuse of an appraisal for a subsequent transaction is not permitted. |



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| <p>Appraisal Update</p> | <p>The original appraisal may be updated if:</p> <ul style="list-style-type: none"> • The initial appraisal report will be more than 180 days prior to the disbursement date; • The Client is listed as the intended user of the original appraisal; or • The Client has received permission from the original client and the appraiser. <p>An appraisal update may be used if:</p> <ul style="list-style-type: none"> • It is performed by an FHA appraiser who is currently in good standing on the FHA Appraiser Roster; • If a substitute appraiser is used due to the lack of the original appraiser availability, the substitute appraiser must state they concur with the analysis and conclusions in the original appraisal report. The file must document in the case binder why the original appraiser was not used; • The subject property has not declined in value; • The building improvements that contribute value to the subject property can be observed from the street or a public way; • The exterior inspection of the subject property reveals no deficiencies or other significant changes; • The property meets Minimum Property Requirements (MPR) and Minimum Property Standards (MPS) based on the original appraisal conditions; • Appraisal update was performed by the appraiser within one (1) year from the effective date of the initial appraisal being updated. <p>A new appraisal is required when one (1) of the following exists:</p> <ul style="list-style-type: none"> • The appraisal date is more than one (1) year from the effective date of the original date of the appraisal; • The appraiser indicates in the appraisal update that there has been a market change since the original appraisal report was issued; or • The update indicates material defects. <p>When the appraisal expires, a new appraisal will have to be ordered and a new FHA case number will have to be issued.</p> |
| <p>Effective Date of Title Policy</p> | <p>The effective date of the title insurance policy must be no earlier than the date on which the security instrument was recorded, and final title insurance policy</p> |



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| | must be dated within 45 days of loan closing. |
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2A.10(a) Handling of Documents

Documents, including third party verifications, relating to the employment, income, assets, credit, or occupancy are not acceptable if they have been handled by or transmitted from or through unknown parties or interested parties.

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| Information Sent Electronically | All documents received electronically must be validated by examining the source identifiers (fax banner header or sender's e-mail address) or contacting the source of the document by telephone. The name and telephone number of the individual contacted and verifying the documents must be indicated. |
| Information Obtained via the Internet | <ul style="list-style-type: none">• Documents obtained from an internet website must be authenticated and printouts downloaded from the internet must be examined.• Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document. |

2A.10(b) Documents and Disclosures

| Document | Requirement |
|----------------|---|
| Sales Contract | <p>Provisions of the sales contract must not violate FHA requirements. In addition:</p> <ul style="list-style-type: none">• All purchasers listed on the sales contract are borrowers; and• Only borrowers sign the sales contract. <p>An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements.</p> <p>The family member of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal.</p> |



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| Amendatory Clause | If the borrower does not receive form <i>HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value</i> before signing the sales contract, the sales contract must be amended before closing to include an amendatory clause. |
| Real Estate Certification | <p>The borrower, seller, and the real estate agent or broker involved in the sales transaction must certify, to the best of their knowledge and belief, that:</p> <ul style="list-style-type: none"> • The terms and conditions of the sales contract are true; and • Any other agreement entered into by any parties in connection with the real estate transactions is part of, or attached to, the sales agreement. <p>A separate certification is not needed if the sales contract contains a statement that:</p> <ul style="list-style-type: none"> • There are no other agreements between parties and the terms constitute the entire agreement between the parties; and • All parties are signatories to the sale contract submitted at the time of underwriting. <p>All copies of the sales contract(s), including a complete copy of the final sales contract with any modifications or revisions must be obtained.</p> <p>An amendatory clause is not required for HUD REO transactions.</p> |
| Property Assessed Clean Energy | When the subject property is encumbered with a PACE obligation, the sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to closing. |
| Informed Consumer Choice Disclosure | The borrower must be provided with an Informed Consumer Choice Disclosure if the borrower may qualify for a similar non-FHA insured mortgage product offered by the Client. |
| Form HUD-92900-B, Important Notice to Homebuyers | The borrower must be provided with and sign a copy of form <i>HUD-92900-B, Important Notice to Homebuyers</i> , for use when applying for a mortgage. The original form signed by the borrower must be retained in the loan file. |
| Lead-Based Paint | If the property was built before 1978, the property seller must disclose any information known about lead-based paint and lead-based paint hazards, |



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| | <p>in accordance with HUD-EPA Lead Disclosure Rule (24 CFR 35, subpart A, and the identical 40 CCFR 745, subpart F).</p> <p>All of the following must be met:</p> <ul style="list-style-type: none">• The borrower has been provided the EPA-approved information pamphlet on identifying and controlling lead-based paint hazards ("Protect Your Family From Lead In Your Home");• The borrower was given a ten-day period before becoming obligated to purchase the home to conduct a lead-based paint inspection or risk assessment to determine the presence of lead-based paint or lead-based paint hazards or waived the opportunity. The sales contract contains an attachment in the language of the contract (e.g., English, Spanish), signed and dated by both the seller and purchaser:<ul style="list-style-type: none">○ Containing a lead warning statement set forth in 24 CFR §35.92(a)(1);○ Providing the seller's disclosure of the presence of any known lead-based paint and/or lead-based paint hazards in the target housing being sold, or indication of no knowledge of such presence;○ Listing any records or reports available to the seller pertaining to lead-based paint and/or lead-based paint hazards in property housing being sold, or indication by the seller that no such records or reports exist; and○ Affirming that the borrower received the pamphlet, disclosure, and records or reports, above.• When any agent is involved in the transaction on behalf of the seller, the sales contract includes a statement that the agent has informed the seller of the seller's Lead Disclosure Rule obligations, the agent is aware of his or her duty to ensure compliance with the requirements of the Rule, and the agent has signed and dated the contract. |
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2A.10(c) Form HUD-92564-CN, For Your Protection: Get a Home Inspection

Form HUD-92564-CN, *For your Protection: Get a Home Inspection*, must be provided to prospective home buyers at first contact, whether for re-qualification, pre-approval, or initial application, as indicated in the below table.

| Property Type | Form Required |
|--|-----------------------------|
| Proposed/Under Construction | No |
| Existing Construction Less than One Year Old | Yes, if previously occupied |
| Existing Property | Yes |
| No Cash-out Refinance | No |
| Cash-out Refinance | No |
| Streamline Refinance without an Appraisal | No |

2A.10(d) Signature Requirements for All Application Forms

All borrowers must sign and date:

- The initial and final Uniform Residential Loan Application (URLA);
- Page two (2) of the initial form *HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application*; and
- The completed final form *HUD-92900-A, HUD/VA Addendum to Uniform Residential Loan Application*.

The application may not be signed by any party who will not be on the Note.

2A.10(e) Use of Electronic Signatures

An electronic signature refers to any electronic sound, symbol, or process attached to or logically associated with a contract or record and executed or adopted by a person with the intent to sign the record. An electronic signature that is solely voice or audio is not permitted.

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| Third-Party Documents | Third party documents are those documents that are originated and signed outside of the control of the lender, such as the sales contract. Electronic signatures on third party documents included in the case binder are acceptable in accordance with the E-Sign Act and the Uniform |
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| | Electronic Transactions Act (UETA). An indication of the electronic signature and date should be clearly visible when viewed electronically or in a paper copy of the electronically signed document. |
| Eligible Documents | <p>Electronic signatures are acceptable on the following types of documents:</p> <ul style="list-style-type: none"> • Mortgage Insurance Endorsement Documents - Electronic signatures will be accepted on all documents requiring signatures included in the case binder for mortgage insurance, with the exception of the Note and the Security Instrument; or • HUD Real Estate Owned Documents - Electronic signatures will be accepted on the HUD REO Sales Contract and related addenda. |
| Associating an Electronic Signature with the Authorized Document | The process for electronically signing authorized documents must provide for the document to be presented to the signatory before an electronic signature is obtained. The electronic signature must be attached to, or logically associated with, the document that has been electronically signed. |
| Intent to Sign | <p>The Client (or Newrez if underwritten by Newrez) must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed. Electronic signatures are only valid under the E-Sign Act if they are "executed or adopted by a person with the intent to sign the record." Establishing intent includes:</p> <ul style="list-style-type: none"> • Identifying the purpose for the borrower signing the electronic record; • Being reasonably certain that the borrower knows which electronic record is being signed; and • Providing notice to the borrower that their electronic signature is about to be applied to, or associated with, the electronic record. <p>Intent to use an electronic signature may be established by, but is not limited to:</p> <ul style="list-style-type: none"> • An online dialog box or alert advising the borrower that continuing the process will result in an electronic signature; • An online dialog box or alert indicating that an electronic signature has just been created and giving the borrower an opportunity to confirm or cancel the signature; and • A click-through agreement advising the borrower that continuing the |



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| | process will result in an electronic signature. |
| Single-Use of a Signature | <p>A separate action by the signer is required, evidencing intent to sign, in each location where a signature or initials are to be applied.</p> <p>This provision does not apply to documents signed by Client (or Newrez) employees or contractors provided consent of the individual is obtained for the use of their electronic signature. The borrower's consent must be documented.</p> |

2A.11 Occupancy Types

2A.11(a) Primary Residence

- A primary residence is a property that at least one (1) borrower occupies as their primary residence for the majority of the year.
- A borrower may have only one (1) primary residence at any time and may only have one (1) FHA loan.
- At least one (1) borrower must occupy the property within 60 days of closing and continue to occupy the subject property for at least one (1) year.

2A.11(a)(i) Exceptions to Borrower Having More than One Primary Residence FHA-Insured Mortgage

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| Relocation | <p>Satisfactory evidence must be provided that the borrower:</p> <ul style="list-style-type: none">• Is relocating or has relocated for an employment-related reason; and• Is establishing or has established a new primary residence in an area that is more than 100 miles from their current primary residence. <p>If the borrower moves back to the original area, the borrower is not required to live in the original house and may obtain a new FHA-insured mortgage on a new primary residence, provided the relocation meets the two (2) requirements above</p> |
| Increase in | Satisfactory evidence must be provided to evidence that: |



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| Family Size | <ul style="list-style-type: none">• The borrower has had an increase in legal dependents and the property now fails to meet family needs; and• The LTV on the current primary residence is $\leq 75\%$ or is paid down to that amount, based on the outstanding mortgage balance and a current appraisal. |
| Vacating a Jointly Owned Property | <p>The borrower is vacating a residence that will remain occupied by a co-borrower (with no intent to return).</p> <p>Examples would include a borrower who is divorced, after which the vacating ex-spouse will purchase a new home, or one (1) of the co-borrowers will be vacating the existing property.</p> |
| Non-Occupying Co-Borrower | <p>A non-occupying co-borrower on an existing FHA-insured mortgage may qualify for another FHA-insured mortgage on a new property to be their own primary residence.</p> <p>A borrower with an existing FHA-insured mortgage on their own primary residence may qualify as a non-occupying co-borrower on other FHA-insured mortgages.</p> |

2A.11(a)(ii) Military Personnel

Military personnel, who cannot physically reside in a property because they are on active duty, are considered owner occupants and are eligible for maximum financing if a family member of the borrower will occupy the subject property as their primary residence, or the borrower intends to occupy the subject property upon discharge from military service.

A copy of the borrower's military orders evidencing active duty status and that the duty station is more than 100 miles from the subject property must be provided. The borrower must indicate his or her intent to occupy the subject property upon discharge from military service if a family member will not occupy the property as their primary residence.

2A.11(b) Secondary Primary Residence

A secondary residence refers to a dwelling that a borrower occupies, in addition to their primary residence, but less than a majority of the calendar year. A secondary residence does not refer to a



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vacation home.

Secondary residences are only permitted with written approval from the jurisdictional HOC after determination that:

- The borrower has no other secondary residence;
- The secondary residence will not be a vacation home or be otherwise used primarily for recreational purposes;
- The commuting distance to the borrower's workplace creates an undue hardship on the borrower(s) and there is no affordable rental housing meeting the borrower's needs within 100 miles from the borrower's workplace; and
- The maximum mortgage amount is 85% of the lesser of the appraised value or sales price.

A lack of affordable rental housing must be documented with all of the following:

- A satisfactory explanation of the need for a secondary residence and the lack of available rental housing; and
- Written evidence from local real estate professionals who verify a lack of acceptable housing in the area.

2A.11(c) Investment Property

An investment property refers to a property that is not occupied by the borrower as a primary or secondary residence.

Refer to our Product Summaries for eligibility.

2A.12 Borrower Eligibility

There is no maximum age for a borrower. The borrower must have reached the minimum age at which the Note can be legally enforced in the jurisdiction in which the property is located.

Any person signing an application for a loan is a borrower.

- All borrowers must sign the Note;
- All borrowers must have a social security number (except for those employed by the World Bank, foreign embassy, or equivalent employer identified by HUD);
- An Individual Tax Identification Number (ITIN) is not permitted; and
- Each borrower must be an individual;



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- Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts are not eligible. Living trusts may be eligible. Refer to the Loans to Trusts section in this chapter. In addition, if title is currently held in the name of a limited liability company (LLC) or land trust the loan may be eligible provided the borrower is a member of the LLC or land trust and title is transferred to the borrower's name at closing.

U.S. citizenship is not required for mortgage eligibility; however, all borrowers must have lawful residency in the U.S. Non-U.S. citizens without lawful residency in the U.S. are not eligible.

2A.12(a) U.S. Citizen

A citizen of the United States or of a United States Possession or Territory are eligible borrowers.

2A.12(b) Permanent Resident

A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card. Document legal residency with one (1) of the following:

- A copy of a valid, current, and unexpired Permanent Resident card (Green Card-Form I-551); or
- A copy of *INS Form I-551, Conditional Alien Registration Receipt*, with an unexpired date on the front. *I-551 Forms* due to expire within three (3) months must be accompanied with a copy of United States Citizenship and Immigration Services (USCIS) *Form I-751* (Petition to Remove Conditions on Residence) or USCIS *Form I-829* (Petition to Remove Conditions) filing receipt; or
- A passport with an unexpired stamp "processed for I-551, Temporary evidence of lawful admission for permanent residence. Valid until _____. Employment authorized." This evidences that the holder has been approved for, but not issued, a Permanent Resident card.

See [United States Citizenship and Immigration Services](#) (USCIS) for more information.

2A.12(c) Non-Permanent Resident

Case numbers must be assigned on or before May 24, 2025 to be eligible for financing.

A non-permanent resident alien is a non-U.S. citizen who lawfully enters the U.S. for specific time-periods under the terms of a Visa. All non-permanent resident aliens must provide evidence of an acceptable Visa showing them to be legally present in the U.S.

A non-permanent resident may be eligible provided:



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- The subject property is owner occupied;
- The borrower has a valid social security number; and
- The borrower is eligible to work in the U.S. evidenced by either:
 - an acceptable Employment Authorization Document (Form I-766/EAD) showing that work authorization status is current,
 - a USCIS Form I-94, Arrival/Departure Record, evidencing H-1B status and evidence of employment by the authorized H-1B employer for a minimum of one year
 - or one (1) of the acceptable alternatives to work authorization status.

Expiring Visas: If the authorization for temporary residency status will expire within one (1) year prior to the Note date and a prior history of residency status renewals exist, continuation may be assumed. If there are no prior renewals, the likelihood of renewal must be determined, based on information from USCIS.

| Eligible Visa Type | Description |
|--------------------|--|
| A-1 | Official foreign government (ambassador, public minister, career diplomat) Diplomatic immunity must be officially waived in writing by the holder's country |
| A-2 | Full-time employee working only at a foreign embassy or consulate in the U.S. to perform duties, which take place at embassy Diplomatic immunity must be officially waived in writing by the holder's country |
| A-1 & A-2 | Spouse or child of A-1, A-2 Diplomatic immunity must be officially waived in writing by the holder's country |
| E-1 | Treaty trader - employee, spouse, and/or child |
| E-2 | Treaty investor - employee, spouse, and/or child |
| E-3 | "Specialty occupation" - Australia |
| E-3D | Spouse or child of E-3 |
| G-1 | Mission member - designated international organization |
| G-2 | Representative of a recognized or member foreign government |
| G-3 | Representative of non-recognized or non-member government |
| G-4 | Appointment - designated international organization |
| G-5 | Employee of G-1, G-2, G-3, or G-4 |
| H-1B | Mission member - designated international organization Diplomatic immunity must be officially waived in writing by the holder's country |
| H-1B1 | Representative of a recognized or member foreign government Diplomatic immunity must be officially waived in writing by the holder's country |



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| H-1B2 | Representative of non-recognized or non-member government Diplomatic immunity must be officially waived in writing by the holder's country |
| H-1B3 | Appointment - designated international organization Diplomatic immunity must be officially waived in writing by the holder's country |
| H-1C | Employee of G-1, G-2, G-3, or G-4 Diplomatic immunity must be officially waived in writing by the holder's country |
| H-4 | Spouse or child of H-1B |
| L-1A | Intracompany transfer - managerial or executive |
| L-1B | Intracompany transfer - specialized knowledge |
| L-2 | Spouse or child of L-1A or L-1B |
| O-1A | Individuals with an extraordinary ability in the sciences, education, business, or athletics (not including the arts, motion pictures, or television industry) |
| O-1B | Individuals with an extraordinary ability in the arts or extraordinary achievement in motion picture or television industry |
| TN | Professionals Under the North American Free Trade Agreement (NAFTA), also known as a TN (Treaty NAFTA) visa, for citizens of Canada and Mexico, under the terms of the NAFTA. |
| R-1 | Temporary Religious Worker – These visas are for persons who want to enter the United States to work temporarily in religious capacities. |
| R-2 | Spouse or child of R-1 |

2A.12(d) Eligible Work Authorization

If the borrower does not have acceptable documentation may use one (1) of the following to establish lawful residency:

- Deferred Action for Childhood Arrivals (DACA) (EAD category C33);
- Refugee or asylee status granted by the USCIS (EAD category A05). This status is automatically eligible to work in the U.S.
 - USCIS *Notice of Action* (Form I-797) indicating approval of a USCIS *Application for Asylum and for Withholding of Removal* (Form I-589), substantiating the refugee or asylee status may be used as evidence of lawful residency.
- Citizens of the Freely Associated States (FAS) of Micronesia, Marshall Islands, and Palau may provide an FAS passport evidencing citizenship.



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2A.12(e) Ineligible Non-Permanent Resident Aliens

The following is U.S. immigration policy and not a Visa type. A person with any of the following statuses is not eligible:

- Asylum applicant with a pending asylum application who filed for asylum on or after January 4, 1995 (EAD category C08);
- Deferred Enforced Departure (EAD category C18);
- Diplomatic Immunity;
- Humanitarian Parole (EAD category A04 and C11);
- Temporary Protected Status (EAD category A12);
- Withholding of Removal or Withholding of Deportation (EAD category A10); and
- A student, a spouse of student and a dependent child of a student are ineligible (EAD category C03, C04, C05, and C06).

Transitional Status (change of status/categorization) (EAD category C09 and C09P) is ineligible unless the loan file contains acceptable documentation to evidence the borrower's residency in the U.S. is likely to continue.

| Ineligible Visa Types | |
|-----------------------|---|
| Visa Type | Visa Description |
| B-1 | Business visitor |
| B-2 | Pleasure, tourism, medical treatment visitor |
| BC3 | Border crossing card: Mexico |
| C-1 | Transit to the United States |
| C-2 | Transit to the United Nations |
| C-3 | Transit to the United States (Foreign Government officials) |
| C-4 | Transit - Department of Homeland Security |
| C-1/D | Transit - Certified crew member combination |
| CR1/CR6 | Spouse of a U.S. Citizen - married for less than two (2) years; Given while waiting for Green Card/permanent resident card |
| D-1 | Certified crew member - sea or air |
| D-2 | Certified crew member - fishing vessel |



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| F-1 | Academic student: Academic study at a private elementary school, high school, college or university, seminary, conservatory, academic institution including language training program. |
| F-2 | Spouse or child of F-1 |
| F-3 | Academic commuter - Canada or Mexico |
| H-2A | Temporary or seasonal agricultural worker |
| H-2B | Temporary non-agricultural worker |
| H-3 | Trainee other than medical or academic |
| I | Foreign media outlet (press, radio, film, or other) |
| IR1 | Spouse of a U.S. citizen – married two (2) years or more; Given while waiting for Green Card/permanent resident card |
| J-1 | Student - exchange visitor |
| J-2 | Spouse or child of J-1 |
| K-1 | Fiancé(e) - purpose of marriage |
| K-2 | Child of K-1 |
| K-3 | Spouse of a U.S. citizen |
| K-4 | Child of K-3 |
| M-1 | Vocational student |
| M-2 | Spouse or child of M1 |
| M-3 | Vocational student - Canada or Mexico |
| NATO-1 | Official staff - NATO |
| NATO-2 | Adviser - NATO |
| NATO-3 | Clerical staff - NATO |
| NATO-4 | Member - NATO |
| NATO-5 | Expert - NATO |
| NATO-6 | Civilian - NATO - "Status of Forces" |
| NATO-1 through NATO-6 | Spouse or child of NATO 1 through NATO-6 |
| NATO-7 | Employee of NATO-1 through NATO-6 |
| O-2 | Assistant to O-1 |
| O-3 | Spouse or child of O-1 or O-2 |
| P-1A | Internationally recognized athlete |



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| P-1B | Internationally recognized entertainer (artist) |
| P-2 | Performer (artist) - reciprocal exchange program |
| P-3 | Entertainer (artist) - culturally unique program |
| P-4 | Spouse or child of P1A, P-1B, P-2, or P-3 |
| Q-1 | International cultural exchange program |
| S-1/S-2 (also coded as S-5 and S-6) | Informant |
| S-7 | Spouse or child of S-5 or S-6 |
| T-1 | Victim - human trafficking |
| T-2 | Spouse of T-1 |
| T-3 | Child of T-1 |
| T-4 | Child of T-1; Parent of an under age 21 T-1 |
| TD | Spouse or child of TN |
| U-1 | Victim of criminal activity |
| U-2 | Spouse of U-1 |
| U-3 | Child of U-1 |
| U-4 | Parent of an under age 21 U-1 |
| WB | Business visitor - visa waiver program |
| WT | Tourist visitor - visa waiver program |

2A.12(f) Non-Occupant Borrower, Guarantor, and Co-Signer

2A.12(f)(i) Non-Occupant Borrower

Non-occupant borrowers are credit applicants on a primary residence transaction who:

- Do not occupy the subject property as a primary residence;
- Has an ownership interest in the subject property as indicated on the title;
- Signs the Mortgage or Deed of Trust;
- Has joint liability for the Note with the occupant borrower; and
- Is a U.S. citizen or has a primary residence in the U.S. unless exempted due to military service with overseas assignments or is a U.S. citizen living abroad.



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2A.12(f)(ii) Guarantor or Co-Signer

Guarantors or co-signers are credit applicants who:

- Do not have ownership interest in the property as indicated on the title;
- Sign all loan documents except the security instrument;
- Has joint liability for the Note with the occupant borrower;
- Do not have an interest in the property sales transaction, such as the property seller, the builder, or real estate broker.

2A.13 Ownership Interests

All occupying and non-occupying borrowers must take title to the property in their own name or a Living Trust, be obligated on the Note or credit instrument, and sign all security instruments. The borrower must hold title to the property as a fee simple estate. However, mortgages secured by a Leasehold Estate as described in the Leasehold Estates section below may be eligible.

In community property states, the borrower's spouse is not required to be a borrower or cosigner. However, the mortgage must be executed by all parties necessary to make the lien valid and enforceable under state law.

2A.13(a) Life Estate

A life estate is an estate whose duration is limited to the life of the party holding it, or some other person, upon whose death the right reverts to the grantor or his heirs. Properties vested in a life estate are not permitted.

2A.13(b) Leasehold Estate

A leasehold estate is an estate or interest in real property held by virtue of a lease or sublease.

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| Leasehold Estate Requirements | <p>Review the lease to ensure that the lease meets all of the following requirements:</p> <ul style="list-style-type: none">• The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land;• The leasehold estate and the improvements must constitute real property;• The leasehold estate must be insured by a title policy;• The term of the lease must run for at least ten (10) years beyond the maturity date of the mortgage, unless fee simple title will vest in borrower or HOA |
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| | <p>association at an earlier date;</p> <ul style="list-style-type: none"> • The leasehold estate and mortgage is not impaired by any merger of title between the lessor and lessee or by any default of a sublessor; • An automatic renewal clause is acceptable if it verifies the terms will extend at least ten years beyond the maturity date of the loan; • All rents, other payment, or assessments that have come due must be paid; and • The borrower must not be in default under any other provision of the lease, nor may such a default have been claimed by the lessor. |
| Lease Provisions | <p>The lease must:</p> <ul style="list-style-type: none"> • Not contain default provisions allowing forfeiture or termination of the lease, except for nonpayment of the lease rents; • Provide assignments, transfers, mortgaging, and subletting of the leasehold unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor; • Be valid, in good standing, and in full force and effect in all respects; • Give the lender the right to receive at least 30 days' notice of any default by the borrower, and give the lender the option to either cure the default or take over the borrower's rights under the lease; • Include provisions to protect the mortgagee's interest in the event of condemnation. The lessor cannot require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee; • Provide that the borrower must pay all taxes, insurance and homeowners' association dues and any taxes on improvements; • If the lease provides for an option for the borrower to purchase the fee simple interest in the land, the purchase must be at the borrower's sole option, there can be no time limit within which the option must be exercised, and both the lease and the option must be assignable. See Lease with Option to Purchase for full requirements; • Leases may not contain restrictions of assignability such as assignment by way of mortgage or assignment to or by the Federal Housing Administration or Department of Veterans Affairs or upon foreclosure, nor withhold consent for assignment because of the assignee's national origin, race, color, or creed so long as the leasehold is covered by an insured mortgage, or a mortgage held |

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| | <p>by the Secretary or so long as the Secretary owns the leasehold;</p> <ul style="list-style-type: none"> • The lease must provide for the borrower to retain voting rights in any homeowners' association; and • Mortgagee must have the right to correct lessee's defaults within 120 days from receipt of notice of intent to terminate lease because of such default, or such further time as may be necessary to complete foreclosure. <p>The Leasehold Estate Checklist is available for use when reviewing eligibility for a leasehold estate</p> |
| Lease with Option to Purchase | <p>The lease may include an option for the borrower to purchase the fee interest in the land. If exercised, the mortgage becomes a lien on the title in the same lien priority it had on the leasehold.</p> <p>The purchase price of the land is established based on the status of the property improvements.</p> <ul style="list-style-type: none"> • If the property improvements exist at the time the lease is executed, the purchase price is the appraised value of the land on the date the lease was executed; and • If the property improvements exist at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI), the initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed. <p>Note: The purchase price may be adjusted annually during the term of the lease to reflect the percentage of increase or decrease from the prior year. Leases may be offered with or without a limitation on increases or decreases in the rent payments.</p> <ul style="list-style-type: none"> • If the improvements will be constructed after the lease is executed, the purchase price should be the lower of the following: <ul style="list-style-type: none"> ○ The current appraised value of the land; or ○ The result of the following: $\text{Appraised Land Value alone} \div \text{Original Total Appraised Value} = \% \times \text{Current Total Appraised Value}$ <p>Example: Assume that the total original appraised value for a property was</p> |



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| | <p>\$160,000, and the land alone was valued at \$40,000 (thus representing 25% of the total appraised value). If the current appraised value were \$225,000, \$50,000 for the land and \$175,000 for improvements, the purchase price would be \$50,000 (current appraised value of the land, since is less than 25% of \$225,000)</p> <p>Note: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements.</p> |
|--|--|

2A.14 Loans to Trusts

For Non-Delegated Clients, all trust requests must be approved, in writing, by Newrez legal as early as practical, but should be submitted prior to loan approval.

It is unacceptable to instruct the borrower to deed the subject property out of a trust into his/her personal name for the purposes of obtaining financing and avoiding Newrez Trust approval.

If the borrower wants to remove the property from the trust in order to facilitate closing, we will require a signed written statement in the borrower's handwriting to the effect that (i) they made the decision to deed the property out of the trust of their own accord, (ii) they were not advised to take this action by any party to the loan transaction (lender, broker, escrow/settlement agent), (iii) this action is not intended to influence the lending process in any way, and (iv) they understand the legal implications of this decision.

2A.14(a) Inter Vivos Revocable Trust

An inter vivos revocable trust (living trust) is a trust:

- Created by an individual during his or her lifetime;
- Becomes effective during its creator's lifetime; and
- Can be changed or canceled by its creator at any time, for any reason, during his or her lifetime.

2A.14(b) Trust and Trustee Requirements

Review the trust agreement (or the summary or certification of the trust agreement if applicable) to ensure that the living trust meets all of the requirements below:



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- The trust is established by one (1) or more natural persons, solely or jointly. The person establishing the trust is known as the “Settlor,” “Trustor,” or “Grantor” (referred to below as “Settlor”);
- The Settlor is the primary beneficiary of the Trust. If there is more than one (1) Settlor, there can be more than one (1) primary beneficiary;
- The income or assets of at least one (1) individual establishing the trust must be used to qualify for the loan;
- The trustee(s) must include either:
 - The individual establishing the trust (or at least one (1) of the individuals, if there are two (2) or more); or
 - An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
- The trustee has the power to mortgage the subject property for the purpose of securing a loan to the party (or parties) who are the borrowers on the Note;
- In the event the originally named trustee is unable or unwilling to serve, and the trust instrument has a mechanism for appointment of a successor trustee, the trust can properly act through the successor trustee;
- For a property that is the borrower's primary residence, at least one (1) individual establishing the trust must occupy the security property and sign the loan documents;
- The loan may not be Texas Equity Loan subject to Article XVI, Section 50(a) (6) and 50(g) of the Texas Constitution;
- There is no unusual risk or impairment of lenders’ rights, such as distributions required to be made in specified amounts other than net income; and
- The trust is valid under law.

2A.14(c) Certification of Trust

Trust Certifications are acceptable in all states provided the following is met:

- 1) The borrower(s) must be the creator of the trust (settlor, grantor, trustor).
- 2) The borrower(s) must be the trustee of the trust.
- 3) The borrower(s) must be the primary beneficiary of the trust during their lifetime.
- 4) The trust must be revocable.
- 5) The trustee must have the authority to buy/hold, sell and encumber the trust property.
- 6) The trust must have been created during the lifetime of the borrower.
- 7) The trust certificate must be fully executed.



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2A.14(d) Title and Title Insurance Requirements

The title insurance policy for the subject property may not list any exceptions arising from the trust ownership of the property. Full title to the property must be vested either:

- In the trustee of the inter vivos revocable trust;
- Jointly in the trustee of the inter vivos revocable trust and in the name of an individual borrower; and
- In the trustee of more than one (1) inter vivos revocable trust.

If title will be vested in the trustees of more than one (1) inter vivos revocable trust, the terms of the two (2) revocable inter vivos trust documents must complement each other and may not be in conflict with one another.

2A.14(e) Ineligible Trust

The following trusts are ineligible:

- Blind Trusts
- Community Land Trusts
- Irrevocable Trusts
- Land Trusts

2A.15 Ineligible Programs

The following programs are not eligible:

- 203(h) Mortgage Insurance for Disaster Victims
- 203(k) Rehabilitation Mortgage
- Good Neighbor Next Door
- Graduated Payment Mortgage (GPM)
- Growing Equity Mortgages (GEM)
- HFA Programs
- Hope for Homeowners
- Section 184 Indian Reservations
- Section 247 Hawaiian Home Lands



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| Revision History | Date |
|---|------------|
| Non-Permanent Resident Alien - must have case numbers assigned on or before May 24, 2025 to be eligible for financing. | 04.29.2025 |
| <p>Certification of Trust updated to reflect:</p> <p>Trust certifications are acceptable in all states provided the following is met:</p> <ol style="list-style-type: none">1) The borrower(s) must be the creator of the trust (settlor, grantor, trustor).2) The borrower(s) must be the trustee of the trust.3) The borrower's must be the primary beneficiary of the trust during her lifetime.4) The trust must be revocable.5) The trustee must have the authority to buy/hold, sell and encumber trust property.6) The trust must have been created during the lifetime of the borrower.7) The trust certificate must be fully executed. | 06.26.2025 |



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Chapter 2B Transaction Types

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2B.1 Purchase Mortgage

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property.

The proceeds from the transaction must be used to:

- Finance the acquisition of the subject property;
- Convert an interim construction loan or term Note into permanent financing; or
- Pay off the outstanding balance on the installment land contract or contract for deed.

Complete purchase agreements, including all addenda, are required for all purchase transactions. All purchase agreement terms must be considered in the underwriting decision. Any evidence of undisclosed conditions of the transaction must be investigated. Examples of undisclosed conditions are evidence of straw buyers (changes in purchaser on the purchase agreement) or possible undisclosed seller concessions, such as making mortgage payments on behalf of the borrower for the first few months of the loan.

Minor adjustments due to condition or other relevant factors are permitted.

The borrower(s) name(s) must match the FHA Connection ([FHAC](#)), the sales contract, and the Note. Provisions of the sales contract must not violate FHA requirements. In addition:

- All purchasers listed on the sales contract are borrowers; and
- Only borrowers sign the sales contract.

An addendum or modification may be used to remove or correct any provisions of the sales contract that do not conform to these requirements.

The family member of a purchaser, who is not a borrower, may be listed on the sales contract without modification or removal.

Borrower-paid settlement fees that are Paid Outside of Closing (POC) toward the minimum required investment will be considered only if all of the following are met:

- The seller and/or lender credits are less than 6% of the sales price;
- The seller and/or lender credits are sufficient to cover the closing costs and prepaid expenses paid at closing and the POCs; and
- The file contains evidence the borrower paid the POCs from their own funds and not from a credit card.



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Purchase transactions do not allow for cash back to the borrower at closing other than the following:

- Reimbursement for the borrower's overpayment of fees, including refunds that may be required in accordance with certain federal laws or regulations. The closing disclosure must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund;
- Costs paid by the borrower in advance (e.g., sales contract deposit, appraisal, and credit report fees);
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program; and
 - Where real estate taxes are paid in arrears; the seller's real estate tax credit may be used to meet the MRI. Documentation evidencing the borrower has enough assets to meet the MRI and the borrower paid closing costs at the time of underwriting is required.

Within limitations imposed by applicable state laws, closing costs may not be financed as part of a purchase transaction (except for mortgage insurance).

2B.1(a) Owner of Record and Chain of Title

The file must contain evidence that the seller is the owner of record. The transaction may not involve any sale or assignment of the sales contract.

If the property was sold within 12 months prior to the case number assignment date, review evidence of prior ownership and determine if there are any undisclosed identity of interest transactions and for compliance with Property Flipping (below).

Documentation may include, but is not limited to:

- A property sales history report;
- A copy of the recorded deed from the seller;
- Other documentation, such as a copy of a property tax bill, title commitment, or binder, recorded deeds, demonstrating the seller's ownership of the property and the date it was acquired;
- Copies of recorded deeds, tax statements, or a 12-month chain of title on the title commitment;
- A transaction where the property was previously sold within the last 12 months requires scrutiny to ensure the transaction is legitimate. Some characteristics of fraudulent transactions include but are not limited to foreclosure bailouts, distressed sales, and inflated values due to stated improvements that are not supported; and
- In purchase transactions where the seller is a corporation, partnership, or any other business entity, ensure the borrower is not an owner of the business entity selling the subject property.



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- Transactions involving any sale or assignment of the sales contract are not permitted.
- Transactions involving a double escrow are not permitted.

Intermediary Companies are not eligible in conjunction with FHA financing. Intermediary Companies (IC) are entities that generally provide cash-offer assistance programs for the sale of the borrower's departing residence and/or the purchase of the borrower's new residence. An IC may be identified through the purchase agreement or through a separate contract for the sale of the borrower's departing residence and/or the purchase of the borrower's new residence. Examples of Intermediary Company programs are Homeward, RibbonCash Offers, and Zoom Casa.

2B.1(b) Dual Capacity

Participants that have a direct impact on a mortgage approval decision are prohibited from having multiple roles or compensation sources, either directly or indirectly, from a single FHA-insured transaction. These participants are:

- Underwriters
- Appraisers
- Inspectors
- Engineers

Indirect compensation includes any compensation resulting from the same FHA-insured transaction, other than for services performed in a direct role. Examples include, but are not limited to:

- Compensation resulting from an ownership interest in any other business that is a party to the same FHA-insured transaction; or
- Compensation earned by a spouse, domestic partner, or other family member that has a direct role in the same FHA-insured transaction.

Ensure that participants with a direct impact on the mortgage approval decision do not have multiple roles or sources of compensation from the same FHA-insured transaction. Participants that do not have a direct impact on the mortgage approval decision may have multiple roles and/or sources of compensation for services actually performed and permitted by HUD, provided that the FHA-insured transaction complies with all applicable federal, state, and local laws, rules, and requirements.

Parties acting in multiple roles in a single mortgage transaction are not eligible. For example:

- The real estate agent (selling agent or buyer's agent) for the subject property may not function as the loan officer for the borrowers purchasing the same subject property;



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- The loan officer may not take their own application; and
- Husbands and wives working as loan officers/real estate agents may not receive direct or indirect compensation.

2B.1(c) Property Flipping

Property flipping is indicative of a practice whereby a recently acquired property is resold for a considerable profit with an artificially inflated value, often with the help of an appraiser. Property flipping refers to the purchase and subsequent resale of a property in a short period of time.

The seller's date of acquisition refers to the date the seller acquired legal ownership of that property. The resale date refers to the date all parties have executed the sales contract that will result in the mortgage for the resale of the property.

The below resale restrictions do not apply to resale or holding-period clauses restricting the buyer from reselling the property.

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| Resale 90 Days or Fewer | A property being resold 90 days or fewer following the date of acquisition by the seller are not eligible. |
| Resale 91 to 180 Days | <p>Properties sold between 91 days and 180 days after acquisition by the seller are eligible.</p> <p>A second appraisal is required by another appraiser if the resale price is 100% or more over the price paid by the seller to acquire the property. See Chapter 2J.6 FHA Appraisal and Property for second appraisal requirements.</p> <p>If the second appraisal supports a value that is more than 5% lower than the value of the first appraisal, the lower value must be used as the property value in determining the Adjusted Value.</p> <p>The cost of the second appraisal may not be charged to the borrower.</p> |
| Exceptions to Time Restrictions on Resale | <p>Exceptions to time restrictions on resale are:</p> <ul style="list-style-type: none">• Properties acquired by an employer or relocation agency in connection with the relocation of an employee; |



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| | <ul style="list-style-type: none">• Resales by HUD under its REO program;• Sales by other U.S. government agencies of single-family properties pursuant to programs operated by the agencies;• Sales of properties by nonprofits approved to purchase HUD-owned single-family properties at a discount with resale restrictions;• Sales of properties that are acquired by the seller by an inheritance;• Sales of properties by state and federally chartered financial institutions and Government;• Sponsored Enterprises (GSE);• Sales of properties by local and state government agencies; and• Sales of properties within Presidentially Declared Major Disaster Areas, only upon issuance of notice of an exception from HUD. |
| The restrictions listed above and those in 24 CFR § 203.37a do not apply to a builder selling a newly built house or building a house for a borrower using FHA-insured financing. | |

2B.1(d) Identity of Interest Transactions (Non-arm's length transaction)

An identity of interest transaction is a sale between:

- Parties with an existing business relationship (an association between individuals or companies entered into for commercial purposes); or
- Family members, defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status. A family member is defined as follows, regardless of actual or perceived sexual, gender identity, or legal marital status:
 - Child, parent, or grandparent. A child is defined as a son, stepson, daughter, or stepdaughter. A parent or grandparent includes stepparent/grandparent or foster parent/grandparent
 - Spouse or domestic partner
 - Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption
 - Foster child
 - Brother, stepbrother, sister, stepsister
 - Uncle or aunt
 - In-law of the borrower

The maximum LTV for Identity of Interest transactions on primary residences is 85% and 100% CLTV.



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The maximum LTV for a transaction where a tenant-landlord relationship exists at time of contract execution is 85%. Refer to Chapter [2G](#) Assets, [2G.3 \(a\)\(ii\)](#) Inducement to Purchase regarding rent below market value.

| Exception to Maximum LTV | |
|-----------------------------|---|
| Family Member Transactions | <p>The 85% LTV restriction may be exceeded if a borrower purchases as their primary residence.</p> <ul style="list-style-type: none">• The primary residence of another family member; or• A property owned by another family member in which the borrower has been a tenant for at least six (6) months immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.• Maximum 100% CLTV. |
| Builder's Employee Purchase | <p>The 85% LTV restriction may be exceeded if an employee of a builder, who is not a family member, purchases one of the builder's new houses or models as a primary residence.</p> |
| Corporate Transfer | <p>The 85% LTV restriction may be exceeded if a corporation transfers an employee to another location, purchases the employee's house, and sells the house to another employee.</p> |
| Tenant Purchase | <p>The 85% LTV restriction may be exceeded if the current tenant purchased the property where the tenant has rented for at least six (6) months immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.</p> |
| Non-occupying Borrower | <p>Non-occupying borrower transactions are eligible up to 75% LTV. The LTV may be increased to a maximum of 96.5% if the borrowers are family members, provided the transaction does not involve:</p> <ul style="list-style-type: none">• A family member selling to a family member who will be a non-occupying co-borrower; or• A transaction on a two- to four-unit property. |

2B.2 Refinance Mortgage

A refinance transaction is used to pay off the existing debt or withdraw equity from the subject property with the proceeds of the new mortgage for a borrower with legal title to the subject property.

The following are applicable to all refinance transactions:



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- Title must be in the name of at least one (1) borrower prior to loan application for refinance transactions;
- Careful consideration must be given to properties currently listed for sale.
- For FHA-to-FHA refinance transactions, Refinance Authorization information must be obtained at case number assignment;
- The refinance of an existing mortgage that has been subject to eminent domain condemnation or seizure, by a state, municipality, or any other political subdivision of a state is not permitted; and
- If the subject property is located in an area where a state, municipality, or other political subdivision has exercised eminent domain condemnation or seizure of a mortgage, a certification from the borrower stating the mortgage being refinanced was not subject to eminent domain condemnation or seizure must be obtained.

The following refinance transaction types are acceptable.

No Cash-out Refinance

A No Cash-out Refinance mortgage represents a lien that is used to pay off the existing mortgage or lien with a new mortgage. Cash removal, other than incidental cash, is not permitted.

There are three (3) types of No Cash-out Refinance mortgages.

Rate and Term Refinance

A Rate and Term Refinance is a no cash-out refinance of any mortgage in which the proceeds are limited to the purpose of paying off the existing debt and associated costs.

Loan amount may include:

- Unpaid principal balance (including accrued interest, MIP due, late fees, and escrow shortages, if applicable), regardless of seasoning;
- Allowable closing costs, and prepaid expenses;
- Minus MIP refund (if originally financed in the mortgage);
- Incidental cash back up to \$500;
- Borrower paid repairs required by the appraiser;
- Unpaid principal balance of any PACE obligation; and
- Satisfaction of junior liens seasoned for at least one (1) year from funding unless lien was incurred as part of acquisition or for home improvements of the subject property.
 - Regardless of the age of a HELOC, if draws more than \$1,000 were



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| | advanced within the last 12 months for purposes other than repairs and rehabilitation of the subject property that portion above \$1,000 is not eligible for inclusion in the new mortgage. |
| Simple Refinance | <p>A Simple Refinance is a no cash-out refinance of an existing FHA-insured mortgage in which all proceeds are used to pay off the existing FHA-insured mortgage on the subject property and the associated costs.</p> <p>Loan amount may include:</p> <ul style="list-style-type: none"> • Unpaid principal balance (including accrued interest, MIP due, late fees and escrow shortages, if applicable), regardless of seasoning; • Allowable closing costs and prepaid expenses; • Minus MIP refund (if originally financed in the mortgage); • Unpaid principal balance of any PACE obligation; • Incidental cash back up to \$500; and • Borrower-paid repairs required by the appraiser. <p>Loan amount may not include equity buyout, payoff of junior liens or prepayment penalties.</p> |
| Streamline Refinance | <p>A Streamline Refinance is a no cash-out refinance of an existing FHA-insured mortgage requiring limited credit documentation and underwriting, with two (2) options:</p> <ul style="list-style-type: none"> • Credit Qualifying; and • Non-Credit Qualifying. <p>Net Tangible Benefit</p> <ul style="list-style-type: none"> • The Net Tangible Benefit is a reduced Combined rate, a reduced term, and/or a change from an ARM to a Fixed Rate Mortgage that results in a financial benefit to the borrower. • Combined Rate refers to the interest rate on the new mortgage plus the MIP. • Refer to our Product Summaries for the permissible minimum thresholds to define net tangible benefit. |
| Cash-out Refinance | Cash-out Refinance transactions are mortgages used to remove equity from a property. Funds received from a cash-out refinance loan are not limited to a specific purpose. A property being refinanced that is owned free and clear is |



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| | considered a cash-out refinance. |
| Refer to our Product Summaries for complete requirements for all refinance transactions. | |

2B.3 Other Rate and Term Refinance Transactions

2B.3(a) Buy Out Title Equity Holder

A refinance transaction that results in a buyout of the other party's interest in their primary residence is considered a rate and term refinance, (e.g., divorce settlement, or buyout of a sibling, etc.) and is permitted subject to all of the following:

- All parties must provide a signed, legally enforceable agreement that states the terms of the property transfer and the disposition of the proceeds (divorce decree or separation agreement, or legally enforceable equity agreement);
- The borrower who acquires sole ownership of the property may receive no cash-out from the proceeds of the refinance; and
- The party who is buying out the other party's interest must be able to qualify for the loan.

Refer to our Product Summaries for complete guidelines.

2B.3(b) Owelty Liens-Texas Only

The payoff of an owelty lien may be treated as a rate and term refinance transaction and is not subject to Texas Section 50(a)(6) Home Equity requirements. The divorce decree and separation agreement must be recorded.

2B.3(c) Short Pay Off

A rate and term refinance where the maximum mortgage amount is insufficient to extinguish the existing mortgage debt may be eligible provided the existing note holder writes off the amount of the indebtedness that cannot be refinanced into the new FHA-insured mortgage.

2B.3(d) Refinance Existing FHA Section 203(k) Loan

Loans closed under Section 203(k) may be refinanced into a Section 203(b) mortgage and will be subject to all of the following requirements:

- Upfront MIP and monthly MIP apply on the new loan even if upfront MIP was not charged on the existing 203(k) loan;
- All rehabilitation work must be completed before the loan can be refinanced; and



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- Any remaining funds in escrow accounts must have been disbursed.

The rehabilitation work may be documented as complete with the current servicing lender providing all of the following documentation:

- A letter of completion;
- A Notice of Final Release showing they have closed the rehab escrow account; and
- The 203(k) Close Out screen in FHA Connection must be completed and a printout of the FHA Connection Electronic Certificate of Close Out screen must be included in the file.

2B.3(e) Inherited Properties

The following limitations apply in cases where the subject property was inherited:

- Borrower must hold title to the property;
 - Owner occupied primary residence only;
 - The borrower is not required to occupy the property for a minimum period of time provided the property has not been treated as an investment property since inherited;
 - If the property has been rented since inheritance, it is not eligible for a cash-out refinance until the borrower has occupied the property for 12 months.
- LTV is based on appraised value regardless of amount of time owned;
- Document inheritance through copy of will, probate document or other type of land record; and
- Holding title for the past 12 months is waived for cash-out refinance eligibility.

2B.3(f) Texas Home Equity Refinance

A first mortgage cash-out refinance or rate and term refinance secured by the borrower's homestead are Texas Equity Loans and must meet the requirements of Article XVI, Section 50(a)(6) and 50(g) of the Texas Constitution if the borrower receives any amount of cash at closing.

First mortgage Texas Home Equity Loans are not eligible for purchase by Newrez.

A first mortgage rate and term refinance originated to pay-off an existing Texas 50(a)(6) Home Equity Loan may be refinanced as a Texas 50(f)(2) Non-Home Equity loan if the following conditions are met:

- Loan to be paid must be seasoned for 12 months from the date the loan was closed;
- No additional funds are advanced other than funds advanced to refinance a debt under Texas Constitution Art. XVI, Section 50(a)(1) through (a)(7) or actual costs and reserves required to refinance the debt;
- The principal amount of the refinance, when added to the aggregate total of the outstanding



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principal balances of all valid encumbrances of record against the homestead, does not exceed 80% of the homestead's fair market value on the date of the refinance; and

- The owner is provided with the written notice prescribed in the Constitution on a separate document within three (3) business days of the application and at least 12 days before the date the refinance is closed.

All other requirements contained in this Underwriting Guide, including the requirements in the Product Summaries apply to Texas Home Equity Loans unless limited by the Texas Constitution or the requirements in this Texas Equity Loans section.

2B.4 Installment Land Contracts

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| Purchase | The transaction is considered a purchase if the loan will be used to complete payment on a land contract, contract for deed or similar type of financing arrangement in which the borrower does not have title to the property (unrecorded land contract). |
| No Cash-out Refinance | <p>The transaction is considered a no cash-out refinance if the loan will be used to complete payment on a land contract, contract for deed or similar type of financing arrangement in which the borrower does have title to the property (recorded land contract). The unpaid principal balance will be considered the outstanding balance on the recorded land contract.</p> <p>The Adjusted Value is based on the following:</p> <ul style="list-style-type: none">• Properties acquired (date of land contract) less than 12 months from the date of the case number assignment use the lesser of the outstanding balance on the land contract or the property value; and• Properties acquired (date of land contract) 12 months or more from the date of the case number assignment, use the property value. |

2B.5 HUD Employee Loans

The loan must be scored through TOTAL Mortgage Scorecard. If the file receives an Accept, the underwriter must underwrite the loan (but not issue an approval) and submit the application to the Jurisdictional Home Ownership Center (HOC) for final underwriting approval.



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2B.6 New Construction

New construction refers to Proposed Construction, Under Construction and Properties Existing Less than One Year as defined below:

- **Proposed Construction** refers to a property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.
- **Under Construction** refers to the period from the first placement of permanent material to 100% completion with no Certificate of Occupancy (CO) or equivalent.
- **Existing Less than One Year** refers to a property that is 100% complete and has been completed less than one (1) year from the date of the issuance of the CO or equivalent. The property must have never been occupied.

FHA treats the sale of an occupied property that has been completed less than one (1) year from the issuance of the CO or equivalent as an Existing property. See [2B.6\(c\)](#) Manufactured Home (By Construction Status at Time of Appraisal) Inspection requirements for Maximum Financing.

2B.6(a) New Construction Eligible Property Types

The following property types are eligible for New Construction financing:

- Site Built Housing (one- to four-units)
- Manufactured Housing

All new construction transactions are considered Purchase transactions.

Self-built homes and borrower acting as general contractor is not permitted.

2B.6(b) Site Built Housing (By Construction Status at Time of Appraisal)

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| <u>Proposed Construction</u> | Obtain one (1) of the following: <ul style="list-style-type: none">• Copies of the building permit (or equivalent) and CO (or equivalent); or• Three (3) inspections (footing, framing and final) performed by the local authority with authority over the subject property or an International Code Council (ICC)-Certified Residential Combination Inspector (RCI) or Combination Inspector (CI) (for modular housing, footing and final only); or• In the absence of such ICC-certified RCI or CI, obtain three (3) inspections |
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| | (footing, framing and final) performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the property is located. |
| <u>Under Construction</u> | <p>Obtain one (1) of the following:</p> <ul style="list-style-type: none"> • Copies of the building permit (or equivalent) and CO (or equivalent); or • A final inspection issued by the local authority with authority over the property or by an ICC-certified RCI or CI; or • In the absence of such ICC-certified RCI or CI, obtain a final inspection performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the property is located. |
| <u>Existing Less than One Year</u> | <p>Obtain one (1) of the following:</p> <ul style="list-style-type: none"> • A copy of the CO (or equivalent); • A final inspection issued by the local authority with authority over the subject property or by an ICC-certified RCI or CI; or • In the absence of such ICC-certified RCI or CI, obtain a final inspection performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the property is located. |

2B.6(c) Manufactured Home (By Construction Status at Time of Appraisal)

Inspection requirements for Maximum Financing

Existing construction refers to a property that has been 100% complete for over one (1) year or has been completed for less than one (1) year and was previously occupied.

See Chapter [2D.1 \(h\)](#) for complete manufactured housing requirements.

New construction for manufactured housing is a manufactured home that has been permanently erected on a site for less than one (1) year prior to the case number assignment.

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| <u>Proposed Construction</u> | <ul style="list-style-type: none"> • Copies of the building permit (or equivalent) and CO (or equivalent); or • Two inspection (initial and final) performed by the local authority with jurisdiction over the subject property or an International Code Council (ICC)-certified Residential Combination Inspector (RCI) or Combination Inspector (CI) (for modular housing, footing and final only); or • In the absence of such ICC-certified RCI or CI, obtain two (2) inspections (initial and final) performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the property is located. |
| <u>Under Construction</u> | <p>Obtain one (1) of the following:</p> <ul style="list-style-type: none"> • Copies of the building permit (or equivalent) and CO (or equivalent); or • A final inspection issued by the local authority with authority over the subject property or by an ICC-certified RCI or CI; or • In the absence of such ICC-certified RCI or CI, obtain a final inspection performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the subject property is located. |
| <u>Existing Less than One Year</u> | <p>Obtain one (1) of the following:</p> <ul style="list-style-type: none"> • A copy of the CO (or equivalent); • A final inspection issued by the local authority with authority over the subject property or by an ICC-certified RCI or CI; or • In the absence of such ICC-certified RCI or CI, obtain a final inspection performed by a disinterested third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, and has met the licensing and bonding requirements of the state in which the subject property is located. |

2B.6(c)(i) Perimeter Enclosure

The space beneath manufactured homes must be properly enclosed and therefore must:

- Be a continuous wall (whether bearing or non-load bearing);
- Be secured to the perimeter of the unit; and



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- Allow for proper ventilation of the crawl space.

The space beneath the house must be enclosed by a continuous foundation type construction designed to resist all forces to which it is subject without transmitting forces to the building superstructure. The enclosure must be secured to the perimeter of the house and be constructed of materials that conform, accordingly, to HUD MPS (such as concrete, masonry or treated wood) and the PFGMH for foundations.

2B.7 Documentation Required for All New Construction

All of the following documentation must be obtained:

- Form HUD-92541, *Builder's Certification of Plans, Specifications, and Site*;
- Form HUD-92544, *Warranty of Completion of Construction*.
- Required inspections, as applicable.
- Inspections performed by an ICC certified RCI or CI or a third-party, who is a registered architect or a structural engineer, or a qualified trades person or contractor, must be reported on Form HUD-92051, *Compliance Inspection Report*, or on an appropriate state-sanctioned inspection form.
- When a third party, who is a registered architect or a structural engineer, or a qualified trades person or contractor is relied upon for required inspections due to the absence of an ICC certified RCI or CI, include certification from such inspector that they are licensed and bonded under applicable state and local laws to perform the type of inspection completed.
- Wood Infestation Report, unless the Property is located in an area of no to slight infestation as indicated on HUD's "Termite Treatment Exception Areas" list:
 - Form HUD-NPMA-99-A, *Subterranean Termite Protection Builder's Guarantee*, is required for all New Construction. If the building is constructed with steel, masonry or concrete building components with only minor interior wood trim and roof sheathing, no treatment is needed. The builder must note on the form that the construction is masonry, steel, or concrete.
 - Form HUD-NPMA-99-B, *New Construction Subterranean Termite Service Record*, is required when the new construction property is treated with one (1) of the following:
 - Termite Bait System, Field Applied Wood Treatment, soil chemical termiticide; or
 - Physical Barrier System is installed, as reflected on the HUD-NPMA-99-A.

The use of post construction soil treatment when the termiticide is applied only around the perimeter of the foundation is not acceptable.

- Local Health Authority well water analysis and/or septic report, where required by the local jurisdictional authority.



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2B.7(a) Documents to be Provided to the Appraiser at Assignment

All new construction must meet HUD's Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

- A fully executed Form [HUD-92541](#), *Builder's Certification of Plans, Specifications, and Site*, signed and dated no more than 30 days prior to the date the appraisal was ordered.
- For properties 90% completed or less, a copy of the floor plan, plot plan, and any other exhibits necessary to allow the appraiser to determine the size and level of finish of the house they are appraising.
- For properties greater than 90% but less than 100% completed, a list of components to be installed or completed after the date of inspection.

See Chapter 2J Appraisal for New Construction review of the appraisal.

2B.8 Construction-to-Permanent Financing – Single Close Transaction (Delegated Clients)

Construction to Permanent (CP) refers to the construction of a dwelling on land owned or being purchased by the borrower. The CP program combines the features of a construction loan with that of a traditional long-term permanent mortgage using a single mortgage closing prior to the start of construction. A construction loan refers to a short-term interim loan for financing the cost of construction.

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| Eligibility | The borrower must have contracted with a builder to construct the dwelling. The builder must be a licensed general contractor. The borrower must either be purchasing the land at the closing of the construction loan, or already own the land. |
| Maximum Mortgage | Use the lesser of the appraised value or the documented acquisition cost to determine the Adjusted Value. The maximum mortgage amount is calculated using the appropriate purchase LTV percentage of the lesser of the appraised value or the documented Acquisition Cost. The documented Acquisition Cost of the subject property includes: <ul style="list-style-type: none">• The builder's price (includes cost of land if being purchased from builder), or the sum of all subcontractor bids and materials. (For Manufactured Housing, the builder's price to build includes the sum of the cost of the unit(s), the cost to transport the unit from the dealer's lot to the installation site, and all on-site installation costs); |



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| | <ul style="list-style-type: none"> • Borrower-paid options and construction costs not included in the builder's price to build; • Closing costs associated with any interim financing of the land; and • Either of the following: <ul style="list-style-type: none"> ○ Use the lesser of the cost of the land or appraised value of the land for land that is not yet purchased or has been owned six (6) months or less at case number assignment; or ○ Use the appraised value of the land for land that has been owned for more than six (6) months at case number assignment or was received as an acceptable gift. |
| Minimum Required Investment (MRI) | <p>The borrower may use any cash investment in the acquisition cost of the subject property or land equity to satisfy the MRI.</p> <p>Must document the cash investment was from an acceptable source of funds.</p> |
| Documentation | <p>The following documentation is required:</p> <ul style="list-style-type: none"> • The Closing Disclosure or similar legal document showing the cost of the land and the date of purchase; • Evidence that the funds used to pay borrower-paid options were derived from an acceptable source; • Itemization of the options and expenses, and cost of each item; • If the land was given as a gift to the borrower, verification that the donor was not a prohibited source. All New Construction requirements must be complied with. |
| Documentation for Closing | <p>In addition to standard FHA documents, the following documents must be used:</p> <ul style="list-style-type: none"> • A Construction Rider to the Note, and Construction Loan Agreement. These construction documents must provide that all special construction terms end when the construction loan converts to a permanent mortgage. After conversion, only the permanent mortgage terms (based on standard documents) continue to be effective, making the permanent mortgage eligible for FHA mortgage insurance. • A disclosure issued to the borrower explaining that the mortgage is not eligible for FHA mortgage insurance until after a final inspection, or the issuance of a certificate of occupancy by the local governmental |



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| | <p>authority, whichever is later.</p> <ul style="list-style-type: none"> Fully executed contract agreement between the builder and the borrower, which includes the contractor's price to build; Documentation of land acquisition or land ownership; and A payoff statement and evidence of the actual payoff if mortgage proceeds are used to purchase or pay off debt on the land. |
| Documentation for Endorsement | <p>The following documentation is required for endorsement:</p> <ul style="list-style-type: none"> A title update after conversion to the permanent mortgage to show that the subject property is free and clear of all liens other than the mortgage. Verification and documentation that the construction was fully drawn down and that any remaining funds were used to pay down the principal balance on the permanent mortgage. |
| Additional Requirements | <p>The following documentation is required:</p> <ul style="list-style-type: none"> See Chapter 2A.9 Maximum Age of Mortgage Documents for document expiration dates based on construction date. Reconciliation Statement or Modification Closing Disclosure Original Closing Disclosure showing the final disbursement and escrow collection and interest for permanent loan Modification Closing Instructions for Title Modification Agreement of the Original Note and Mortgage. The Modification Agreement must be stamped as "True and Certified Copy of the Original sent for Recordation." The stamp must be initialed by the individual stamping the document; and Original Note dated for the start of the construction Copy of original Mortgage Construction Closing Documents Original and final credit documents, as applicable Notice of Right to Cancel is not required No exceptions permitted |
| Endorsement | <p>The mortgage must be endorsed within 60 Days of the final inspection or issuance of the Certificate of Occupancy (CO), whichever is later.</p> |
| Start of Amortization | <p>Amortization of the permanent mortgage must begin no later than the first of the month following 60 days from the date of the final inspection or issuance of the CO.</p> |



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2B.9 Building on Own Land – Two-Close Transactions

Building on Own Land refers to the permanent financing of a newly constructed dwelling on land owned by the borrower and may include the extinguishing of any construction loan.

Building on Own Land is considered a two-close transaction that requires the closing of a construction loan and then obtaining a mortgage once the construction is complete.

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| Eligibility | The borrower must have contracted with a builder to construct the improvements. The builder must be a licensed general contractor. The borrower may not function as the general contractor. |
| Maximum Mortgage | <p>The maximum mortgage amount is calculated using the appropriate purchase LTV percentage of the lesser of the appraised value or the documented acquisition cost.</p> <p>Acquisition Costs of the property includes:</p> <ul style="list-style-type: none">• The builder's price or the sum of all subcontractor bids and materials (For Manufactured Housing, the builder's price to build includes the sum of the cost of the unit(s), the cost to transport the unit from the dealer's lot to the installation site, and all on-site installation.);• Borrower-paid options and construction costs not included in the builder's price to build;• Interest and other costs associated with a construction loan obtained by the borrower to fund construction, if applicable; and• Either of the following:<ul style="list-style-type: none">○ The lesser of the cost of the land, or appraised value of the land, if the land is owned six months or less at case number assignment; or○ The appraised value of the land if the land has been owned for greater than six months at case number assignment or was received as an acceptable gift. |
| Minimum Required Investment (MRI) | The borrower may use any cash investment in the acquisition cost of the subject property or land equity to satisfy the MRI. |



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| | <p>The cash investment must be from an acceptable source of funds.</p> <p>If the land was given as a gift to the borrower, verify that the donor was not a prohibited source. Obtain standard gift documentation requirements for any gift of land.</p> |
| Borrower's Additional Equity in the Property | <p>The borrower may not receive cash back from the additional equity in the property but may be reimbursed their own cash outlay for any borrower-paid extras over and above contract specifications and any out-of-pocket expenses not included in the builder's price. An itemization of the extras and expenses and the additional costs of each item must be obtained.</p> |
| Documentation | <p>All new construction requirements must be complied with. In addition, the date of the purchase of the land must be documented with the Closing Disclosure or similar legal document.</p> <p>Evidence must be obtained to verify that the funds used to pay borrower-paid options were derived from an acceptable source, including an itemization of the options and expenses, and cost of each item.</p> |

2B.10 Energy Efficient Mortgages (EEMs) (Delegated Clients only)

The Energy Efficient Mortgage (EEM) program allows for financing for cost-effective energy efficient improvements to an existing property at the time of purchase or refinancing, or for upgrades above the established residential building code for New Construction.

Cost Effective refers to the costs of the energy efficiency improvements that are less than the present value of the energy saved over the estimated useful life of those improvements.

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| Property Types | <ul style="list-style-type: none"> • New Construction Properties (one- to four-units) • Existing Construction Properties (one- to four-units) • Condominiums (one unit) • Manufactured Housing |
| Programs and | The EEM program can be used with the 203(b) Purchase and No cash-out |



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| Transaction Types | Refinance products | |
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| Energy Package | <p>The energy package is the set of improvements agreed to by the borrower based on recommendations and analysis performed by a qualified home energy rater. The improvements can include energy-saving equipment, and active and passive solar and wind technologies. The energy package can include materials, labor, inspections, and the home energy assessment by a qualified energy rater. If the borrower desires, labor may include the cost of an EEM Facilitator (project manager).</p> | |
| | Cost Effective Test | <ul style="list-style-type: none"> The financed portion of an energy package must be cost effective. A cost-effective energy package is one where the cost of the improvements, including maintenance and repair, is less than the value of the energy saved over the estimated useful life of those improvements |
| | Cost Effective Test for New Construction | <ul style="list-style-type: none"> For New Construction, the financed portion of an energy package includes only those cost-effective energy improvements over and above the greater of the following: <ul style="list-style-type: none"> The latest energy code standard that has been adopted by HUD through a Federal Register notice; or The applicable IECC year used by the state or local building code for New Construction. More information on this energy code can be obtained from the Department of Energy or the International Code Council. |
| | Changes to Energy Package after Closing | <ul style="list-style-type: none"> If the work that is done differs from the approved energy package, a change order along with a revised home energy audit must be submitted to the DE underwriter for approval. If the changes still meet the cost-effective test, no further analysis is required. If not, the funds for the work not included in the approval energy package must be used to pay down the mortgage principal. |
| Home Energy | The borrower must obtain a home energy assessment. The purpose of the | |



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| Report/Assessment | energy assessment under the EEM program is to identify opportunities for improving the energy efficiency of the home and their cost effectiveness. The assessment must be conducted by a qualified energy rater, assessor, or auditor using whole-home assessment standards, protocols, and procedure. | |
| | Qualification of Energy Raters/Assessors | <ul style="list-style-type: none"> • Qualified home energy raters/assessors must be trained and certified as one (1) of the following: • Building Performance Institute Building Analyst Professional; • Building Performance Institute Home Energy Professional Energy Auditor; • Residential Energy Services Network Home Energy Rater; or • Energy rater, assessor or auditor who meets local or state jurisdictional requirements for conducting residential energy audits or assessments, including training, certification, licensure, and insurance requirements. |
| | Home Energy Report | <ul style="list-style-type: none"> • The home energy report reflects recommendations of energy-saving improvements for the borrower's consideration. Included with the recommendations are estimates of energy savings and cost-effective analysis for each of the suggested improvements. These estimates consider energy costs in today's dollars (present value). • Use the energy-savings information from the home energy report to determine that the cost-effective test is met for the financed energy package. |
| | Home Energy Report for New Construction | <ul style="list-style-type: none"> • On Newly Constructed housing, the home energy report must identify improvements that are over and above the greater of the following: <ul style="list-style-type: none"> ○ The requirements of the latest energy code standard that has been adopted by HUD through a Federal Register notice; or ○ The applicable IECC year used by the state or local |



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| | | building code for New Construction. |
| | Documentation | <ul style="list-style-type: none"> • Obtain a copy of the home energy report. • This report must not be greater than 120 days old. • Submit two (2) forms HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary as described in the Underwriting Section below. |
| Maximum Financeable Energy Package | | <ul style="list-style-type: none"> • The maximum amount of the energy package that can be added to the Base Loan Amount is the lesser of: <ul style="list-style-type: none"> ○ The dollar amount of a cost-effective energy package as determined by the home energy audit; or ○ The lesser of 5% of: <ul style="list-style-type: none"> • The Adjusted Value; • 115% of the median area price of a single-family dwelling; or • 150% of the national conforming mortgage limit. |
| Energy Efficient Mortgage Calculator Tool | | <ul style="list-style-type: none"> • Calculate the dollar amount of a cost-effective energy package as determined by the home energy audit, as shown in Energy Package. • The EEM Calculator, located in FHA Connection (FHAC) on the Case Processing screen, will perform the calculation of Maximum Financeable Energy Package. • The EEM Calculator uses data entered for the mortgage to calculate the maximum energy package. • For a Streamline Refinance, the EEM Calculator uses the appraised value from the initial transaction, contained within FHAC records, as the Adjusted Value. |
| Maximum Mortgage Amount | | <ul style="list-style-type: none"> • The maximum final Base Loan Amount is determined by adding the maximum financeable energy package amount to the initial maximum Base Loan Amount. • For New Construction, the cost of the financeable energy package must be subtracted from the sales price when computing the Adjusted Value. • When using an EEM in conjunction with Weatherization, the items included in the maximum financeable energy package must be excluded from the items included when calculating the initial maximum Base Loan Amount under these programs. The maximum FHA Nationwide Mortgage Limit for an area may be exceeded by the maximum financeable energy package. |



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| Underwriting | <p>TOTAL</p> <ul style="list-style-type: none"> • Submit to TOTAL using the initial Base Loan Amount prior to the addition of the financeable energy package. If an Accept or Approve is received and does not include the financeable energy package, FHA will recognize the risk rating from TOTAL and permit the increase to the mortgage payment without re-underwriting or rescoring. • Must provide a form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary, without the financeable energy package, showing the qualifying ratios. • A second form HUD-92900- LT must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package, as reflected in FHAC. The second form must also be included in the case binder. The underwriter must attest on the second form HUD-92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the mortgage and the property to be in compliance. <p>Manual Underwrite</p> <ul style="list-style-type: none"> • Provide a form HUD-92900-LT, without the financeable energy package, showing the qualifying ratios. • A second form HUD-92900-LT must be completed by the underwriter showing mortgage amount calculation that includes the financeable energy package, as reflected in FHAC. • The second form must also be included in the case binder. The underwriter must attest on the second form HUD-92900-LT that they have reviewed the calculations associated with the energy efficient improvements and found the mortgage and the property to be in compliance. |
| Appraisals | <ul style="list-style-type: none"> • For Existing and New Construction, the appraisal does not need to reflect the value of the energy package that will be added to the subject property. • If the appraisal does include the value of the energy package, the value must be subtracted from the property value when computing the Adjusted Value. |
| Cash Back to Borrower | <ul style="list-style-type: none"> • The borrower may not receive cash back from the mortgage transaction. • If an excess exists, funds must be applied to the principal balance. |
| EEM Escrows | For Existing properties, if the energy package items are not complete by the time |



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| | of closing, establish an escrow account for the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements. | |
| | Borrower Labor | <ul style="list-style-type: none"> Escrows may not include costs for labor or work performed by the borrower (sweat equity). |
| | Form HUD-92300, Mortgagee's Assurance of Completion | <ul style="list-style-type: none"> When funds to complete the energy package are escrowed, the Mortgagee must execute form HUD-92300, Mortgagee's Assurance of Completion, to indicate that the escrow for the energy package improvements has been established. |
| Completion Requirements for EEM | The energy package is to be installed within 90 days of the disbursement. If the work is not completed within 90 Days, the mortgagee must apply the EEM funds to a prepayment of the mortgage principal. | |
| Inspection | The Mortgagee, the rater, or an International Code Council (ICC)certified Residential Combination Inspector (RCI), or Combination Inspector (CI) may inspect the installation of the improvements. The borrower may be charged an inspection fee. | |

2B.11 Weatherization (Delegated Clients only)

The weatherization product permits the borrower to finance the cost of eligible energy-related weatherization improvements, in conjunction with a purchase or refinance.

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| Programs and Transaction Types | Weatherization improvements may be financed in conjunction with the following: <ul style="list-style-type: none"> Section 203(b): Purchase and No cash-out refinance transaction Energy Efficient Mortgages (EEM) |
| Property Types | Weatherization improvements may be used on the following property types: <ul style="list-style-type: none"> Existing one- to four-units Condominiums Manufactured Housing |
| Weatherization Items | Eligible energy-related weatherization items include the following measures: <ul style="list-style-type: none"> Air sealing (including weather-stripping doors, caulking window, and plumbing penetrations) Insulation (attic, floors, walls, basement) Duct sealing and insulation |



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| | <ul style="list-style-type: none"> • Smart thermostats and equipment controls • Windows and doors • Low flow water fixtures • Carbon monoxide monitors and other combustion appliance safety measures |
| Maximum Dollar Amount | <p>The maximum allowable cost of energy-related weatherization items that can be financed is:</p> <ul style="list-style-type: none"> • \$2,000 (not to exceed actual cost) without a separate value determination; • \$3,500 (not to exceed actual cost) if supported by a value determination made by an FHA Roster Appraiser; or • No limit (not to exceed actual cost) if: <ul style="list-style-type: none"> ○ Supported by a value determination made by an FHA Roster Appraiser; and ○ An ICC RCI or CI makes a separate on-site inspection. |
| Documentation | Document the cost of work including the weatherization materials and labor. |
| Maximum Mortgage Amount Calculation | When determining the Adjusted Value, the dollar limit of the energy-related weatherization items may be added to both the sales price and the property value. |
| Weatherization Combined with Energy Efficient Mortgage | For Existing properties, energy-related weatherization items may be combined with the EEM. |
| Cash Back to Borrower | The borrower may not receive cash back from the mortgage transaction. If an excess exists, funds must be applied to the principal balance. |
| Escrows | <ul style="list-style-type: none"> • Establish an escrow account for the remaining costs of the energy improvements if the installation of weatherization items is not complete by the time of closing for all mortgages on existing properties. • Establish an escrow account for the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements. <p>Escrows may not include costs for labor or work performed by the borrower (sweat equity).</p> |
| Form HUD-92300, Mortgagee's Assurance of | When funds to complete weatherization improvements are escrowed, the Mortgagee must execute form HUD-92300, Mortgagee's Assurance of Completion, to indicate that the escrow for weatherization improvements has been |



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| Completion | established. |
| Completion Requirements for Weatherization Measures | |
| Time of Completion | <p>Installation of weatherization improvements must be completed within:</p> <ul style="list-style-type: none"> • 30 days of the mortgage disbursement; or • 90 days of the mortgage disbursement if the improvements are part of an energy package for an EEM. <p>Apply the remaining weatherization escrow funds to a prepayment of the mortgage principal if the work is not completed within the required time frames. Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.</p> |
| Escrow Closeout Certification | After the repair or rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 days after the escrow account is closed. |
| Inspection | The Client or their agent must inspect the weatherization items or obtain evidence from a local authority that the system was installed in accordance with local requirements. |

2B.12 Solar and Wind Technologies (Delegated Clients only)

The solar and wind technologies policy allows an increase to the Base Loan Amount to cover the cost and installation of new solar or wind energy system improvements made, or to be made, to the subject property at the time of a purchase or refinance.

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| Eligible Property Types | <p>The following property types are eligible for the solar and wind technologies policy:</p> <ul style="list-style-type: none"> • One- to four-unit properties • Manufactured Housing <p>Condominium units are ineligible for solar and wind technologies.</p> | |
| Programs and Transaction Types | Costs for new solar and wind energy systems may be financed in conjunction with Section 203(b): Purchase, Rate and Term, and Simple Refinance | |
| Eligible Solar and Wind Technologies | Active and passive solar systems, as well as wind-driven systems, are acceptable. | |
| | Photovoltaic Systems | Photovoltaic systems must provide electricity for the |



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| | | residence and must meet applicable fire and electrical code requirement. |
| | Wind Turbine for Residential Properties | <p>A wind turbine must:</p> <ul style="list-style-type: none"> • Have a nameplate capacity of no more than 100 kilowatts; • Have a performance and safety certification from: o the International Electrotechnical Commission (IEC) standards from an accredited product certification body; or • The American Wind Energy Association (AWEA) standards from the Small Wind Certification Council (SWCC) or a Nationally Recognized Testing Laboratory (NRTL); and • Be installed by an installer who has received either a North American Board of Certified Energy Practitioners Small Wind Installer Certification or small wind turbine installation training from an accredited training organization |
| Title to Systems | | <ul style="list-style-type: none"> • The borrower must own, not lease, solar or wind energy systems for the systems to be considered eligible improvements. • Leased equipment and Solar Power Purchase Agreements (SPPA) are not eligible. |
| Maximum Mortgage Calculation – Purchase | | <p>Compute the Adjusted Value by using the purchase price excluding the cost and installation of the solar or wind technology system and the Property Value excluding the cost and installation of the solar or wind technology system.</p> <p>Add the lesser of:</p> <ul style="list-style-type: none"> • The cost and installation of the solar or wind technology system; or • 20% of the property value to the Base Loan Amount. <p>Exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.</p> |
| Maximum Mortgage Calculation - | | Compute the Adjusted Value by using the property value without the cost and installation of the solar or wind technology system. |



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| Refinance | <p>Add the lesser of:</p> <ul style="list-style-type: none"> • The cost and installation of the solar or wind technology system; or • 20% of the property value to the Base Loan Amount. <p>Exclude any rebates identified in the contract and assigned to the contractor in determining the cost and installation of the solar or wind technology system.</p> | |
| Nationwide Mortgage Limit – Purchase and Refi | The Base Loan Amount may exceed the Nationwide Mortgage Limit for the geographical area (see Maximum Mortgage Amounts) by no more than 20%. | |
| Documentation | Document the cost of work, including the energy systems' materials and labor. | |
| Cash Back to Borrower | <ul style="list-style-type: none"> • The borrower may not receive cash back from the mortgage transaction. • If an excess exists, apply these funds to the principal balance. | |
| Escrows | <p>Establish an escrow account in accordance with the Repair Completion Escrow Requirements for the remaining cost of the energy improvements if the installation of solar or wind energy systems is not complete by the time of closing.</p> <p>Any funds remaining in the escrow account at the end of the improvement period must be applied to pay down the mortgage principal.</p> | |
| | Borrower Labor | Escrows may not include costs for labor or work performed by the borrower (sweat equity). |
| | Documentation | When funds to complete the solar or wind energy systems are escrowed, the Mortgagee must execute form HUD-92300, Mortgagee's Assurance of Completion, to indicate that the escrow for the solar or wind improvements has been established. |
| Completion Requirements for Solar and Wind Technology Installation | Time of Completion | <p>Installations of solar and wind energy systems must be completed within 120 days of disbursement.</p> <p>Apply the remaining solar and wind escrow funds to a prepayment of the mortgage principal, if the work is not completed within the required time frames.</p> |
| | Inspection | The mortgagee or their agent must inspect the solar and wind improvement or obtain evidence from a local |



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| | | authority that the system was installed in accordance with local code. |
| | Escrow Close Out | After the repair or rehabilitation escrow account is closed, the Mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 Days after the escrow account is closed. |

2B.13 Disasters and 203(h) Financing for Disaster Victims

Section 203(h) authorizes FHA to insure Mortgages to victims of a Presidentially Declared Major Disaster Area (PDMDA) for the purchase of a Single-Family Property.

Mortgages to be insured under Section 203(h) must be processed and underwritten in accordance with the regulations and requirements applicable to the 203(b) program. Where 203(b) program guidance conflicts with specific requirements on Section 203(h) Mortgages shown below, the following specifics are applied.

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| Borrower Eligibility | Application Deadline | The FHA case number must be assigned within one year of the date of the PDMDA is declared, unless an additional period of eligibility is provided. |
| | Principal residence | The mortgaged Property <u>must be</u> the Borrower's Principal residence. |
| | Credit Score | The Borrower must have a minimum credit score per the current FHA Product Matrices. |
| Property Eligibility | <p>The previous residence (owned or rented) must have been located in a PDMDA and either destroyed or damaged to such an extent that reconstruction or replacement is necessary. A list of the specific affected counties and cities and corresponding disaster declarations are provided by <u>FEMA</u>, the Federal Emergency Management Agency.</p> <p>The purchased or reconstructed Property must be a Single-Family Property or a unit in an FHA-Approved Condominium Project.</p> <p>Minimum Required Investment and Maximum Loan -to-Value</p> <ul style="list-style-type: none"> The Borrower is not required to make the Minimum Required Investment (MRI). The maximum Loan-to-Value (LTV) ratio limit is 100% of the Adjusted Value. | |



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| Underwriting | <p>The underwriter should be as flexible as prudent decision-making permits. Every effort must be made to obtain traditional documentation regarding employment, assets, and credit, and the file must document the attempts completed to obtain.</p> <p>If traditional documentation is unavailable, use of alternative documentation may be obtained to support Credit, Income, Debt, Assets and Housing Payment History that is reasonable and prudent to rely upon in underwriting a Mortgage.</p> | |
| | Credit | For borrowers with derogatory credit, the borrower may be considered a satisfactory credit risk if the credit report indicates satisfactory credit prior to a disaster, and any derogatory credit subsequent to the date of the disaster is related to the effects of the disaster. |
| | Income | <p>If prior employment cannot be verified because records were destroyed by the disaster, and the Borrower is in the same or similar field, then FHA will accept IRS Form W-2s, Wage and Tax Statement and Tax Returns from the Internal Revenue Service (IRS)</p> <p>Short -term employment obtained following the disaster may be included in the calculation of Effective Income.</p> |
| | Liabilities | <p>When the Borrower is purchasing a new house, the mortgage payment on the destroyed residence located in a PDMDA may be excluded from the borrower's liabilities. To exclude the mortgage payment, the following is required:</p> <ul style="list-style-type: none"> • Obtain information that the borrower is working with the servicing mortgagee to appropriately address their mortgage obligation; and • Apply any property insurance proceeds to the mortgage of the damaged house. |
| | Assets | If traditional asset documentation is not available, statements may be used that are downloaded from the Borrower's financial institution website to confirm the borrower has sufficient assets to close the mortgage. |



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| | Housing Payment History | Late payments may be disregarded on a property that was destroyed or damaged in the disaster when the late payments were a result of the disaster. |
| Eligibility Documentation Requirements | <p>The file must include documentation and verification that the Borrower's previous residence was in the disaster area and was destroyed or damaged to such an extent that reconstruction of replacement is necessary.</p> <p>Documentation attesting to the damage of the previous house must be part of the mortgage application.</p> <p>If purchasing a new house, the house does not need to be located in the area where the previous house was located.</p> | |
| Refinancing Policy | Refinance transactions are not permitted. | |

| Revision History | Date |
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| Overlays identified for: Owner of Record and Chain of Title <ul style="list-style-type: none"> Transactions involving any sale or assignment of the sales contract are not permitted. Transactions involving a double escrow are not permitted. | 02.27.2025 |
| Program Release for Disasters and 203(h) Financing for Disaster Victims Guidelines | 04.29.2025 |



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Chapter 2C Financing

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2C.1 Determining Adjusted Value

The table below provides the calculation for determining the Adjusted Value.

| | |
|--------------------------------|--|
| Purchase Mortgage | The Adjusted Value is the lesser of: <ul style="list-style-type: none">• Purchase price less any inducements to purchase; or• Property value. |
| No-Cash-out Refinance Mortgage | The Adjusted Value is: <ul style="list-style-type: none">• Properties acquired by the borrower less than 12 months from the date of the case number assignment:<ul style="list-style-type: none">○ The lesser of the purchase price plus any documented improvements; or○ Property value.• Properties acquired by the borrower within 12 months from the date of the case number assignment by an inheritance, through a gift from a family member or through a non-monetary transaction use the property value. |
| Cash-out Refinance Mortgage | The Adjusted Value is the appraised value. |

2C.2 Calculating Loan to Value (LTV) Ratios

The table below provides the calculation for determining the LTV Ratios.

| | |
|---|---|
| Calculating Loan to Value Ratios | LTV ratio is calculated by dividing the first mortgage amount, excluding financed UFMIP, by the Adjusted Value. |
| Calculating Combined Loan to Value Ratios | The CLTV ratio is calculated by dividing the sum of the first mortgage amount, excluding financed UFMIP, and the current principal balance of subordinated closed end liens and/or the maximum available credit line of subordinated open-end second liens by the Adjusted Value. |
| Permanently Modified HELOC | If a HELOC has been permanently modified and the outstanding unpaid principal balance (UPB) is less than the permanently modified HELOC, the modified HELOC amount must be used when calculating the CLTV. |

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| | |
|--|--|
| | <p>The permanently modified HELOC must be documented with the one (1) of the following:</p> <ul style="list-style-type: none"> • Modified and recorded Note; • Recorded subordination agreement stating the credit line was permanently reduced; or • Letter from subordinate lien holder indicating a HELOC has been permanently reduced, in lieu of a recorded modification agreement. The letter must: <ul style="list-style-type: none"> ○ Be on the lien holder's letterhead; ○ State the permanently reduced HELOC amount; and ○ Include the date of the HELOC reduction. <p>A comment on the credit report stating that the HELOC is permanently modified is not sufficient.</p> |
|--|--|

2C.3 Temporary Interest Rate Buydowns

Interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage. At closing, an escrow account is established. Each month, the servicing lender draws down an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

The borrower must be qualified based on the note rate without consideration of the bought-down rate. If reserves are required, the reserves must be calculated using the Note Rate.

The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event, may the buydown plan change the terms of the mortgage Note.

2C.3(a) Buydown Agreement

The borrower must agree in writing that the buydown funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest to the extent provided under the subsidy buydown agreement.

The buydown agreement must provide for all of the following:



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- Must be a written agreement between the party providing the buydown funds and the borrower;
- Must provide that the borrower is not relieved of their obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available;
- May include an option for the buydown funds to be returned to the borrower or to the Company, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied;
- Must be included in the file and must clearly show the calculations of the total cost of the temporary subsidy buydown, any interested party contribution and the annual percentage increase in the borrower's monthly principal and interest payment; and
- All of the terms of the buydown plan must be disclosed to all parties, including the mortgage insurer, and the property appraiser.

2C.3(b) Terms of the Buydown

No limit is placed on the total dollar amount of an interest rate buydown.

The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.

An interest rate buydown plan must provide for:

- A buydown period not greater than 24 months; and
- Increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.

More frequent changes are permitted as long as the total annual increase does not exceed 1%.

2C.3(c) Buydown Account and Funds

- The buydown funds may come from:
 - The seller;
 - The Client (not Newrez);
 - The borrower (must come from borrower's own funds and assets must be documented); or
 - Any other interested party.



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- A split buydown is permitted when the buydown funds are paid by the lender, seller and/or third parties. A split buydown is not permitted when the borrower pays for any portion of the funds;
- Buydown accounts must be established and fully funded by closing;
- Funds for buydown accounts must be deposited into custodial bank accounts. Note: Buydown funds cannot be included in accounts with the Company corporate funds;
- The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the Note;
- Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied;
- Buydown funds cannot be used to pay past-due payments; and
- Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.

2C.4 Financing Repair Escrow

Financing repair escrows for purchase and no cash-out refinance transactions are permitted as long as the required repairs do not affect livability, safety, or structural soundness of the subject.

2C.4(a) Purchase Transactions

Repair escrow amounts may be added to the mortgage amount when the seller will not pay for the repairs necessary to meet FHA Minimum Property Requirements (MPR).

The maximum escrow amount must be based on the required repairs plus a 10% contingency.

Repair costs may be added to the sale price if all of the following are met:

- The appraiser requires the repairs to meet HUD MPRs;
- The repairs are paid for by the borrower;
- The sales contract or addendum identifies the borrower as the party responsible for payment and completion of the repairs;
- The repair estimate is supported by an estimate from qualified professional or estimated by the appraiser;
- Completion of repairs must be verified, and unused escrow amounts are applied to principal balance; and
- Repairs completed by borrower prior to appraisal report are not eligible for inclusion in mortgage



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amount.

The maximum amount of repair costs that may be added to the sales price is the lesser of:

- The amount by which the value of the property exceeds the sales price;
- The appraiser's estimate of repairs; or
- The amount of the contractor's bid.

Below are scenarios of how to calculate the mortgage amount with repair escrow amounts.

| Scenario 1 | | |
|--|--------------------------------------|---|
| Financing Repair Escrow for Purchase | | |
| Sales Price | \$100,000 | |
| Appraised Value | \$102,000 | |
| Repair Estimate for MPR | \$1,500 | |
| Add Repair Estimate to Sales Price to calculate Adjusted Sales Price | $\$1,500 + \$100,000 = \$101,500$ | Adjusted Sales Price (must be equal to or less than Appraised Value) |
| Multiply Adjusted Sales Price with purchase LTV factor of 96.5% | $\$101,500 \times 96.5\% = \$97,947$ | Base Loan Amount (cannot exceed FHA's individual County Loan Amount) |
| Multiply Base Loan Amount with 1.75% (rounded down to the nearest dollar) | $\$97,947 \times 1.75\% = \$1,714$ | Calculate UFMIP |
| Add UFMIP to Base Loan Amount | Total Loan Amount = \$99,661 | Total Loan Amount |
| The appraised value must be greater than the sales price (in order to accommodate the addition of the repair escrow financed into loan amount) | | |

2C.4(a) Rate and Term Refinance

Rate and Term Refinances may include any borrower-paid repairs required by the appraisal in the mortgage amount as long as the maximum LTV limit that is permitted is met. Repairs must be completed prior to closing.



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| Scenario 2 | | |
|---|---|-----------------------------------|
| Financing Repair Escrow for No Cash-out Refinance | | |
| Appraised Value | \$100,000 | |
| Total Mortgage payoff and closing costs | | |
| Payoff amount of first mortgage (including a maximum 60 days of interest, maximum 60 days of pro rate FHA MIP (if applicable), late charges, escrow shortages (not delinquent interest) | \$88,000 | |
| Payoff Junior Lien (>12 months seasoning) | \$4,000 | |
| Closing Costs | \$1,500 | |
| Prepaid Expenses | \$2,000 | |
| Borrower-paid repairs required by appraiser to meet FHA MPR standards | \$1,000 | |
| Refund of FHA UFMIP (if applicable) | \$0 | |
| Total Mortgage Payoff Plus Associated Costs | \$96,500 (\$88,000+\$4,000+\$1,500+\$2,000+\$1,000) | |
| Multiply Appraised Value x 97.75% | \$100,000 x 97.75% = \$97,750 | Maximum Eligible Base Loan Amount |
| Lower of maximum Eligible Base Loan Amount or Total Mortgage Payoff plus Associated Costs | Lower of \$97,750 or \$96,500 = \$96,650 | Base Loan Amount |
| Multiply Base Loan Amount with 1.75% (rounded down to nearest dollar) | \$96,500 x 1.75% = \$1,688 | UFMIP |
| Add UFMIP to Base Loan Amount | \$96,500 + \$1,688 = \$98,188 | Total Loan Amount |



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2C.5 Secondary Financing

Secondary financing is any financing other than the first mortgage that creates a lien against the property. Secondary financing that creates a lien against the subject property is not considered a gift or grant.

Secondary financing cannot subject the borrower or the subject property to legal restrictions on conveyance (Free Assumability) in accordance with [24 CFR section 203.41](#). For example, the secondary financing cannot contain a repayment and recapture clause that may subject borrower to pay off more than initial loan amount or impose other resale restrictions.

2C.5(a) Secondary Financing Provided by Governmental Entities and HOPE Grantees

A Governmental Entity refers to any federal, state, or local government agency or instrumentality.

To be considered an Instrumentality of the Government, the entity must be established by a governmental body or with governmental approval or under special law to serve a particular public purpose or designated by law (statute or court opinion) and does not have 501(c)(3) status. HUD deems Section 115 entities to be instrumentalities of government for the purpose of providing secondary financing.

Home Ownership and Opportunity for People Everywhere (HOPE) Grantee refers to an entity designated in the home ownership plan submitted by a borrower for an implementation grant under the HOPE program.

A first mortgage on a property that has a second lien made or held by a Governmental Entity is acceptable provided that:

- The secondary financing is disclosed at the time of application;
- No costs associated with the secondary financing are financed into the first mortgage;
- The first Mortgage does not exceed the FHA [Nationwide Mortgage Limit](#) where the property is located;
- The secondary financing payments are included in the mortgage payment;
- There is no maximum CLTV for secondary financing loans provided by Governmental Entities or HOPE grantees;
- Any secondary financing of the minimum required investment (MRI) complies with MRI



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requirements in Chapter [2G](#) Assets, [2G.1](#) Minimum Down Payment and Cash to Close;

- The secondary financing does not result in cash back to the borrower except for a refund of the earnest money deposit or other borrower costs paid outside of closing; and
- The second lien does not provide for a balloon payment within ten years from the date of execution.

Nonprofits assisting a Governmental Entity in the operation of its secondary financing programs must have HUD approval and placement on the Nonprofit Organization Roster unless there is a documented agreement that:

- Specifies the functions performed are within the Governmental Entity's secondary financing program; and
- Names the Governmental Entity as the Mortgagee in the secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the lender.

Secondary financing that will close in the name of the nonprofit and be held by a Governmental Entity must be made by a HUD-approved nonprofit. The HUD-approved nonprofit information must be entered into FHAC, as applicable.

Secondary financing provided by Governmental Entities or HOPE grantees may be used to meet the borrower's minimum required investment. Any loan of the borrower's MRI must comply with the additional requirements in.

2C.5(a)(i) Required Documentation

The provider of the secondary financing must furnish the following information:

- Documentation showing the amount of funds provided to the borrower for each transaction;
- Copies of the Mortgage and Note;
- A letter from the Governmental Entity on their letterhead evidencing the relationship between them and the nonprofit for each;
- FHA-insured mortgage, signed by an authorized official and containing the following information:
 - The FHA case number for the first mortgage;
 - The complete property address;
 - The name, address, Tax ID for the nonprofit;
 - The name of the borrower(s) to whom the nonprofit is providing secondary financing. The



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- amount and purpose for the secondary financing;
- A statement indicating whether the secondary financing:
 - Will close in the name of the Governmental Entity; or
 - Will be closed in the name of the nonprofit and held by the Governmental Entity.

Mortgages subject to secondary financing have guidelines for LTV/CLTV ratios, terms, and disclosures of the second mortgage. Refer to our Product Summaries for LTV/CLTV guidelines. Any secondary lien must be subordinate to the Newrez first mortgage and be recorded as such.

2C.5(b) Secondary Financing Provided by HUD-Approved Nonprofits

HUD-approved nonprofit is a nonprofit agency approved by HUD to act as a mortgagor using FHA Mortgage insurance, purchase the Department's Real Estate Owned (REO) properties at a discount and provide secondary financing. HUD-approved nonprofits appear on the HUD Nonprofit Roster.

A first mortgage on a property that has a second lien made or held by a HUD-approved nonprofit is acceptable provided that:

- No costs associated with the secondary financing are financed into the first mortgage;
- The secondary financing payments must be included in the total mortgage payment;
- The secondary financing must not result in cash back to the borrower except for refund of earnest money deposit or other borrower costs paid outside of closing;
- The secondary financing may not be used to meet the borrower's MRI;
- There is no maximum CLTV for secondary financing loans provided by HUD-approved nonprofits; and
- The second lien may not provide for a balloon payment within ten (10) years from the date of execution.

Secondary financing provided by Section 115 Entities must follow the guidance in Secondary Financing Provided by Governmental Entities and HOPE Grantees above.

2C.5(b)(i) Required Documentation

The provider of the secondary financing must provide all of the following information:

- Documentation showing the amount of funds provided to the borrower for each transaction; and
- Copies of the Mortgage and Note.



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The nonprofit information must be entered into FHAC and the governmental entity, as applicable.

2C.5(c) Family Members

A second mortgage or lien provided by a family member is acceptable, provided that:

- No costs associated with the secondary financing are financed into the first mortgage;
- The secondary financing payments are included in the total mortgage payment;
- The secondary financing do not result in cash back to the borrower except for refund of earnest money deposit or other borrower costs paid outside of closing;
- The secondary financing may be used to meet the borrower's MRI;
- The CLTV does not exceed 100% of the Adjusted Value;
- The second lien does not provide for a balloon payment within ten years from the date of execution;
- Any periodic payments are level and monthly;
- There is no prepayment penalty;
- If the family member providing the secondary financing borrows the funds, the funds may not come from a lending source/entity with an identity of interest in the sale of the property, such as the:
 - Seller
 - Builder
 - Loan originator
 - Real estate agent
- Mortgage companies with retail banking affiliates do not have the affiliate lend the funds to the family member. However, the terms and conditions of the loan to the family member cannot be more favorable than they would be for any other borrowers; and
- If funds loaned by the family member are borrowed from an acceptable source, the borrower may not be a co-obligor on the Note. If the loan from the family member is secured by the subject property, only the family member provider may be the Note holder. The secondary financing provided by the family member is not transferred to another entity at or subsequent to closing.

The provider of the secondary financing must furnish all of the following information:

- Documentation showing the amount of funds provided to the borrower for each transaction; and
- Copies of the Mortgage and Note.



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If the secondary financing funds are being borrowed by the family member and documentation from the bank or other savings account is not available, the family member must provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the Client or NewRez.

2C.5(d) Private Individuals and Other Organizations

Private individuals and other organizations refer to any individuals or entities providing secondary financing which are not covered elsewhere in this section. NewRez does not provide secondary financing.

A second mortgage or lien provided by private individuals and other organizations is acceptable, provided that:

- No costs associated with the secondary financing are financed into the first mortgage;
- The secondary financing payments are included in the total mortgage payment;
- The secondary financing does not result in cash back to the borrower except for refund of earnest money deposit or other borrower costs paid outside of closing;
- The secondary financing is not used to meet the borrower's MRI;
- The CLTV does not exceed 100% of the applicable FHA LTV limit;
- The base loan amount and secondary financing amount does not exceed the FHA Nationwide Mortgage Limits;
- The second lien does not provide for a balloon payment within ten years from the date of execution;
- Any periodic payments are level and monthly; and
- There is no prepayment penalty, after giving the mortgagee 30 days advance notice.

The provider of the secondary financing must provide the following information:

- Documentation showing the amount of funds provided to the borrower for each transaction; and
- Copies of the Mortgage and Note.

2C.6 Property Assessed Clean Energy (PACE)

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements to residential properties using financing provided by private enterprises in conjunction with state and local governments.



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Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax is collected by the local government rather than paid directly by the borrower to the party providing the PACE financing and is also secured in the same manner as a special assessment tax against the property.

In the event of a sale, including a foreclosure sale, of the property with outstanding PACE financing, the obligation will continue with the property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished. **As a result, loans encumbered with PACE or PACE-like obligations are not eligible for FHA financing.**

2C.6(a) Purchase Transactions

The sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to closing. The FHA roster appraiser must be informed that the PACE obligation will be paid off as a condition of loan approval.

The appraiser must report the outstanding amount of the PACE obligation(s) and the valuation impact of the PACE-related improvements.

2C.6(b) Refinance Transactions

The outstanding PACE obligation may be included as existing debt to be paid off as part of FHA rate and term refinance transaction. The outstanding PACE obligation may be paid off as part of a cash-out refinance transaction.

Refer to Chapter [2J](#) FHA Appraisal Requirements, [2J.13](#) Property Assessed Clean Energy (PACE) for appraisal requirements when a PACE or PACE-like loan exists.

2C.7 Principal Curtailments

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the loan. See Chapter C704 Principal Curtailment Policy for additional principal curtailment details.

2C.7(a) Delegated Clients

A principal curtailment is permitted.



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2C.7(b) Non-Delegated Clients

A principal curtailment is permitted up to \$500 on FHA refinance transactions.

If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment.

2C.8 Mortgage Insurance Premiums (MIP)

FHA collects a one-time Upfront Mortgage Insurance Premium (UFMIP) and an annual insurance premium.

2C.8(a) Upfront Mortgage Insurance Premium

The UFMIP is not considered when calculating the area based Nationwide Mortgage Limits and LTV limits. UFMIP must be entirely financed into the loan amount or paid entirely in cash.

The UFMIP is not refundable, except in connection with the refinancing to a new FHA-insured mortgage. See our FHA Refinance Product Profiles.

2C.8(b) Annual (or Periodic) Mortgage Insurance Premium

The periodic MIP is an annual MIP that is paid monthly. The amount of the annual MIP is based on the LTV, base loan amount and the loan term. An annual premium is paid in the monthly Mortgage payment with the principal, interest, taxes, and insurance.

For loan qualification, monthly MIP is calculated by multiplying the base loan amount (without financed UFMIP) by the premium factor rate shown on the Upfront and Annual MIP Chart divided by 12.

Refer to Product Summaries for UFMIP and Annual MIP charts.

| Duration of Annual MIP | |
|------------------------|-----------|
| LTV | New |
| ≤ 90% | 11 years |
| > 90% | Loan term |



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| Revision History | Date |
|--|------------|
| Overlay identified for: A split buydown is not permitted when the borrower pays for any portion of the funds | 03.28.2024 |
| Updated Refinance transactions per FHA 4000.1 effective 08.19.2024 for refinance transactions to include properties acquired through non-monetary transactions within 12 months of case number assignment date | 07.30.2024 |



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Chapter 2D Property Types

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2D.1 Eligible Property Types

2D.1(a) Single-Family Residence/One-Unit Property

A detached, semi-detached, or attached single-family dwelling, including town homes and row homes,



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or a single dwelling unit and a single accessory dwelling unit (ADU).

2D.1(b) Modular Home

A modular home is a factory built home constructed to the state, local or regional building codes where the home will be located. A modular home is constructed in two (2) or more three-dimensional sections, including interior and exterior finish, plumbing, wiring and mechanical systems.

Upon completion, the modular home is transported to the property site and then joined together on a permanent foundation. A modular home may be transported on a steel undercarriage, but that is not a permanent structural component of the improvements, and it is usually removed at the time the house is attached to the foundation. The modular home assumes the characteristics of a site-built home.

2D.1(c) Two-Unit Property

A two-unit property is a property with two (2) individual dwelling units.

2D.1(d) Three- to Four-Unit Property

A three- to four-unit property is either:

- A residential property with three (3) or four (4) individual dwelling units;
- A residential property with two (2) individual dwelling units and one (1) ADU; or
- A residential property with three (3) dwelling units and one (1) ADU.

2D.1(e) Hotel and Transient Use Certifications [\(HUD-92561\)](#)

The borrower's agreement that the property will not be used for hotel or transient purposes, or otherwise rented for periods of less than 30 days must be obtained.

The [Borrower's Contract with Respect to Hotel and Transient Use of Property form HUD-92561](#), must be signed by the borrower for each loan when the borrower owns:

- A one-unit dwelling with an ADU;
- A two- to four-unit dwelling; or
- A single-family dwelling that is one of a group of five (5) or more dwellings owned by the borrower within a two (2) block radius.

2D.1(f) Condominium

A condo project must be FHA approved before an FHA Case Number is assigned. Condo projects are approved for periods of two (2) to three (3) years and placed in the [FHA Condominium Registry](#). Each FHA



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loan must contain a loan-level certification that project is still in compliance with FHA guidelines. Single-unit approval options may be available for projects that are NOT on the list of FHA-approved condominium projects at the time of case number assignment.

All condo projects must be reviewed by the Project Review Department (PRD) for approval. **Newrez will not issue a DELRAP approval, however, existing unexpired DELRAP approvals are eligible.**

4000.1 Condominium Project approval topics are shown below. They may be accessed [Condominium Project Approval](#)

Note: Grid below reflects each section and page number shown on bottom of each page

| Title | Page # | Search # |
|---|--------|----------|
| C. Condominium Project Approval | 783 | 815/1883 |
| 1. Definitions (10/15/2019) | 783 | 815/1883 |
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| d. Reconsideration of rejected or Withdrawn Condominium Projects (10/15/2019) | 811 | 843/1883 |

2D.1(f)(i) Site Condos

Site condos are single-family detached dwellings encumbered by a declaration of condo covenants or condo form of ownership.

For additional insurance requirements, see the PUD Insurance section in Chapter 5A, Insurance and Survey Requirements.

2D.1(g) Planned Unit Development (PUD)

A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all of the following requirements must be met:



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- Each unit owner's membership in the HOA must be automatic and non-severable;
- The payment of assessments related to the unit must be mandatory;
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners; and
- The subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in project or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects. These projects

- Have no common property and improvements;
- Do not require the establishment of and membership in an HOA; and
- Do not require payment of assessments.

For additional insurance requirements, see the PUD Insurance section in Chapter 10A, Insurance and Survey Requirements.

2D.1(h) Accessory Dwelling Unit

An accessory dwelling unit refers to a single habitable living unit with means of separate ingress and egress that meets the [minimum requirements for a living unit](#). An ADU, is a private space that is subordinate in size and can be added to, created within, or detached from a primary one-unit single-family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

- The property is a 1-unit
- The ADU is usually subordinate in size, location, and appearance to the primary dwelling unit;
- There is only one (1) ADU on the property; multiple ADUs are not permitted;
- For any Single Family residential property with two or more units, a separate dwelling unit must be considered as an additional unit.
- The ADU has the following separate features from the primary dwelling:
 - Means of ingress/egress
 - Kitchen
 - Sleeping area
 - Bathroom facilities
- Must not include the living area of the ADU in the calculation of the gross living area (GLA) of the



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primary dwelling.

Refer to 2J Appraisal, 2J.8(h)(iv) Accessory Dwelling Units for appraisal requirements.

2D.1(i) Manufactured Housing

A manufactured home is any dwelling unit built on a permanent chassis and attached to a permanent foundation system.

| Definitions | |
|--|--|
| Anchorage | Connection between superstructure and foundation, by means of welds, bolts, and various high light gage metal plates. Anchorage does not refer to any type of soil anchor. |
| Exterior Foundation Wall | Foundation walls placed directly below the exterior perimeter walls of the unit. These walls may or may not be structurally used as: baring walls under gravity loads and/or shear walls under horizontal loans. If these walls are not used structurally, they are called non-bearing walls or skirt walls. |
| HUD Construction Code (Certification Label) | The HUD Certification Label is a metal plate that is affixed to the exterior of each transportable section of the manufactured home. The HUD Certification Number appears on each HUD Certification Label and evidence compliance with the Federal Manufactured Home Construction and Safety Standards. |
| HUD Data Plate/Compliance Certificate (Data Plate) | The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name, and trade/model number. The data plate also includes pertinent information about the unit, including a list of factory -installed equipment. Label numbers are not required to be sequential on a multi-section house. |
| Relocation of Manufactured Home | Moving the manufactured home unit previously installed or occupied to any other site or location is prohibited. |
| Skirting | A term used to describe a non-structural enclosure of a foundation crawl space. Typically, but not always, it is a lightweight material such as vinyl or metal, attached to the side of the structure, extending to the ground (not installed below frost depth). |



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2D.1(i)(i) Manufactured Housing Eligibility

Manufactured homes must meet all of the following eligibility requirements:

- Must be a single-family dwelling;
- Must be a minimum of 400 square feet gross living area;
- Must have an affixed HUD Certification label, located on the outside of the home, or have a letter of label verification issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976, in compliance with the [Federal Register :: Manufactured Home Construction and Safety Standards](#) (MHCSS). Manufactured homes built prior to June 15, 1976, are ineligible:
 - If the home is a multi-wide unit, each unit must have a seal;
 - If the HUD tag is missing, a recent "HUD Certification Verification" letter issued by the Institute for Building Technology and Safety (IBTS) must be in the loan file.
- The manufactured home and site exist together as real estate in accordance with state law;
- The manufactured home must be classified as real property as evidenced through tax certificates or title policy to validate that both land and manufactured home unit is deeded as one (1);
- Must be built on and remain on a permanent chassis with towing hitch and running gear removed;
- Must be permanently affixed to the foundation in accordance with the [Permanent Foundations Guide for Manufactured Housing](#), (PFGMH) as certified by an engineer or architect who is licensed or registered in the state whether the manufactured home is located.
 - A copy of the foundation certification from a previous FHA-insured mortgage, showing that the foundation met the guidelines published in the PFGMH that were in effect at the time of certification may be obtained provided there are no alterations and/or observable damage to the foundation since the original certification.
- Must have been transported from the factory or dealer directly to the site;
- Finished grade elevation beneath the manufactured home, or if a basement is used, the grade beneath the basement floor is at or above the 100-year return frequency flood elevation;
- Appraiser must report the information on the data plate within the appraisal, including the manufacturer name, serial number, model, and date of manufacture, as well as wind, roof load, and thermal zone maps;
 - If the data plate is missing or the appraiser is unable to locate it, the appraiser must



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report this in the appraisal report and is not required to obtain the data plate information from another source.

- New construction must meet HUD Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

Refer to Chapter 2J FHA Appraisal Requirements and 2J.12 Manufactured Housing appraisal requirements.

Refer to 2B.6(c) Manufactured Home (By Construction Status at Time of Appraisal) Inspection Requirements for Maximum Financing for New Construction.

2D.1(i)(ii) Titling the Manufactured Home as Real Property

All manufactured home units and land must be classified as real property and taxes as such by the local authority.

- The property description section (or rider) of the security instrument must include a description of the manufactured home, including the VIN or serial number, and the land; and
- **ALTA 7.1** or other state specific equivalent Title Endorsement is required for the final title insurance policy.

When the land is purchased separately from the unit, there may be two (2) deeds:

- A property deed for the land; and
- A chattel deed or motor vehicle title for the unit.

The land and unit must be deeded as one and the title policy must specifically state and validate that the manufactured home and land are classified as real estate and taxed as one (1) parcel.

Evidence that motor vehicle title has been (or will be) purged or surrendered is required. The Closing agent (or title company) to confirm actions taken to assure that the manufactured home has been permanently affixed to the land and that the lien is recorded.

The loan is not eligible if the original chattel deed or motor vehicle title is not purged, and the property does not have clear marketable real estate title.

2D.1(i)(iii) Modifications to the Manufactured Home

Room additions, attached carports, or other structural modifications may put the home at risk if



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changes were not performed in accordance with the [HUD Manufactured Home Construction and Safety Standards](#) (MHCSS) and local and state code.

If the appraiser observes additions or structural changes to the original manufactured home, one of the following must be obtained:

- An inspection by the state or local jurisdiction administrative agency that inspects manufactured homes for compliance; or
- Certification of the structural integrity from a licensed structural engineer if the state does not employ inspectors.

2D.1(i)(iv) Perimeter Enclosure

The space beneath manufactured homes must be properly enclosed and therefore must:

- Be a continuous wall (whether bearing or non-load bearing);
- Be secured to the perimeter of the unit; and
- Allow for proper ventilation of the crawl space.

If the perimeter enclosure is non-load bearing skirting comprised of lightweight material, the entire surface area of the skirting must be permanently attached to backing made of concrete, masonry, treated wood, or a product with similar strength and durability.

2D.1(i)(v) Trade Equity

The Trade-in of Manufactured Housing refers to the borrower's sale or trade-in of another manufactured home that is not considered real estate to a manufactured home dealer or an independent third party.

The net proceeds from the trade-in may be used as the borrower's source of funds. Trade-ins cannot result in cash back to the borrower. The following must be documented:

- Installment sales contract or other agreement evidencing a transaction;
- Value of the trade-in or sale; and
- Documentation to support the trade equity.

2D.1(i)(vi) Flood Zones

The finished grade level beneath the manufactured home must be at or above the 100-year return frequency flood elevation. If any portion of the property improvement is located within a FEMA designated Special Flood Hazard Area (Zones A or V), the property is only eligible with one (1) of the



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following:

- A FEMA-issued Letter of Map Amendment (LOMA) that removes the property from the SFHA or A FEMA-issued Letter of Map Revision (LOMR) that removes the property from the SFHA; or
- A FEMA National Flood Insurance Program (NFIP) Elevation Certificate ([FEMA Form 086-0-33](#)) prepared by a licensed engineer or surveyor stating that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation, and insurance under the NFIP is obtained.

See Chapter 5A, Insurance & Survey Requirements for complete Flood Insurance requirements.

2D.1(i)(vii) Ineligible Manufactured Home Property Types

The following are ineligible manufactured housing property types:

- A manufactured home that is not titled as real estate;
- A manufactured home that is not permanently affixed;
- A manufactured home that was installed or occupied previously at any other site or location. The home may only have moved from the manufacturer's or dealer's lot to the current site of the home;
- A manufactured home located in a mobile home park;
- A manufactured home with a manufactured home ADU on the property, whether used for storage or not;
- A manufactured home with deed restrictions.
- A manufactured home CONDO is ineligible

2D.1(j) Mixed-Use Property

Mixed-use refers to a property suitable for a combination of uses including any of the following: commercial, residential, retail, office, or parking space.

A mixed-use property is a 1- to 4-unit properties are eligible provided:

- A minimum of 51% of the entire building square footage is for residential use; and
- The commercial use will not affect the health and safety of the occupants.

Refer to Chapter 2J FHA Appraisal, 2J.8(e) Legal and Land Use Considerations for additional guidance.



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2D.1(k) Lava Flow Hazard Zones

Lava Flow Hazard Zones are designated by the US Geological Survey. Properties located in Lava Zones 1 and 2 are not permitted.

2D.1(l) Properties with Leased Equipment

A property that contains leased equipment, or operates with a leased energy system or Power Purchase Agreement (PPA), may be eligible provided they do not cause a conveyance (ownership transfer) of the property by the borrower:

- To be void, or voidable by a third party;
- To be the basis of contractual liability of the borrower (including rights of first refusal, pre-emptive rights or portions related to a borrower's efforts to convey);
- To be subject to the consent of a third party;
- To be subject to limits on the sales proceeds a borrower can retain (e.g., due to a lien, "due on sale" clause, etc.) To be grounds for accelerating the mortgage; and
- To be grounds for increasing the interest rate of the mortgage.

Any restrictions resulting from provisions of the lease or PPA do not conflict with FHA regulations unless they include provisions encumbering the real property or restricting the transfer of the real property.

Legal restrictions on conveyance of real property (i.e., the house) that could require the consent of a third party (e.g., energy provider, system owner, etc.), include but are not limited to, credit approval of a new purchaser before the seller can convey the real property, unless such provision may be terminated at the option of, and with no cost, to the owner.

If an agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the subject property is not eligible.

2D.1(m) Deed/Resale Restriction

The regulations in [Section 24 CFR 203.41](#) state that properties with FHA-insured mortgages shall be free of restrictions that prevent the borrower from freely transferring the property. The regulations use the term "legal restrictions on conveyance" to describe such restrictions and this term is broadly defined to include provisions in any kind of legal instrument that would cause a conveyance (including a lease) by the borrower to:

- Be void, or voidable by a third party;



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- Be the basis of contractual liability of the borrower;
- Terminate, or subject to termination, the borrower's interest in the property;
- Be subject to the consent of a third party;
- Be grounds for accelerating the insured mortgage; and
- Be grounds for increasing the interest rate of the insured mortgage.

If the conveyance could cause any of these things to occur, the property is considered to be subject to legal restrictions on conveyance and is usually ineligible for FHA mortgage insurance. In these instances, the loan should be escalated to a Team Lead for further review and HOC may be contacted. The resale restriction controls must be administered by the subsidy provider or a program administrator.

2D.2 Ineligible Property Types

The following property types or characteristics are ineligible:

- Assisted living projects
- Bed and breakfast properties
- Boarding houses
- Builder model leaseback (purchase transactions)
- Commercial properties
- Condo hotels
- Cooperative units
- Fraternity or sorority houses
- Houseboats
- Indian/Tribal lands
- Industrial properties
- Investment securities
- Lava Zones 1 and 2
- Land-lease communities
- Manufactured home with an accessory dwelling unit (ADU) or guest house or any other dwelling type
- Mobile home
- Multi-family dwelling containing more than four (4) units
- Non-warrantable condos
- Other transient housing
- Private clubs
- Properties located in Airport Runway Clear Zones



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- Properties located within designated Coastal Barrier Resource System (CBRS) areas
- Properties not suitable for year-round occupancy
- Properties with individual water purification systems
- Properties with a C5 or C6 Condition Rating
- Properties without full utilities installed to meet all local health and safety standards
- Tax-sheltered syndicate
- Timeshare unit/project
- Unimproved or vacant land
- Unique properties (e.g., 3D printed house, barndominium, container homes, shouse, tiny houses)
- Working farm, ranch, or orchard

Not all property types listed above are ineligible under all Loan Programs. See our Product Profiles.

| Revision History | Date |
|---|------------|
| Expanded Ineligible Manufactured Homes as shown on Overlay Matrix for FHA transactions as currently shown for conforming only: <ul style="list-style-type: none">• A manufactured home is ineligible with deed restrictions• A manufactured home CONDO is ineligible | 05.22.2025 |



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2E.1 FHA TOTAL Mortgage Scorecard

FHA's Technology Open to Approved Lenders (TOTAL) Mortgage Scorecard is not an Automated Underwriting System (AUS) but a scorecard that must interface through a system-to-system connection with an AUS.

Each AUS using TOTAL provides a Feedback Certificate/Finding Report, which documents results of the credit risk evaluation, and identifies the credit report utilized for the scoring event. All pages of the TOTAL report must be placed in the FHA Case Binder being submitted to NewRez for purchase.

TOTAL evaluates the overall credit risk posed by the borrower, based on a number of credit variables.

A loan may not be approved or denied solely on a risk assessment generated by TOTAL. Ensure full compliance with all FHA eligibility requirements. All information used to score the loan through TOTAL must be verified. Furthermore, with respect to the borrower's credit history, if an Accept recommendation was received, the credit does not require further analysis unless otherwise stated in this Underwriting Guide.

The underwriter must still underwrite all appraisals according to standard FHA requirements.

The underwriter must fully underwrite those applications where TOTAL issues a Refer or when the transaction is manually downgraded. If there is derogatory or contradictory information that is not part of the data analyzed by TOTAL, resubmit the loan or manually underwrite the loan to ensure all data is taken into the underwriting analysis.

The Findings Report indicates the recommended level of underwriting and documentation required in determining loan eligibility. Any manual downgrades from the automated underwriting decision requires compliance with standard documentation requirements.

All transactions must be scored through TOTAL, except Streamline Refinance transactions.

2E.1(a) TOTAL Access

TOTAL can be accessed through several proprietary AUS engines. The AUS vendors that are currently recognized and approved by FHA are:

- Fannie Mae DU;
- FHA Catalyst;



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- Freddie Mac LPA;
- Loan-Score Decisioning Systems; and
- Meriden Link, Inc.

TOTAL Feedback Findings created from these engines are acceptable for purchase by NewRez.

2E.1(b) Maximum Number of Borrowers

2E.1(b)(i) Fannie Mae DU

There may be no more than four (4) borrowers on a transaction and submitted to DU. Any loan with more than four (4) borrowers must be manually underwritten. Refer to Section [2E.2](#) Manual Underwriting.

2E.1(b)(ii) Freddie Mac LPA

There may be no more than five (5) borrowers on a transaction and submitted to LPA. Any loan with more than five (5) borrower must be manually underwritten. Refer to Section [2E.2](#) Manual Underwriting.

2E.1(c) Data Entry

The integrity of all data elements entered into the AUS must be verified to ensure the outcome of the mortgage credit risk evaluation is valid including:

- The credit report;
- All liabilities/debt;
- Effective income;
- Assets/reserves;
- Adjusted value; and
- Total mortgage payment including PITI.

For approved loans using the TOTAL Findings Report, comply with all of the Verification Messages/Approval Conditions listed in the Underwriting Findings report and document the loan file accordingly. Due diligence must be applied when reviewing the documentation in the loan file to determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by TOTAL. Any NewRez underwriting overlays would apply. Refer to the applicable Underwriting Guide chapter, our Product Summaries, and Overlay Matrix for underwriting overlays.



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2E.1(d) New Versions of TOTAL

FHA will release new versions of TOTAL. FHA will announce the date that the new version will be available. All mortgages being scored for the first time will be scored using the new version. For mortgages with a case number, the mortgage will be scored using the version that was effective when the case number was assigned. Existing mortgages scored without a case number will be scored according to the version number tag that is provided in the TOTAL file by the AUS provider (if none, then the current version will be used). All mortgages without a case number will be scored using the new version 90 days after the new version is implemented.

The Client is responsible for compliance with current FHA guidelines.

2E.1(e) Feedback Certificates: Risk Classifications

2E.1(e)(i) TOTAL Risk Classifications

When a loan is submitted to TOTAL, one (1) of the following recommendations will be returned on the Findings Report.

| Decision | Description |
|-------------------|---|
| Accept/Eligible | <p>An Accept/Eligible recommendation indicates that the loan may be eligible provided the data entered into the AUS is accurate and complete and the mortgage application complies with all FHA requirements.</p> <p>Verify that all supporting documentation and information entered into TOTAL is consistent with the final underwriting decision.</p> |
| Accept/Ineligible | <p>An Accept/Ineligible recommendation indicates the borrower's credit and capacity would meet the threshold for approval, but the loan does not fully comply with FHA's eligibility requirements. The Feedback Certificate will identify the specific eligibility requirements that the loan does not meet.</p> <p>Analyze the Feedback Certificate and determine if the reason for ineligibility is one (1) that can be resolved in a manner that complies with FHA underwriting requirements. If the reason for ineligibility can be corrected, the loan may be rescored in the AUS.</p> |

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| | When the reasons for ineligibility cannot be corrected in the AUS, the loan may be underwritten following the requirements for an Accept but must resolve the reason for ineligibility and must provide an explanation of the resolution in the remarks section of form HUD-92900-LT, FHA Loan Underwriting and Transmittal Summary. |
| Refer | Any loan receiving a Refer recommendation must be downgraded and manually underwritten. |
| Downgrade to Manual Underwriting | <p>The loan must be downgraded and manually underwritten for any loan receiving an Accept recommendation if any of the following exist:</p> <ul style="list-style-type: none"> • The loan file contains information or documentation that cannot be entered into or evaluated by TOTAL; • Additional information, not considered in the AUS recommendation affects the overall insurability of the loan; • The borrower has \$1000 or more collectively in disputed derogatory credit accounts. The following may be excluded with supporting documentation, as applicable: <ul style="list-style-type: none"> ○ Disputed medical accounts; ○ Disputed derogatory accounts resulting from identity theft, credit card theft, or unauthorized use; ○ Documentation to support these claims must be provided, such as a police report; ○ Disputed derogatory accounts of a non-borrowing spouse in a community property state; and ○ Non-derogatory disputed accounts. • The date of the borrower's bankruptcy discharge as reflected on bankruptcy documents is within two (2) years from the date of case number assignment; • The case number assignment date is within three (3) years of the date of the transfer of title through a pre-foreclosure sale (short sale); • The case number assignment date is within three (3) years of the date of the transfer of title through a deed-in-lieu (DIL) of foreclosure; and • Mortgage Payment History for any mortgage trade line reported on the credit report, during the most recent 12 months, that reflects: <ul style="list-style-type: none"> ○ Purchase and No Cash-out Refinance |

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| | <ul style="list-style-type: none"> ▪ 3x30; or ▪ 1x60 and 1x30; or ▪ 1x90; or ▪ That the borrower has made less than three (3) consecutive payment since completion of a mortgage forbearance plan. ○ Cash-out Refinance: any current delinquency or 1x30 in the last 12 months of the case assignment date or the borrower has made fewer than 12 consecutive monthly payments since completion of a forbearance plan. • The borrower has an undisclosed mortgage debt, and the borrower's mortgage payment history reflects: <ul style="list-style-type: none"> ○ A current delinquency; ○ Any delinquency in the last 12 months of the case number assignment date; and ○ More than 2x30 day late payments in the last 24 months of the case number assignment date. • Business income shows a greater than 20% decline over the analysis period. |
|--|--|

2E.1(f) TOTAL Resubmission Tolerance Levels for Rescoring

The data submitted to TOTAL must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value.

Verification documents must be reviewed, and the verified values compared to the data submitted to automated underwriting. The terms of the closed loan must match the terms of the final loan submission. The data utilized by the system must be supported by source documentation. Inaccurate or unverified data will result in invalidation of the recommendation. Under certain circumstances, it could also result in a finding of material misrepresentation.

Loans must be rescored when any data element of the loan changes and new borrower information becomes available. The loan does not require rescoring if the following data elements from the last scoring event are within the tolerance levels in the table below.



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| When assessing.... | Resubmission is not required if: |
|---------------------------|---|
| Cash Reserves | Cash reserves are not less than 10% below the previously scored amount. |
| Income | Income verified is not less than 5% below the previously scored amount. |
| Tax and Insurance Escrows | The cumulative monthly tax and insurance escrow does not result in more than a 2% increase in the Total Mortgage Payment to Effective Income Ratio (PTI). |

2E.1(f)(i) Inaccuracy of Debt

When an inaccuracy in the amount or type of debt or obligation is revealed and the correct information was not considered by the AUS, the following must be done:

- Verify the actual monthly payment amount;
- Resubmit the loan if the cumulative change in the amount of the liabilities increases by more than \$100 per month; and
- Determine that the additional debt was not or will not be used for the borrower's minimum required investment.

2E.1(g) Final Underwriting Decisions

A mortgage may be approved and eligible when:

- TOTAL rated the mortgage as Accept;
- The underwriter underwrote the appraisal according to FHA requirements;
- TOTAL findings were reviewed and verified that all information entered into TOTAL is consistent with the loan file documentation, and is true, complete, and accurate; and
- All FHA requirements are met in accordance with an Accept from TOTAL.

While TOTAL is available for pre-qualification, the mortgage must be scored at least once after assignment of an FHA case number. FHA will not recognize the risk assessment, nor will information be carried from TOTAL to FHAC for endorsement processing without a case number assignment.

2E.1(h) Documentation of Final Underwriting Review Decision

The following documents must be completed to evidence the final underwriting decision.



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| Form <i>HUD-92900-LT, Loan Underwriting and Transmittal Summary</i> | <p>The underwriter must:</p> <ul style="list-style-type: none">• Indicate the CHUMS ID of the underwriter who reviewed the appraisal;• Complete the Risk Assessment; and• Enter the identification of "ZFHA" in the CHUMS ID. <p>When the Feedback Certificate indicates "Accept/Ineligible", the loan file must be documented with the circumstances or other reasons that were evaluated in making the decision to approve the mortgage in the Remarks section.</p> |
| Form <i>HUD-92800.5B, Conditional Commitment Direct Endorsement Statement of Appraised Value</i> | <p>The underwriter must confirm that form <i>HUD-92800.5B</i> is completed as directed in the form instructions.</p> |
| Form <i>HUD-92900-A HUD/VA Addendum to Uniform Residential Loan Application</i> | <p>The underwriter must complete form <i>HUD-92900-A</i> as directed in the form instructions.</p> <p>An authorized officer of the lender, the borrower and the underwriter must execute form <i>HUD-92900-A</i> as indicated in the instructions.</p> |

2E.2 Manual Underwriting

Loans receiving an AUS Approve/Accept requiring a manual downgrade or an AUS Refer may be manually underwritten per FHA guidelines.

If the loan must be downgraded to manual underwriting, AUS may no longer be used and all requirement for manual underwriting must be complied with.

2E.2(a) Energy Efficient Mortgages

The following compensating factors and required documentation may be used to support approval of a Manually underwritten mortgage with qualifying ratios



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|-----------------------|---|
| New Construction | <p>For Mortgages on New Construction, the Borrower is eligible for EEH stretch ratios when the property meets or exceeds the higher of:</p> <ul style="list-style-type: none"> • The latest energy code standard that has been adopted by HUD through a Federal Register notice; • The applicable International Energy Conservation Code (ECC) year used by the state or local building code; or • A Manufactured Home that is ENERGY STAR to their Quality Assurance Provider and ensure that an ENERGY STAR label is affixed, commonly found near the HUD Data Plate or inside the electric panel cover of the home. <p>Note: The following documents must be included in the case binder for endorsement:</p> <ul style="list-style-type: none"> • A copy of form HUD-92541, Builder’s Certification of Plans, Specifications and Site, to evidence the IECC code, successor code , or local/state building code used or • The Manufacturer’s invoice of the Manufactured Home indicating that the unit is ENERGY STAR qualified |
| Existing Construction | <p>The Borrower is eligible for EEH stretch ratios when the property meets either of the following conditions:</p> <ul style="list-style-type: none"> • Homes that <u>currently score</u> a “6” or higher on the Home Energy Score scale; • Homes where documented cost-effective energy improvements, as identified in the Home Energy Score report, would increase a home’s score to a “6” or higher are completed prior to closing, or in association with Weatherization, EEM or Solar and Wind programs, or • a Manufactured Home that is certified as an ENERGY STAR to their Quality Assurance Provider and ensure that an ENERGY STAR label is affixed, commonly found near the HUD Data Plate or inside the electric panel cover of the home <p>Note: The following documents must be included in the case binder for endorsement:</p> <ul style="list-style-type: none"> • A copy of the Home Energy Score report, or • A photo of the ENERGY STAR label on a Manufactured home |



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2E.2(b) Documentation of Final Underwriting Review Decision

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| Form HUD-92900-LT, <i>Loan Underwriting and Transmittal Summary</i> | The underwriter must record the following on form HUD-92900-LT: <ul style="list-style-type: none">• Their decision;• Any compensating factors;• Any modification of the mortgage amount and approval conditions under “Underwriter Comments;” and• DE CHUMS Underwriter ID and signature. |
| Form HUD-92800.5B, <i>Conditional Commitment Direct Endorsement Statement of Appraised Value</i> | The underwriter must confirm that form HUD-92800.5B is completed as directed in the form instructions. |
| Form HUD-92900-A <i>HUD/VA Addendum to Uniform Residential Loan Application</i> | <p>The underwriter must complete form HUD-92900-A as directed in the form instructions.</p> <p>An authorized officer of the lender, the borrower and the underwriter must execute form HUD-92900-A as indicated in the instructions.</p> |

2E.3 HUD Employee Mortgages

If the borrower is a HUD employee, the underwriter must condition the loan on its approval of the mortgage by HUD. the case binder must be submitted to Processing and Underwriting Division Director and the Jurisdictional HOC for final underwriting approval.

2E.4 Notification of Borrower of Approval and Term of the Approval

The borrower must be notified of their approval in a timely manner. The underwriter's approval or Firm Commitment is valued for the greater of 90 days or the remaining life of the:

- Conditional Commitment issued by HUD; or
- The underwriter’s approval date of the property indicated as Action Date on form HUD-92800.5B.

| Revision History | |
|--|------------|
| FHA Handbook 4000.1 updates as of 04.10.2025: Updated Manual Underwriting content for Energy Efficient Mortgages with compensating factors and | 03.27.2025 |



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| documentation required to support higher ratios | |
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2F.1 Documentation Standards

A credit report must be obtained for each borrower who will be obligated on the Note.

All accounts, revolving and installment, reported by the borrower on the Fannie Mae form 1003/Freddie Mac form 65, Uniform Residential Loan Application (URLA) must be verified on the credit report or directly by a credit reference. The current balance, current status, rating, monthly payment amount, and payment history for the most recent 12 months must be provided.

Written verifications of mortgage, rent, or credit must be sent directly to the creditors. The return address on the verification must be the lender's address. The hand carrying of verifications is strictly prohibited.

2F.1(a) Non-Borrowing Spouse

A credit report must be obtained for a non-borrowing spouse who resides in a community property state or if the subject property is located in a community property state.

The credit report must indicate the non-borrowing spouse's SSN (where an SSN exists) was matched with the SSA, or provide one of the following:

- Separate documentation indicating that the SSN was matched with the SSA; or
- A statement that the non-borrowing spouse does not have an SSN. The credit report must contain, at a minimum, the non-borrowing spouse's full name, date of birth, and previous addresses for the last two (2) years.

A credit report is not required for a Non-credit Qualifying Streamline Refinance.

2F.2 Credit Report Standards

The loan file must contain one (1) of the following types of credit reports for each borrower:

- A merged in-file report including, credit scores, from three (3) different credit repositories; or two (2) if repositories, if that is the extent of the information available. If information from only one (1) credit repository is available, it is acceptable if there is a credit score, and information was requested from all three repositories. If a merged in-file report is upgraded to a Residential Mortgage Credit Report (RMCR), the original merged in-file report must remain in the file; or
- A full Tri-Merged Credit Report (TRMCR) must be obtained from an independent consumer reporting



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agency.

When a new or retyped credit report is provided, all prior credit reports must be included in the loan file. The retyped credit report/supplement must indicate the reason and authorization for any changes, additions and/or deletions.

When the credit report shows a victim statement under the FACT Act, the originating entity must document in writing the steps taken to validate the loan application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws.

Credit report alerts must be reasonably resolved with supporting documentation included in the loan file.

2F.2(a) Business Credit Reports/Manual

When a loan is manually underwritten, must obtain a business credit report for all corporations and "S" Corporations.

2F.2(b) Credit Report Red Flags

When underwriting a credit report, the borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information. The borrower's address history must be examined for consistency with other file documentation. Discrepancies must be adequately explained, and questionable explanations researched. The use of a U.S. address to obtain a credit report for a borrower who resides in another country is not permitted.

2F.2(c) Frozen Credit

Any borrower with one (1) or more repositories with frozen credit on their credit report must have their credit unfrozen and must be rescored through TOTAL or be re-underwritten.

If the credit is unfrozen after the date that the original credit report was ordered, a new three-file merged credit report must be obtained to reflect current updated information from all repositories.

2F.2(d) Updated Credit Report or Supplement to the Credit Report

A new credit report must be obtained if the underwriter identifies inconsistencies between any information



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in the loan file and the original credit report and rescored through TOTAL or be re-underwritten.

2F.3 Credit Scores

2F.3(a) Credit Scores

A credit score represents a comprehensive view of a borrower's credit history risk factors. The higher the score the lower the risk of default. The score in combination with the dates and severity of late payments should be considered. Refer to individual Product Summaries for any credit score requirements.

2F.4 Selection and Validation of Credit Scores

Selecting the credit score for loan qualification is a two-step process.

- Select the credit score for each individual borrower; and
- Select the credit score used for loan qualification.

2F.4(a) Selection

Select the credit score for each borrower. Use the lowest selected credit score among all borrowers for loan qualification.

| Number of Scores | Score |
|------------------|------------------|
| 3 | Middle Score |
| 2 | Lower of the two |
| 1 | Use score |

2F.4(b) Authorized User Accounts

When a credit account owner permits another person to have access to and use an account, the user is referred to as an authorized user of the account. This practice is intended to assist related individuals in legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner.

Authorized user accounts are not valid trade lines for reestablishing the borrower's credit history, for manually underwritten loans.



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2F.5 Nontraditional Credit/Manual Underwrite

For borrowers without a credit score, a Nontraditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the borrower's credit history.

Note: When utilizing nontraditional Credit

- Qualifying ratios for borrowers with no credit score are calculated using occupying borrower's income only
- Non-occupant co-borrower income may not be included

2F.5(a) Nontraditional Mortgage Credit Report (NTMCR)/Manual Underwrite

A NTMCR refers to a type of credit report designed to access the credit history of a borrower who does not have the types of trade references that appear on a traditional credit report.

An NTMCR is used either as:

- A substitute for a TRMCR or an RMCR; or
- A supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.

A NTMCR developed by a credit reporting agency may be used if it verifies the following information for all non-traditional credit references:

- The existence of the credit providers;
- That the credit was actually extended to the borrower; and
- The creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references and provide the:

- Creditor's name;
- Date of opening;
- High credit;
- Current status of the account;
- 12-month history of the account;
- Required monthly payment;
- Unpaid balance; and
- Payment history in the delinquency categories (e.g., 0x30 and 0x60).



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2F.5(b) Independent Verification of Nontraditional Credit Providers/Manual Underwrite

The borrower's credit references may be independently verified by documenting the existence of the credit provider and that the provider extended credit to the borrower.

1. To verify the existence of each credit provider, review public records from the state, county, or city or other documents providing a similar level of objective information.
2. To verify credit information:
 - Use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
 - Obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.
3. To verify the borrower's rental payment history, obtain a rental reference from the appropriate rental management company, provided the borrower is not renting from a family member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

2F.5(c) Sufficiency of Credit References/Manual Underwrite

The borrower's credit history must include three (3) credit references. At least one (1), if not all credit references should be from Group 1. If all three (3) cannot be obtained from Group 1, the unreported recurring debt may be obtained from Group 2.

| Group Number | Credit Reference |
|--------------|---|
| Group 1 | <ul style="list-style-type: none">• Rental housing payments (subject to independent verification if the borrower is a renter);• Telephone service; or• Utility company reference (if not included in the rental housing payment), including:<ul style="list-style-type: none">○ gas○ electricity○ water○ television service○ internet service |

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| | |
|---------|--|
| Group 2 | <p>If all three (3) credit references cannot be obtained from the list above, use the following sources of unreported recurring debt:</p> <ul style="list-style-type: none"> • Insurance premiums not payroll deducted (e.g., medical, auto, life, renter's insurance); • Payment to child care providers; • School tuition; • Retail store credit cards (e.g., department, furniture, appliance stores, or specialty stores); • Rent-to-own (e.g., furniture, appliances); • Payment of that part of medical bills not covered by insurance; • A documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that were: <ul style="list-style-type: none"> ○ Made at least quarterly; ○ Not payroll deducted; and ○ Caused No insufficient funds (NSF) checks. • An automobile lease; • A personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or • A documented 12-month history of payment by the borrower on an account for which the borrower is an authorized user. |
|---------|--|

2F.5(d) Evaluating Credit History/Manual Underwrite

The underwriter must examine the borrower's overall pattern of credit behavior, not just isolated unsatisfactory or slow payments, to determine the borrower's credit worthiness. The credit history of a non-borrowing spouse cannot be considered.

2F.5(d)(i) Types of Payment Histories

The underwriter must evaluate the borrower's payment histories in the following order:

- Previous housing expense and related expenses, including utilities
- installment debts and
- revolving charge accounts.



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2F.5(d)(ii) Satisfactory Credit

The underwriter may consider a borrower to have an acceptable payment history if the borrower has made all housing and installment debt payment on time for the previous 12 months and has no more than two 30-day late mortgage payments or installment payments in the previous 24 months.

The underwriter may approve the borrower with an acceptable payment history if the borrower has no major derogatory credit on revolving charge accounts in the previous 12 months. Major derogatory credit on revolving charge accounts must include any payments made more than 90 days after the due date or three or more payments more than 60 days after the due date.

2F.5(d)(iii) Payment History Requiring Additional Analysis

If a borrower's credit history does not reflect satisfactory credit as stated above, the borrower's payment history requires additional analysis.

The underwriter must analyze the borrower's delinquent accounts to determine whether late payments were based on a disregard for financial obligations, an inability to manage debt, or extenuating circumstances. The underwriter must document this analysis in the mortgage file. Any explanation or documentation of delinquent accounts must be consistent with other information in the file.

The underwriter may only approve a borrower with a credit history not meeting the satisfactory credit history above if the underwriter has documented the delinquency was related to extenuating circumstances.

2F.6 Inquiries and Undisclosed Liabilities

All debt incurred during the application process and through loan closing of the mortgage must be disclosed on the final application and included in the loan qualification.



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Review the credit report for any inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are included in the DTI ratio. Determine that any recent debts were not incurred to obtain any part of the borrower's required funds to close. If additional credit was applied for and approved or obtained, a verification of that debt must be provided and included in the borrower's monthly obligations.

Material inquiries refer to inquiries which may potentially result in obligations incurred by the borrower for other mortgages, auto loans, leases, or other installment loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.

A written explanation for all inquiries shown on the credit report that were made in the last 90 days is required.

2F.7 Undisclosed Debt Other than a Mortgage

If undisclosed or inaccurate debt (other than a mortgage) has been revealed, comply with all of the following:

- Verify the actual or new monthly payment;
- Include the monthly payment amount and resubmit the loan to TOTAL if the cumulative change in liability is greater than \$100; or
- Include the monthly payment amount (regardless of amount), in the borrower's debt for Manual Underwrite, and
- Determine that the additional debt will not be used to meet the borrower's minimum required investment.

2F.7(a) Undisclosed Mortgage Debt

When an existing debt or obligation that is secured by a mortgage and is not listed on the credit report and not considered by TOTAL is revealed during the application process, one (1) of the following must be obtained reflecting an acceptable mortgage payment history:

- A copy of the Note and either a bank statement or cancelled checks;
- A credit supplement; or
- Verification of mortgage.

The loan must be downgraded and manually underwritten if the mortgage history reflects any of the following:

- A current delinquency;



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- Any delinquency within 12 months of the case number assignment date; or
- More than 2x30 day late payments within 24 months of the case number assignment date.

A mortgage that has been modified must use the payment history in accordance with the modification agreement for the time period of modification in determining the late mortgage payments.

2F.8 Housing Payment History

On the date of the loan application, all existing mortgages must be current, meaning that no more than 30 days may have elapsed since the last paid installment date and the rating covers a 12-month period. If these requirements are not satisfied, the mortgage rating must be updated through with a VOM, cancelled checks, or a payoff statement. Obtain the current balance, current status, monthly payment amount, and payment history for the most recent 12-months.

Payment histories on all mortgage trade lines, regardless of occupancy, including first and second mortgage liens, and HELOCs are considered mortgage debt. Mobile homes and manufactured homes reported as an installment loan must be considered as a housing payment and reviewed as such.

A mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments. Standard payment history requirements apply. There are no specific seasoning requirements for a modified mortgage.

A mortgage payment is considered current if it is paid within the month due. A letter of explanation and supporting documentation is required when payments are made beyond the month due.

2F.8(a) Positive Rental Payment History Using TOTAL Mortgage Scorecard

Positive Rental Payment History refers to the on time payment of all rental payments in the past 12 months. A rental payment is considered to be on time when it is paid within the month due. TOTAL will use the positive rental payment history in the credit risk assessment.

A loan may be submitted to TOTAL indicating a Positive Rental Payment History for the following:

- Purchase transaction;
- At least one (1) borrower is a first-time homebuyer;
- Borrower has a minimum 620 credit score; and



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- At least one (1) borrower has a satisfactory 12-month rental payment history with a monthly payment of at \$300.

A copy of executed rental or lease agreement is required and one (1) of the following:

- 12 months canceled rent checks;
- 12 months bank or payment service statements documenting rent paid;
- Landlord reference from a rental management company; or
- Written verification of rent from a landlord with no identity of interest. If the landlord is renting from a family member, the following is required:
 - Copy of executed rental or lease agreement; and
 - 12 months canceled checks or bank statements with satisfactory rental payment history.

2F.8(b) Mortgage Forbearance

A borrower who was granted a mortgage payment forbearance and continues to make payments agreed under the terms of the original Note is not considered delinquent or late and will be treated as if not in forbearance provided the forbearance plan is terminated at or prior to closing.

A mortgage that has been granted forbearance must use the payment history in accordance with the forbearance plan for the time period of forbearance in determining late housing payments. The forbearance plan must be exited at or prior to closing.

Any borrower who is granted forbearance and is performing under the terms of the forbearance plan is not considered to be delinquent.

The following documentation is required for refinance transactions when a mortgage reflects payments under a modification or forbearance plan within 12 months prior to case number assignment, obtain the following:

- A copy of the modification or forbearance plan; and
- Evidence of the payment amount and date of payments during the agreement term.

A forbearance plan is not required if the forbearance was due to the impacts of the COVID-19 National Emergency.

Refer to our Product Summaries for housing payment history requirements and mortgage payment forbearance



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requirements.

2F.9 Significant Derogatory Credit

The presence of significant derogatory credit dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit include bankruptcies, deeds-in-lieu, foreclosures, pre-foreclosure sales, short sales, and charge-offs of mortgage accounts.

Compensating factors cannot be used to compensate for derogatory credit.

TOTAL will evaluate the borrower's credit history with regard to late payments in the borrower's credit history. See below for treatment of collection accounts, charge-off accounts, judgments, and disputed accounts.

2F.9(a) Waiting Period Requirements

The following tables outlines the requirements for borrowers who have filed for bankruptcy, pre-foreclosure, foreclosure, or deed-in-lieu of foreclosure.

Pre-foreclosure sales, also known as short sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the property and the lien holders agree to release their liens and forgive the deficiency balance on real estate.

A Deed-in-Lieu (DIL) of Foreclosure is a loss mitigation home disposition option in which a borrower voluntarily offers the deed to the Note holder in exchange for a release from all obligations under the Mortgage.

Borrowers who have experienced any of the below significant derogatory events must meet the below requirements.

2F.9(b) AUS Approve/Accept Waiting Period

The below waiting periods must be met. If the derogatory credit event waiting period cannot be met due to extenuating circumstances, the loan may be manually downgraded. See below Refer and Manual Underwrite/Downgrade Waiting Period for borrower's with extenuating circumstances.



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| Credit Event | Waiting Period |
|--------------------------------|---|
| Foreclosure/DIL | <p>≥ 3 years from the date of the DIL or the date that the borrower transferred ownership of the property from the case number assignment date.</p> <p>If the credit report does not verify the date of foreclosure or DIL of foreclosure, provide the deed or other legal documents evidencing the date of property transfer.</p> |
| Pre-foreclosure/ Short Sale | <p>≥ 3 years from the date of transfer of title by short sale from the case number assignment date.</p> <p>If the credit report does not indicate the date of the short sale, obtain the Closing Disclosure, deed or other legal documents evidencing the date of property transfer.</p> |
| Chapter 7 Bankruptcy | <p>≥ 2 years from discharge from the case number assignment date.</p> <p>If the credit report does not verify the discharge date or additional documentation is required to determine if liabilities were discharged in the bankruptcy, provide a copy of the discharge papers.</p> |
| Chapter 13 Bankruptcy | <p>At least 12 months of the payout period as of the case number assignment.</p> <ul style="list-style-type: none">• Payment history of the plan must be satisfactory, and all required payments made on time; and• The borrower has received written permission from the bankruptcy court to enter into the mortgage transaction. |

2F.9(b)(i) Refer and Manual Underwrite/Downgrade Waiting Period

If the above waiting periods cannot be met, the loan may be downgraded and follow the guidelines below when there are extenuating circumstances.

Extenuating Circumstances are non-recurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations, such as serious illness or death of a wage earner.

Divorce is not an extenuating circumstance; however if the borrower's mortgage was current at the



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time of the divorce, and the ex-spouse received the property, and the mortgage was later foreclosed.

The inability to sell the property due to a job transfer or relocation is not an extenuating circumstance.

| Credit Event | Waiting Period |
|----------------------------|---|
| Foreclosure | <p>≥ 3 years from the date of the DIL or the date that the borrower transferred ownership of the property from the case number assignment date.</p> <p>< 3 years but not less than 12 months or the date that the borrower transferred ownership of the property from the case number assignment date if the foreclosure was:</p> <ul style="list-style-type: none"> • The result of documented extenuating circumstances that were beyond the control of the borrower; and • The borrower has re-established good credit since the foreclosure. |
| Pre-foreclosure/Short Sale | <p>≥ 3 years from the date of transfer of title by short sale from the case number assignment date.</p> <p>< 3 years if, from case number assignment date:</p> <ul style="list-style-type: none"> • All mortgage payments on the mortgage were made within the month due for the 12-month period preceding the short sale; and • Installment debt payments were made within the month due for the 12-month period preceding the short sale. <p>Extenuating Circumstances</p> <ul style="list-style-type: none"> • < 3 years but not less than 12 months or the date that the borrower transferred ownership of the property from the case number assignment date if the pre-foreclosure/short sale, or DIL was: <ul style="list-style-type: none"> ○ The result of documented extenuating circumstances that were beyond the control of the borrower, such as a serious illness or death of a wage earner; and |

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|-----------------------|--|
| | <ul style="list-style-type: none"> ○ The borrower has re-established good credit since the foreclosure. <p>Note: Divorce is not an extenuating circumstance. An exception may be granted where a borrower's mortgage was current at the time of the divorce, the ex-spouse received the property, and there was a subsequent Short Sale.</p> <p>The inability to sell the property due to a job transfer or relocation to another area does not qualify for an extenuating circumstance.</p> <p>If the credit report does not indicate the date of the short date, the closing disclosure, deed or other legal documents evidencing the date or property transfer, must be obtained.</p> <p>If the short same, was the result of a circumstance beyond the borrower's control, an explanation from the borrower of the circumstance must be documented to support this was beyond the borrower's control.</p> |
| Chapter 7 Bankruptcy | <p>≥ 2 years from discharge from the case number assignment date.</p> <p>< 2 years from discharge from the case number assignment date and not less than 12 months if the borrower:</p> <ul style="list-style-type: none"> • Can show the bankruptcy was caused by extenuating circumstances beyond the borrower's control; and • Has since exhibited a documented ability to manage financial affairs in a responsible manner. <p>During the most recent two years, the borrower must have:</p> <ul style="list-style-type: none"> • Re-established good credit; or • Chosen not to incur new credit obligations. <p>If the credit report does not verify the discharge date or additional documentation is required to determine if liabilities were discharged in the bankruptcy, provide a copy of the discharge papers.</p> |
| Chapter 13 Bankruptcy | At least 12 months of the payout period as of the case number |



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| | <p>assignment.</p> <ul style="list-style-type: none">• During the most recent 12 months, Payment history of the plan must be satisfactory, and all required payments made on time; and• The borrower has written permission from the bankruptcy court to enter into the mortgage transaction. |
|--|--|

2F.9(c) Delinquent Credit

2F.9(c)(i) AUS Approve/Accept

| Credit Event | Requirements |
|--|---|
| Delinquent Federal Tax Debt and Non-Tax Debt | See Chapter 2A Loan Eligibility. |
| Judgments | <p>A judgment refers to any debt or monetary liability of the borrower, and the borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.</p> <p>Court-ordered judgments must be resolved or paid off prior to or at closing.</p> <p>A judgment is considered resolved if all of the following are met:</p> <ul style="list-style-type: none">• The borrower has a valid agreement with the creditor to make regular payments on the debt;• The borrower has made a minimum of three months scheduled payments in a timely manner. Borrowers may not prepay scheduled payments in order to meet the required minimum of three months of payments. Payments must be included in the DTI ratio;• The judgment will not supersede the new loan;• One (1) of the following must be provided: |

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| Credit Event | Requirements |
|---------------------|---|
| | <ul style="list-style-type: none"> ○ Evidence of payment in full; ○ Payoff statement; or ○ The payment arrangement with creditor, if not paid prior to or at closing, and a subordination agreement for any liens existing on title. <p>An explanation is not required.</p> <p>Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.</p> |
| Collection Accounts | <p>A collection account refers to a loan or debt that has been submitted to a collection agency through a creditor.</p> <p>An explanation of collection accounts is not required.</p> <p>If the cumulative balance of all collection accounts is greater than or equal to \$2,000, one of the following must be documented:</p> <ul style="list-style-type: none"> • The debt is paid in full at or prior to closing (verification of acceptable source of funds required); • The borrower has made payment arrangements with the creditor. The monthly payment must be included in the borrower's DTI ratio; or • If evidence of a payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection, and include the monthly payment in the borrower's DTI ratio. <p>Medical collections may be excluded from the \$2,000 balance and do not have to be paid off.</p> |

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| Credit Event | Requirements |
|------------------------------------|---|
| | Unless excluded under state law, collection accounts of a non-borrowing spouse in a community property state are included in the cumulative balance. |
| Charge-off Accounts | <p>A charge off account refers to a loan or debt that has been written off by the creditor.</p> <p>An explanation of charge off accounts is not required</p> <p>Charge-off accounts do not need to be included in liabilities or debts.</p> |
| Consumer Credit Counseling | A borrower who has participated in consumer credit counseling may be eligible. Follow the AUS decision. No explanation or other documentation is needed. |
| Disputed Derogatory Credit Account | <p>Disputed derogatory credit account refers to:</p> <ul style="list-style-type: none"> Disputed charge off accounts; |



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| Credit Event | Requirements |
|----------------------------------|--|
| | <ul style="list-style-type: none"> Disputed collection accounts; and Disputed accounts with one late payment in the last 24 months. <p>A letter of explanation from the borrower is not required.</p> <p>If the credit report indicates that the borrower has \$1,000 or more collectively in disputed derogatory credit account, the loan must be downgraded and manually underwritten.</p> <p>Exclusions in the cumulative balance requiring a manual downgrade include:</p> <ul style="list-style-type: none"> Disputed medical accounts; and Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use. Supporting documentation must be provided, such as a police report. <p>Disputed derogatory accounts of a non-borrowing spouse in a community property state are not included in the cumulative balance for determining if the loan is downgraded to a Refer and must be manually underwritten.</p> |
| Non-Derogatory Disputed Accounts | <p>Non-derogatory disputed accounts are disputed accounts:</p> <ul style="list-style-type: none"> Have a zero balance; Have no late payments within the past 24 months or greater; or Are current and paid as agreed. <p>If a non-derogatory account is being disputed by the borrower, a manual downgrade is not required however the underwriter must analyze the effect of the disputed accounts on the borrower's ability to repay the loan. If the dispute results in the borrower's monthly debt payments being less than the amount on the credit report, documentation of the lower payments must be provided.</p> |



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| Credit Event | Requirements |
|--------------|--|
| | Non-derogatory disputed accounts are excluded from the \$1,000 cumulative balance limit. |

2F.9(c)(ii) Refer and Manual Underwrite/Downgrade

If the above waiting periods cannot be met, the loan may be downgraded and follow the guidelines below.

| Credit Event | Requirements |
|--|--|
| Delinquent Federal Tax Debt and Non-Tax Debt | See Chapter 2A Loan Eligibility. |
| Judgments | <p>A judgment refers to any debt or monetary liability of the borrower, and the borrower's spouse in a community property state unless excluded by state law, created by a court, or other adjudicating body.</p> <p>Court-ordered judgments must be resolved or paid off prior to or at closing.</p> <p>Regardless of the number of outstanding judgments, determine if the judgment was the result of:</p> <ul style="list-style-type: none">• The borrower's disregard for financial obligations;• The borrower's inability to manage debt; or• Extenuating circumstances. <p>A judgment is considered resolved if all of the following are met:</p> <ul style="list-style-type: none">• The borrower has a valid agreement with the creditor to make regular payments on the debt;• The borrower has made a minimum of three months scheduled payments in a timely manner prior to approval. A copy of the payment arrangement with creditor and subordination agreement for any liens on title, if applicable and evidence of timely payments made for three months is required. Payments must be included in the DTI ratio;• The judgment will not supersede the new loan; |



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| Credit Event | Requirements |
|------------------------------------|---|
| | <ul style="list-style-type: none"> One (1) of the following must be provided: <ul style="list-style-type: none"> Evidence of payment in full; Payoff statement; or The payment arrangement with creditor, if not paid prior to or at closing, and a subordination agreement for any liens existing on title. <p>Borrowers may not prepay scheduled payments in order to meet the required minimum of three months of payments. Payments must be also included in the calculation of the DTI ratio.</p> <p>Judgments of a non-borrowing spouse in a community property state must be resolved or paid in full, with the exception of obligations excluded by state law.</p> |
| Collection and Charge-off Accounts | <p>A collection account refers to a loan or debt that has been submitted to a collection agency through a creditor.</p> <p>When a loan or debt has been submitted by the creditor to a collection agency, the credit report must be reviewed to determine if the cumulative outstanding collection account balances.</p> <ul style="list-style-type: none"> The borrower must provide a letter of explanation, with supporting documentation, for each outstanding collection account; and The underwriter must justify and document reasons for approving loans with collection accounts. <p>If the cumulative total is \$2,000 or greater, the additional information is required:</p> <ul style="list-style-type: none"> Evidence the debt is paid in full using an acceptable source of funds, or Verify the borrower has made payment arrangements with the creditor and include the payment in the DTI, or If a payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection and include in the DTI Ratio. |
| Consumer Credit | Document all of the following: |



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| Credit Event | Requirements |
|------------------------------------|--|
| Counseling | <ul style="list-style-type: none"> • Minimum of one (1) year of the pay-out period has elapsed; • All payments have been made on time; and • Borrower has received written permission from the counseling agency to enter into the mortgage transaction. |
| Disputed Derogatory Credit Account | <p>Disputed derogatory credit account refers to:</p> <ul style="list-style-type: none"> • Disputed charge off accounts; • Disputed collection accounts; and • Disputed accounts with late payments in the last 24 months. <ul style="list-style-type: none"> ○ If the borrower has \$1,000 or more collectively in disputed/derogatory accounts, a monthly payment must be included in the Borrower's debt calculation. <p>The following may be excluded from consideration in the underwriting analysis:</p> <ul style="list-style-type: none"> • Disputed medical account; and • Disputed derogatory credit resulting from identity theft, credit card theft, or unauthorized use. Documentation, such as a police report is required to support the status of the account. <p>The borrower must provide a letter of explanation and documentation supporting the basis of the dispute. If the disputed derogatory credit resulted from identity theft, credit card theft or unauthorized use balances, the Mortgagee must obtain a copy of the police report or other documentation from the creditor to support the status of the accounts.</p> |
| Non-Derogatory Disputed Accounts | <p>Non-derogatory disputed accounts are disputed accounts:</p> <ul style="list-style-type: none"> • Have a zero balance; • Have no late payments within the past 24 months or greater; or • Are current and paid as agreed. <p>If a non-derogatory account is being disputed by the borrower, a manual downgrade is not required however the underwriter must analyze the effect of the disputed accounts on the borrower's ability to repay the loan. If the dispute results in the borrower's monthly debt payments being less than the amount on the credit report, documentation of the lower</p> |



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| Credit Event | Requirements |
|--------------|----------------------------|
| | payments must be provided. |



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| Revision History | Date |
|---|------------|
| Modified mortgage pay history considered current without reference to any late changes assessed for payments made beyond the 15-day grace period. | 01.30.2024 |
| <p>Manual Underwriting Clarification</p> <ul style="list-style-type: none">• Non-Traditional Credit Titles expanded to include Manual Underwriting for reference.• Added new section for Evaluating Credit History/Manual Underwriting• Pre-Foreclosure/Short Sale to include examples of extenuating circumstances and documentation required.• Clarified disputed derogatory credit with more than \$1,000 in debt must have a monthly payment included in the DTI.• Undisclosed debt was clarified to include the monthly payment amount (regardless of amount) in the borrower's debt for Manual Underwrite• Business Credit Report is required for all Corporations and "S" Corporations• Identified for The borrower must provide a letter of explanation, with supporting documentation, for each outstanding collection account; and• The underwriter must justify and document reasons for approving loans with collection accounts.• Added for collection and charge off accounts/Reer and Manual/Downgrade the following is needed: If the cumulative total is \$2,000 or greater, the additional information is required:<ul style="list-style-type: none">• Evidence the debt is paid in full using an acceptable source of funds, or• Verify the borrower has made payment arrangements with the creditor and include the payment in the DTI, or• If a payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection and include in the DTI Ratio. | 03.28.2024 |
| <p>FHA 4000.1 effective 08.19.2024 updates for Manual Underwrite/Significant Derogatory Credit as shown below, good/satisfactory credit review to be completed within following timelines:</p> <ul style="list-style-type: none">• Ch. 7 Bankruptcy - During the most recent two years | 07.30.2024 |



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| <ul style="list-style-type: none">Ch. 13 Bankruptcy – Reviewed for most recent 12 months | |
| Removed section for Maryland State Requirements to consider school or work attendance as a compensating factor for thin credit upon request of the borrower | 11.25.2024 |



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Chapter 2G Assets

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2G.1 Minimum Down Payment and Cash to Close

Evidence must be provided to determine that the borrower has sufficient funds to pay:

- Down payment;
- Prepaid items;
- Closing costs;
- Cash reserves that may be required; and
- Costs outside of closing or debt satisfaction.



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All down payment funds and cash to close (including funds used to satisfy any debt being paid off) must be documented and verified. The minimum required down payment is 3.5% of the lesser of the sale price or appraised value. The down payment requirement cannot be met by borrower paid closing costs, prepaid expense, commitment fees, discount points, or premium pricing.

The borrower's MRI must be provided by an eligible source and may not come from any of the following:

- The seller of the property (seller may be family giving gift of equity; see Gift of Equity section);
- Any other person or entity who financially benefits from the transaction (directly or indirectly); or
- Anyone who is or will be reimbursed, directly or indirectly, by any party included in either of the above.

While additional funds to close may be provided by one (1) of these sources if permitted, none of the borrower's MRI may come from these sources. All permissible sources for the borrower's MRI must be documented.

Additionally, Governmental Entities, when acting in their governmental capacity, may provide the borrower's MRI when the Governmental Entity is originating the insured mortgage through one of its homeownership programs.

2G.1(a) Estimating Settlement Requirements

In addition to the minimum required investment, additional expenses must be included in the total amount of cash needed to close.

| | |
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| Origination Fee and Other Closing Costs | A reasonable origination fee may be charged to the borrower. In addition, customary and reasonable closing costs necessary to close the mortgage. Charges may not exceed actual costs. |
| Discount Points | Discount points may be paid by the borrower and become part of the total cash required to close. |
| Prepaid Items, including per diem interest | Prepaid items may include flood and property/hazard insurance premiums, MIP, real estate taxes, and per diem interest. |
| Non-realty or personal items (paid for separately, outside of the sales contract) | Non-realty or personal property that the borrower agrees to pay for separately, including the amount subtracted from the sales price when determining the maximum mortgage, are included in the total cash |



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| | requirements. |
| Upfront MIP | Any UFMIP paid in cash are added to the total cash requirements. The UFMIP must be entirely financed into the mortgage amount (except for any amount less than \$1.00) or paid entirely in cash. |
| Real Estate Agent Fees | If a borrower is represented by a real estate agent and must pay any fee directly to the agent, that expense must be included in the total of the borrower's settlement requirements. |
| Repairs and Improvements | Repairs and improvements, or any portion paid by the borrower that cannot be financed into the mortgage, are part of the borrower's total cash requirements. |
| Interest Party Contributions | <p>Interested party credit may be applied to the origination fees, other closing costs, and discount points including any items Paid Outside of Closing (POC).</p> <p>The refund of the borrower's POCs may be used toward the borrower's MRI if there is documentation to show that the POCs were paid with the borrower's own funds. If credit card financing is used to pay the POC costs, evidence of repayment of those fees must be provided to include in the borrower's MRI.</p> <p>The total interested party contributions must be identified on the sales contract or other legally binding document, form <i>HUD-92900-LT</i>, <i>Closing Disclosure</i>, or similar legal document.</p> <p>When a legally binding document other than the sales contract is used to document the interested party contributions, a copy of this document must be provided to the appraiser.</p> |
| Premium Pricing | <p>Premium pricing is a lender credit associated with the interest rate.</p> <p>Premium pricing may be used to pay a borrower's actual closing costs and prepaid items. Closing costs paid in this manner do not need to be included as part of the Interested Party limitation, unless the lender or third party originator is the property seller, real estate agent, builder, or developer.</p> |



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| | <p>The funds derived from a premium pricing:</p> <ul style="list-style-type: none">• Must be disclosed in accordance with RESPA;• Must be used to reduce the principal balance if the credit amount exceeds the actual dollar amount for closing costs and prepaids; and• May not be used for payment of debts, collection accounts, escrow shortages or missed mortgage payments, or judgments. <p>The Closing Disclosure and Loan Estimate must itemize all charges being paid on the borrower's behalf. Disclosing a lump sum amount is not acceptable.</p> <p>If there are excess funds after applying all premium pricing credits those funds must be applied to the principal balance of the loan in an amount not to exceed the lesser of \$2,500 or 2% of the original loan amount for the subject loan.</p> |
| Real Estate Tax Credits | <p>Where real estate taxes are paid in arrears, the seller's real estate tax credit may be used to meet the borrower's MRI if the borrower had sufficient assets to meet the MRI and the borrower paid closings costs at time of underwriting. This permits the borrower to bring a portion of their MRI to closing and combine that portion with the real estate tax credit for their total MRI.</p> |

2G.2 Reserve Requirements/Manual

Reserves are eligible assets remaining after closing. Reserves are measured by the number of months of the qualifying payment for the subject mortgage that the borrower could pay using his or her financial assets. The monthly housing expense includes:

- Principal and interest;
- Property and flood insurance;
- Mortgage insurance premiums;
- Real estate taxes;



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- Ground rent;
- Special assessments;
- Homeowners' association dues (excluding any utility charges that apply to the individual unit); and
- Subordinate financing payments on mortgages secured by the subject property.

Reserves do not include:

- The amount of cash taken at closing in a cash-out transaction;
- Incidental cash received at closing in other loan transactions;
- Equity in another property owned by the borrower;
- Borrowed funds from any source; or
- Cash on hand.

Required Reserves must be verified based on Underwriting decision as shown below:

| Property Type or Source | TOTAL Accept | Refer and Manual Underwrite |
|-------------------------|---|---|
| 1-2 units | None | 1 month PITI |
| 3-4 units | 3 months PITI | 3 months PITI |
| 1 unit subject with ADU | 2 months PITI when the ADU rental income is used for qualifying | 2 months PITI when the ADU rental income is used for qualifying |
| Gifts | Permitted | Not permitted |

2G.3 Interested Party Contributions (IPC)

Interested Parties to the transaction may include direct participants such as the builder/developer, seller, real estate agent, lenders, third party originators (TPO), or other parties with an interest in the transaction.

Interested Party Contribution refers to a payment by an interested party, or combination of parties, toward the borrower's origination fees, other closing costs, including any items POC, prepaid expenses, and discount points.

A lender or employee is not considered an interested party to a sales transaction unless the lender or employee is the property seller or is affiliated with the property seller or another interested party to the transaction.

Contributions from someone with whom the borrower is a family member are not considered financing



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contributions. Therefore, they would not be subject to the limits listed in the following section. These funds are considered gifts and are treated as such. See Gifts in this section.

All interested party contributions must be disclosed on the Closing Disclosure.

2G.3(a) Interested Party Contributions

Interested parties to the transaction may contribute up to 6% of the sales price and cannot exceed actual costs. Contributions exceeding 6% are considered inducements to purchase.

Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to interested party contribution limits. The satisfaction of a PACE lien or obligation against the property by the seller is not considered an interested party contribution.

Interested party contributions may not be used for the borrower's MRI. The refund of the items paid outside of closing (POC) may be used toward the borrower's MRI if it is documented that the POCs were paid with the borrower's own funds.

Interested Party Contributions include but are not limited to the following:

- Closing costs
- Discount points
- Origination fees
- Prepaid expenses
- Interest rate buydowns
- Payments of mortgage interest for fixed rate mortgages
- Mortgage payment protection insurance
- Payment of the upfront MIP

2G.3(b) Inducements to Purchase

Inducements to purchase refer to certain expenses paid by the seller and/or another interested party on behalf of the borrower and result in a dollar-for-dollar reduction to the purchase price when calculating the Adjusted Value of the property before calculating the LTV.

Inducements to Purchase include but are not limited to the following:

- Contributions exceeding 6% of the purchase price;
- Contributions exceeding the origination fees, other closings costs, prepaid expenses, and discount



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points;

- Decorating allowances;
- Repair allowances;
- Excess rent credit;
- Moving costs;
- Paying off consumer debt;
- Personal property items such as cars, boats, riding lawn mowers, furniture, televisions;
- Sales commission on the borrower's present residence; and
- Below-market rent, except for Borrowers who meet the Identity-of-Interest exception for Family Members. see below

| | |
|------------------------|---|
| Personal Property | <p>Replacement of existing personal property are not considered an inducement to purchase, provided the replacement is made prior to closing and no cash allowance is given to the borrower. The inclusion in the sales agreement is not considered an inducement to purchase if inclusion of the item is customary for the area. Such items include:</p> <ul style="list-style-type: none"> • Ranges • Refrigerators • Dishwasher • Dryers • Washers • Carpeting • Window treatments • Other items determined by the HOC |
| Sales Commission | <p>An inducement to purchase exists when:</p> <ul style="list-style-type: none"> • The seller and/or an interested party pays a portion of the borrower's sales commission on the sale of the borrower's present home, and • The borrower is not paying sales commission on the sale of his present home and the same real estate broker or agent is involved in both transactions and the seller paid a real estate commission on the property being purchased that exceeds what is typical for the area. |
| Rent Below Fair Market | <p>A reduced rent is an inducement to purchase when the sales contract includes terms permitting the borrower to live in the property rent-free or has an agreement to pay a rental amount greater than 10% below the</p> |



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| | <p>appraiser's estimate of fair market rent.</p> <p>When such an inducement exists, the amount of inducement is the difference between the rent charged and the appraiser's estimate of fair market rent prorated over the period between execution of the sales contract and execution of the property sale.</p> <p>Rent below fair market rent is not considered an inducement to purchase when a builder fails to complete and close on a property at the agreed-upon time and permits the borrower to occupy an existing or other unit for less than market rent until construction is complete.</p> |
|--|--|

2G.4 Asset Sources

Acceptable asset sources are listed below. Not all asset sources are acceptable for down payment, closing costs and reserves. See each section for asset source acceptability.

- [Financial Institution Accounts](#)
- [Business Funds](#)
- [Cash on Hand](#)
- [Cryptocurrency](#)
- [Down Payment Assistance](#)
- [Earnest Money Deposit](#)
- [Employer Assistance Benefits](#)
- [Foreign Assets](#)
- [Gift Funds](#)
- [Income Tax Refund](#)
- [Life Insurance-Cash Value](#)
- [Loans Secured by Financial Assets](#)
- [Notes Receivable/Repayment of Loans](#)
- [Private Savings Clubs](#)
- [Real Estate Commission](#)
- [Rent Credit/Lease with Option to Purchase](#)
- [Retirement Accounts](#)



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- [Sale of Personal Property](#)
- [Sale of Real Estate](#)
- [Stocks, Bonds, and Mutual Funds](#)
- [Sweat Equity](#)
- [Trade Equity](#)
- [Trust Funds](#)

2G.4(a) Financial Institution Accounts

Financial institution accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts.

Accounts that do not allow the borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the borrower is not the beneficiary, such as custodial accounts.

Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits, income levels, and sources are necessary to validate the documents.

| Document | Requirements |
|--------------------|---|
| Account Statements | <p>Account statements may be obtained to document the borrower's assets.</p> <ul style="list-style-type: none">• Provide the most recent statement(s) that shows a beginning and ending balance or the most recent quarterly account statement. If the previous month's balance is not shown, two (2) month's statements is required. Account statements must be dated within 45 days of application. Quarterly account statements dated more than 45 days and less than 90 days are acceptable with verification that the funds are still available.• Account statements must clearly identify:<ul style="list-style-type: none">○ The financial institution○ Borrower as the account holder○ At least the last four digits of the account number |

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| | <ul style="list-style-type: none"> ○ Time period covered ○ Ending balance • If a supplemental statement is necessary, any financial institution-generated printout or alternative verification of the asset (such as deposit or withdrawal slips) is acceptable if all of the required data above is supplied and documented. Supplemental information must be on an institution form with the name of the financial institution or on letterhead signed by a representative. ATM receipts are not permitted. • Account statements may be online account statements obtained by the borrower. Documents that are faxed or downloaded from the Internet must clearly identify the name of the institution and the source. |
| Verification of Deposit | <p>A Verification of Deposit (VOD) issued by the financial institution may be obtained. Each Verification of Deposit must clearly identify:</p> <ul style="list-style-type: none"> • The financial institution; • Borrower as the account holder; • At least the last four digits of the account number; • Type of account; • Open date; • Account balance as of the date of the VOD; and • Average balance for the previous two (2) months. When an average balance is not provided, obtain the most recent two (2) months account statements. <p>The VOD must be remitted directly to the depository. A VOD should never be mailed to a Post Office Box or to an individual's attention. If the borrower indicates this is necessary, the file must contain verification that the depository was independently contacted and verified this requirement. The return address on the verification must be the originator's address. The hand carrying of verifications is strictly prohibited.</p> |
| Information Obtained via Internet | <ul style="list-style-type: none"> • Documents obtained from an internet website must be authenticated and examine portions of printouts downloaded from the internet. • Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document. |
| Third Party Asset Verifications | <p>Direct verification by a third-party asset verification is acceptable as long as:</p> <ul style="list-style-type: none"> • The borrower provided authorization to use third-party verification; |

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| | <ul style="list-style-type: none"> • The verified information provided conforms with the information that would be on a VOD or account statement, including a transaction history; and • The completion date complies with the allowable age of documentation. |
| Closing Disclosures | <p>Closing Disclosures must:</p> <ul style="list-style-type: none"> • Be computer-generated or typed; • Identify the borrower as the seller of the property; • Identify the property sold; • Show the proceeds to the property seller; • Show the disposition of all liens against the property; and • Be signed by the buyer and the seller, or their authorized agents. |
| Review of Account Statements/VOD | <p>An explanation and documentation for the source of funds is required for any recently opened accounts and individual large deposits in excess of 50% of the borrower's total monthly effective income. In addition, verify that the deposits are commensurate with the Borrower's income and savings history and any recent debts were not incurred to obtain part or all of the required borrower cash investment.</p> <p>If a large deposit is from another account that is verified in the loan file, that account must be verified after the withdrawal to ensure that the assets are not counted twice.</p> <p>Unverified funds are not acceptable sources for the down payment, closing costs, reserves, and debt payoff.</p> <p>Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits against income levels and sources are necessary to validate the documents.</p> |

2G.4(b) Business Funds

Business assets may be used to meet the borrower's MRI and reserves. Provide all of the following:

- The borrower must be the majority owner of the business;
- The use of these funds must be documented as having no negative impact on the business's livelihood; and



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- Business Tax Returns must be in the loan file.

Note: Must meet all asset and reserve requirements in addition to the above requirements to utilize Business Funds.

The above is required for Non-Delegated Clients and recommended for Delegated Clients.

2G.4(c) Cash on Hand

Cash on hand refers to cash held by the borrower outside of a financial institution. Cash on hand may be used as an acceptable source of funds. There must be evidence that the funds are deposited into a financial institution or being held by a title company or real estate agent.

The reasonableness of the accumulation of these funds based on the time-period during which the funds were saved must be determined based on the borrower's:

- Income stream;
- Spending habits;
- Documented expenses; and
- History of using financial institutions.

The recognition of such funds carries with it the potential for abusive practices; therefore, each case should stand the test of reason and common sense.

2G.4(d) Cryptocurrency

Cryptocurrency is not an eligible asset; however, **proceeds** from the liquidation of cryptocurrency may be eligible for down payment, closing costs or reserves when all of the following requirements are met:

- Verify that the cryptocurrency purchases were made using eligible assets (such as funds from a bank, brokerage, or retirement account, proceeds from a sale of home or other tangible asset, etc.) and otherwise comply to existing policy on large deposits.
- Document the trail of the cryptocurrency converted into U.S. dollars and transferred to the borrower's U.S. bank account; and
- Provide statement that shows:
 - The original purchase of the cryptocurrency (dollar value and when purchased)
 - Bank or investment fund statements, bill of sale receipts or other proof to identify source of funds used to purchase the cryptocurrency.
 - Statements showing the sale, liquidation or transfer of the cryptocurrency converted into U.S.



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dollars and transferred to the borrower's bank or brokerage account.

2G.4(e) Down Payment Assistance

Down payment assistance (DPA) is an umbrella term for assistance to aid borrowers with the required down payment and/or borrower-paid closing costs and prepaids in a purchase transaction.

Newrez must review and approve all down payment assistance programs for all loans being underwritten by Newrez. The DPA Submission Checklist must be used when submitting a down payment assistance for review by Newrez.

The DPA can be in the form of a grant (gift) or secondary financing. Any type of financing that creates a lien against the subject property is considered secondary financing, even if it is a "soft" or "silent" second (has no monthly repayment provisions) or has other features forgiving the debt. See Chapter [2C](#) Financing, [2C.5](#) Secondary Financing.

Prior to approval, the non-profit's gift documentation must be reviewed to ensure no repayment is required and no liens will be placed on the subject property as a result of the gift.

The grant to the home buyer must meet FHA requirements. Non -profit entities are not permitted to provide gifts to home buyers for the purpose of paying off installment loans, credit cards, collections, judgments, liens, and similar debts.

It must be determined that the entity providing the down payment assistance is a charitable organization as defined by Section 401(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c)(3) of the IRC. One resource for this information is the IRS Exempt Organization Select Check, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

| DPA Source | Requirements |
|--|--|
| Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax Exempt Status | <p>If a charitable organization makes a gift that is to be used for all or part of the down payment, and the organization providing the gift loses or give up its federal tax-exempt status, the gift will be an acceptable source of down payment provided that:</p> <ul style="list-style-type: none">• The gift is made to the borrower;• The gift is properly documented; and |

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| | <ul style="list-style-type: none"> The borrower has entered into a contract of sale (including any amendments to the purchase price) on or before the date the IRS officially announces that the charitable organization's tax-exempt status is terminated. |
| Gift from Governmental Entity | <p>If a Governmental Entity is providing gift funds, the gift will be an acceptable source of down payment provided that the governmental entity incurred prior to or at closing an enforceable legal liability or obligation to fund the borrower's MRI. It is not sufficient to document that the Governmental Entity has agreed to reimburse the lender for the use of the funds legally belonging to the lender to fund the borrower's MRI.</p> <p>One of the following documentation must be provided:</p> <ul style="list-style-type: none"> A cancelled check, evidence of wire transfer or other draw request showing the draw of funds provided towards the borrower's MRI from the governmental entity's account; or A letter from the governmental entity, signed by an authorized official, establishing that the funds provided towards the borrower's MRI were funds legally belonging to the governmental capacity, when acting in the governmental capacity, at or before closing. <p>Where a letter from the governmental entity is submitted, the precise language of the letter may vary, but must demonstrate that the funds provided for the borrower's MRI legally belonged to the governmental entity at or before closing, by stating, for example:</p> <ul style="list-style-type: none"> The governmental entity has at or before closing, incurred a legally enforceable liability as a result of its agreement to provide funds towards the borrower's MRI. The governmental entity has at or before closing, incurred a legally enforceable obligation to provide the funds towards the borrower's MRI. The governmental entity has at or before closing, authorized a draw on its account to provide the funds towards the borrower's MRI. <p>While it is not required to document the actual transfer of funds in satisfaction of the obligation or liability, the failure of the governmental</p> |

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| | entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source |
| Disaster Relief Grants | <ul style="list-style-type: none"> Grants or loans from state and federal agencies, such as the Federal Emergency Management Agency (FEMA), that provide immediate housing assistance to individuals displaced due to a natural disaster, may be used for the borrower's MRI. Secured or unsecured disaster relief loans administered by the Small Business Association (SBA) may also be used. If the SBA loan will be secured against the property being purchased, it must be clearly subordinate to the FHA insured mortgage. Any monthly payment arising from this type of loan must be included in the qualifying ratios. The promissory Note must be documented. |
| Federal Home Loan Bank (FHLB) Homeownership Set-Aside Grant Program | <p>The FHLB Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of down payment assistance.</p> <p>The following must be documented:</p> <ul style="list-style-type: none"> The receipt and terms of use of the grant funds; and The Retention Agreement required by the FHLB is recorded against the subject property and results in a Deed Restriction, and not a second lien. The Retention Agreement must: <ul style="list-style-type: none"> Provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the borrower; Include language terminating the legal restriction on conveyance if title to the subject property is transferred by foreclosure or DIL or assigned to the Secretary of HUD; and Comply with all other FHA requirements. |

2G.4(f) Earnest Money Deposit

The earnest money deposit must be documented if the amount of the deposit exceeds 1% of the sales price or is excessive based on the borrower's history of accumulating savings.

Obtain any of the following:

- A copy of the cancelled check;
- A copy of the deposit check and proof the check was cashed; or



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- Verification of sufficient funds on deposit in the depository account for the down payment, closing costs, etc.

If the source of the earnest money deposit was a gift, document in compliance with Gifts below.

2G.4(g) Employer Assistance Benefits

Employer Assistance refers to benefits provided by an employer to relocate the borrower or assist in the borrower's housing purchase, including closing costs, prepaid expenses, MIP, or any portion of the MRI. Employer Assistance benefits does not include benefits provide by an employer through secondary financing. See [Chapter 2C Financing](#), 2G.4 Secondary Financing.

A salary advance cannot be considered as assets to close.

2G.4(g)(i) Relocation Guaranteed Purchase

The net proceeds from the relocation guaranteed purchase may be used as cash to close. The net proceeds are calculated by taking the relocation guaranteed purchase price less the outstanding liens and expenses.

The following documentation is required:

- An executed buyout agreement signed by all parties;
- Receipt of funds showing that the employee or relocation services takes responsibility for the outstanding mortgage debt; and
- The agreement guaranteeing the employer purchase of the borrower's previous residence and net proceeds from the sale.

2G.4(g)(ii) Employer Assistance Plans

Funds received from an Employer Assistance Plan may be used as cash to close.

Documentation of receipt of the assistance is required. If the employer provides this benefit after closing, the borrower must supply evidence of sufficient funds for closing.

2G.4(h) Foreign Assets

The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC



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sanctions.

Foreign assets may be used for down payment, closing costs, and reserves.

- All asset documents must be completed in English, or provide a complete and accurate translation, attached to each document, and ensure the translation is complete and accurate; and
- Funds must be transferred into a U.S. or State regulated financial institution at least 60 days prior to closing.

2G.4(i) Gift Funds

The borrower may use funds received as a gift from an acceptable donor to satisfy the borrower's MRI, closing costs, and prepaids. The balance of documented gift funds remaining in the borrower's account after closing may be considered as cash reserves, except for manually underwritten loans.

The loan must comply with all of the following guidelines for gift documentation.

| | |
|-------------|---|
| Gift Letter | <p>A gift letter signed by the donor must:</p> <ul style="list-style-type: none">• Specify the dollar amount of the gift or gift of equity;• Include the donor's statement that no repayment is expected;• Indicate the donor's name, address, telephone number, and relationship to the borrower; and• Signature of all parties. |
| Donor | <p>A gift may be provided by any of the following:</p> <ul style="list-style-type: none">• Child, parent, or grandparent;<ul style="list-style-type: none">○ A child is defined as a son, stepson, daughter, or stepdaughter;• A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent;• Spouse or domestic partner;• Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption;• Foster child;• Brother, stepbrother;• Sister, stepsister; |

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| | |
|------------------------|--|
| | <ul style="list-style-type: none"> • Aunt, Uncle; • Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother -in-law, or sister-in-law of the borrower; • Borrower's employer or labor union; • Close friend with a clearly defined and documented interest in the borrower; • Charitable organization; • Governmental agency or public entity that has a program providing homeownership assistance to: <ul style="list-style-type: none"> ○ Low or moderate income families; or ○ First time home buyers. |
| Transfer of Gift Funds | <p>Verification and documentation that sufficient funds to cover the gift are available in the donor's account or have been transferred to the borrower's account prior to closing is required.</p> <p>Transfer of gift funds from the donor to the borrower must be verified and documented based on one (1) of the following two (2) options:</p> <ol style="list-style-type: none"> 1. For Gifts that will be verified prior to settlement, obtain one of the following: <ul style="list-style-type: none"> • the donor's bank statement showing the withdrawal and evidence of the deposit into the borrower's account; or • a copy of the donor's canceled check and evidence of deposit into the Borrower's account; or • a copy of the donor's withdrawal receipt of deposit into the Borrower's account; or • evidence of the electronic transfer of funds from the donor's account to the Borrower's account. 2. For Gifts that will be verified at closing obtain one of the following evidencing payment to the settlement agent: <ul style="list-style-type: none"> • evidence of electronic transfer of funds from the donor's account; or • bank certified check; or • cashier's check; or • other official bank check. <p>Note: Gift Funds received at Closing must be reflected on the Closing Disclosure</p> |

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| | |
|----------------|---|
| | <p>(CD) in addition to one of documents listed above.</p> <p>3. For gifts of land, must obtain proof of ownership by the donor and evidence of the transfer of title to the borrower.</p> <p>Regardless of when the gift funds are made available to a borrower or settlement agent, the underwriter must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.</p> <p>The transfer and deposit of the gift funds must coincide with information on gift letter.</p> <p>Cash gifts and ATM receipts are not an acceptable source of donor gift funds.</p> |
| Gift of Equity | <p>Borrowers may receive a gift of equity from the seller of the subject property, provided the seller is a family member. A gift letter must be provided.</p> <p>The gift must be reflected as a credit on the Closing Disclosure and must be clearly labeled as a gift of equity. A gift of equity is not considered a seller contribution.</p> <p>The donor must have sufficient equity in the property to cover the gift and a gift letter must be signed. The Closing Disclosure will satisfy the donor's ability and receipt of gift verification.</p> |
| Wedding Gifts | <p>When funds are received as a wedding gift all of the following must be provided:</p> <ul style="list-style-type: none"> Recent marriage certificate not more than six months old, and Verification of receipt of the funds via account statement/deposit slip(s). The date of the deposit slip and the date on the marriage certificate must be within a reasonable period. |

2G.4(j) Income Tax Refund

If an income tax refund that has not yet been received will be used as funds for down payment or closing costs, the borrower must provide a copy of their signed personal Tax Return to verify the anticipated refund. Verification of receipt of the Refund Anticipation Loan via a copy of the refund check or electronic deposit and evidence the Refund Anticipation Loan has been repaid is required.



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2G.4(k) Life Insurance-Cash Value

Net proceeds from a loan against the cash value or from the cash surrender value of the borrower's life insurance policy are an acceptable source of funds for down payment and/or closing costs.

Document all of the following:

- Borrower as policy owner;
- Period covered and current cash value;
- Receipt of the funds; and
- Any outstanding loans.

If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated.

2G.4(l) Loans Secured by Financial Assets

| Source | Requirements |
|-----------------------------------|---|
| Loans Secured by Financial Assets | <p>Loans secured against a financial assets, such as deposit accounts, certificate of deposits, investment accounts, or real property may be used for the total required investment. These assets may include stocks, bonds, and real estate other than the property being purchased.</p> <p>If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.</p> <p>All of the following must be provided:</p> <ul style="list-style-type: none">• Existence of the asset;• Promissory Note; and• Loan proceeds. <p>The monthly payment must be included in the DTI ratio unless excluded in Chapter 2H Liabilities and Debt Ratios.</p> |

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| | |
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| | <p>Only an independent third party may provide the borrowed funds. The seller, real estate agent or broker, lender or other interested party may not provide these funds.</p> <p>Unacceptable borrowed funds include:</p> <ul style="list-style-type: none"> • Unsecured signature loans; • Cash advances on credit cards; • Borrowing against personal property such as cars, recreational vehicles, stamps, coins, or other collectibles, household goods and furniture; and • Other similar unsecured financing. |
| Retirement Loans | <p>The balance of the retirement account must be reduced by the amount of the outstanding balance of the retirement account loan.</p> <p>All of the following documentation must be provided:</p> <ul style="list-style-type: none"> • Existence of the asset; • Promissory Note; and • Loan proceeds. |
| Disaster Relief Grant/Loans | <ul style="list-style-type: none"> • Disaster Relief Loans refer to loans from a governmental entity that provide immediate housing assistance to individuals displaced due to a natural disaster. • Grants or loans from state and federal agencies, such as FEMA, that provide immediate housing assistance to individuals displaced due to a natural disaster, may be used for the borrower's MRI. • Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) may also be used. If the SBA loan will be secured by the subject property, it must be subordinate to the first mortgage lien and meet the requirements for Secondary Financing provided by Governmental Entities. See Chapter 2C Financing for details. • A copy of the promissory note must be provided. • Any monthly payment must be included in the DTI ratio. |

2G.4(m) Notes Receivable/Repayment of Loans

When funds are obtained from repayment of a previous loan made by the borrower, all of the following



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information must be provided:

- Written agreement between the borrower and the recipient of the loan;
- Verification the borrower had the ability to lend the funds;
- Evidence that the funds were withdrawn from the borrower's account; and
- Verification that repayment has been made. Provide statements verifying the funds were withdrawn from the recipient's account and deposited into the borrower's account.

2G.4(n) Private Savings Clubs

Private savings club refers to a non -traditional method of saving by making deposits into a member - managed resource pool. All of the following is required:

- Club's account ledgers and receipts;
- Verification from the club treasurer that the club is still active, and length of time club has been active; and
- Evidence of receipt of funds from the club.

The underwriter must be able to determine that:

- It was reasonable for the borrower to have saved the money claimed; and
- There is no evidence that the funds were borrowed with an expectation of repayment.

If the borrower is obliged to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the borrowers' total DTI ratios.

2G.4(o) Real Estate Commission

Real estate commission from sale of subject property refers to the borrower's (buyer's) portion of a real estate commission earned from the sale of the property being purchased.

The real estate commission received from the sale of the subject property may be considered an acceptable source of funds if the borrower is a licensed real estate agent. A family member entitled to the commission may also provide it is a gift, in compliance with gift requirements.

It must be documented that the borrower or family member is a licensed real estate agent and is entitled to a commission from the sale of the subject property purchase.

2G.4(p) Rent Credit for Option to Purchase

Rent credits refer to the amount of the rental payment that exceeds the appraiser's estimate of fair



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market rent.

The cumulative dollar amount of rental payments that exceeds the appraiser's estimate of fair market rent may be used towards the MRI.

All of the following must be provided:

- Market rent as determined by the subject property appraisal; and
- Evidence of receipt of the rental payments.

See Interested Party Contributions (IPC) below for rent credits considered an inducement to purchase.

2G.4(q) Retirement Accounts

Vested funds from individual retirement accounts (IRA, SEP, and Keogh) and tax-favored retirement savings accounts (e.g., 401(k), 403(b)) may be used as a source of funds for down payment, closing costs and cash reserves.

The most recent monthly or quarterly statement must be provided and must identify:

- The borrower's vested amount;
- The borrower's eligibility for withdrawals; and
- Terms and conditions for withdrawals.

2G.4(q)(i) Down Payment and Closing Costs

When funds from these sources are used for the down payment or closing costs, the funds must be withdrawn, and proof of withdrawal must be provided.

2G.4(q)(ii) Cash Reserves

When funds from these sources are used to support the cash reserve requirement, it is not required to withdraw the funds from the account, but the "net" amount eligible for withdrawal must be determined. Retirement accounts that do not allow for any type of withdrawal may not be used for reserves. In addition, retirement accounts that only allow for withdrawal in connection with the borrower's employment termination, retirement or death, the vested funds must not be considered as reserves (e.g., PERS or like accounts).

To account for any applicable withdrawal penalties or income tax, a "net" withdrawal must be



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determined by subtracting 40% from the vested amount less any outstanding loans, unless the borrower provides documentation supporting a greater amount after subtracting any taxes or penalties for early withdrawal.

2G.4(r) Sale of Personal Property

Funds derived from the sale of assets (personal property) other than real estate may be used for cash for closing.

The asset must be verified by all of the following:

- Estimate of the value of the item;
- Bill of sale; and
- Evidence of receipt and deposit of the proceeds.

The estimate of the value may be a published value estimate issued by organizations such as automobile dealers, or a separate, written appraisal by a qualified appraiser with no financial interest in the transaction.

The lesser of the estimated value or actual sales price must be used when determine sufficient assets to close.

2G.4(s) Sale of Real Estate

The net proceeds that will be generated from the sale of an existing property must be established. Both the actual sale price and net proceeds must be documented with either a copy of the final Closing Disclosure, Fully executed final Seller's ALTA Settlement Statement or a fully executed buy-out agreement accompanying a Closing Disclosure that is part of an employer's relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage verifying required net proceed proceeds. The documents must support the transaction was arms-length and the borrower is entitled to net sale proceeds.

| |
|---|
| Net proceeds based on sales contract |
| Obtain a copy of the executed contract of sale and use the following calculation: Sales Price minus (Sales Costs + All Liens) = Estimated sales proceeds |
| Net proceeds based on listing price |



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90% of Listing Price minus All Liens = Estimated Sales Proceeds

The 10% adjustment factor must be adjusted depending on market conditions in the area.

2G.4(t) Stocks, Stock Options, Bonds, Mutual Funds

The value of stocks, bonds or mutual funds must be documented by one (1) of the following:

- Most recent two (2) month's statements or quarterly statement; or
- Copy of bond or stock certificate accompanied by a current, dated newspaper or internet stock list if not held in a brokerage account.

Government-issued savings bonds should be valued at the purchase price unless redemption value can be determined and verified.

Stock options and non-vested restricted stocks are not an eligible asset source for reserves.

Evidence of liquidation is not required.

2G.4(u) Sweat Equity

Labor performed, or materials furnished by the borrower before closing on the property being purchased (known as "sweat equity") may be considered the equivalent of a cash investment, to the amount of the estimated cost of the work or materials.

Sweat equity provided by anyone other than the borrower can only be used as an MRI if the source of funds can be documented. Sweat equity may also be "gifted," subject to the additional requirements.

Evidence of the following must be provided if the borrower furnishes funds and materials:

- Source of the funds
- Market value of the materials

The following cannot be included as sweat equity:

- Delayed work (on-site escrow)
- Clean up
- Debris removal
- Other general maintenance.
- Cash back to the borrower in sweat equity transactions is not permitted



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| Other Requirements | |
|----------------------------|--|
| Existing Construction Only | Repairs or improvements listed on the appraisal are eligible for sweat equity. Any work completed or materials provided before the appraisal are not eligible. |
| Proposed Construction | The sales contract must indicate the tasks to be performed by the borrower during construction. |
| Borrower's Labor | The borrower must demonstrate their ability to complete the work in a satisfactory manner. The contributory value of the labor either through the appraiser's estimate, or a cost-estimating service must be documented. |

2G.4(v) Trade Equity

Trade Equity refers to when a borrower trades their real property to the seller as part of the cash investment.

The amount of the borrower's equity contribution is determined by using the lesser of the subject property's appraised value or sales price and subtracting all liens against the property being traded, along with any real estate commission.

All of the following must be obtained:

- Uniform Residential Appraisal Report in compliance with FHA appraisal policy; and
- Closing Disclosure or similar legal document.

Trade equity cannot result in cash back to the borrower.

2G.4(w) Trust Funds

Funds disbursed from a trust are acceptable assets with a typed copy of the trust agreement or signed statement on letterhead from the trustee that details all of the following information:

- Identify the trustee including name, address, telephone number and individual contact;
- The trustee must be an independent party that typically handles trust accounts (trust company, financial institution, CPA, lawyer);
- Identify the borrower as the beneficiary;
- Show that the borrower has access to all or certain specific amount of the funds;
- The trust has the assets to disburse funds to the borrower; and



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- If the assets are required for closing, proof of receipt is required.

2G.4(x) UGMA or UTMA Accounts

Funds in these accounts are held by a parent/borrower who is the custodian of their child's or dependent's UGMA (Uniform Gifts to Minors Act) or UTMA (Uniform Transfers to Minors Act).

A parent-borrower who is the custodian of their child or dependent's UGMA or UTMA account can use funds to Close and/or Minimum Required Investment for the loan transaction.

2G.5 Unacceptable Asset Sources

Sources of funds considered ineligible include, but is not limited to:

- Assets derived from business activity that may be permitted by State law but is prohibited by Federal law, including but not limited to marijuana related business assets
- Cash advance on a revolving charge account
- Cash for which the source cannot be verified (e.g., garage sales)
- Cryptocurrency, except as noted above
- Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing
- Gift that must be repaid in full or in part
- Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
- Restricted stock
- Personal unsecured line of credit or loan
- Proceeds from an IRS Tax Code 1031 Exchange
- Salary advance

| Revision History | Date |
|--|------------|
| Clarified Transfer of Gifts received at closing must be documented with one of the options listed per 4000.1 in addition to receipt of gift funds must be reflected on the Closing Disclosure. | 04.29.2025 |



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Chapter 2H Liabilities and Debt Ratios

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2H.1 Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITI.

- Principal and interest on the first mortgage loan
- Interest payments for Interest-only loans
- Subordinate financing payments on mortgages secured by the subject property



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- Hazard insurance premiums
- Flood insurance premiums
- Real estate taxes
- Homeowners' association dues
- Leasehold payments
- Ground rent
- Special assessments with more than ten (10) months remaining
- Any other escrow payments

2H.1(a) Real Estate Taxes

For real estate taxes, an accurate estimate of monthly property tax must be used when qualifying borrowers. For new construction, property tax estimates must be based on the land and completed improvements, not just on the land value.

2H.1(b) Tax Abatements

Tax abatements are a temporary reduction in the actual amount of taxes that the owners of a property must pay. The abated amount may be used provided that:

- The abated amount can be documented with the taxing authority; and
- The abatement will remain in place for at least the first three years of the loan.

2H.1(c) Condominium Utility Expense

The portion of a condominium fees that is clearly attributable to utilities may be subtracted from the HOA fees before calculating qualifying ratios, provided the borrower provides proper documentation, such as statements from the utility company.

2H.2 Monthly Obligations/**Manual**

The total monthly debt obligations considered is the sum of the monthly housing expense of the borrower's primary residence plus all other monthly expenses incurred by the borrower. Any additional debt obtained as a result of a recent inquiry on the credit report must be included in the monthly debt obligation.

For Loans manually underwritten, closed-end debts do not have to be included in the qualifying ratio, if they will be paid off within 10 months from the date of closing and the cumulative payments of all such debts are



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less than or equal to 5% of the borrower's gross monthly income. Pay down of the balance to meet the 10-month requirement is not permitted.

Monthly expenses include:

- [Alimony and Child Support Payments](#)
- [Authorized User Accounts](#)
- [Business Debt](#)
- [Co-Signed Loans](#)
- [Court-Ordered Assignment of Debt](#)
- [Federal Debt](#)
- [Home Equity Lines of Credit](#)
- [Installment Debt](#)
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- [Student Loans](#)
- [Undisclosed Debt](#)

2H.2(a) Alimony and Child Support Payments

2H.2(a)(i) Alimony

The borrower's gross monthly income should be reduced by the amount of the monthly alimony obligation in the gross monthly income calculation and not included as a debt unless the borrower will qualify with the alimony payment as a debt and not as income reduction.



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2H.2(a)(ii) Child Support

Child support and other maintenance payments must be included in the DTI ratio.

A copy of the **signed** divorce decree, separation agreement, maintenance agreement or other legal order is required to document the payment and the number of remaining payments.

The borrower's paystubs covering no less than 28 consecutive days must be obtained to verify whether the borrower is subject to any order of garnishment relating to the alimony, child support or other maintenance.

The monthly obligation is determined by the greater of:

- The amount shown on the most recent decree or agreement establishing the payment obligation; or
- The monthly amount of the garnishment.

Review of the application and loan file documentation may require additional validation to determine child support obligations.

2H.2(b) Authorized User Accounts

All monthly debt obligations on authorized user accounts must be included in the DTI ratio unless there is documentation to evidence the primary account holder has made all required payments on the account for the previous 12 months. If less than three (3) payments have been required on the account in the previous 12 months, the payment amount must be included in the DTI ratio.

Evidence such as cancelled checks or automated savings withdrawals will be accepted.

2H.2(c) Business Debt

When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI ratio unless all of the following are considered:

- Documentation is provided to verify that the debt is paid by the business; and
- The debt was considered in the cash flow analysis of the business.



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The debt is considered in the cash flow analysis where the borrower's business income tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the business income tax returns show an interest-expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

2H.2(d) Collection Accounts/Manual Underwrite

The following requirements apply to all loans, manually underwritten.

When a loan or debt has been submitted by the creditor to a collection agency, the credit report must be reviewed to determine if the cumulative outstanding collection account balances. If the cumulative total is \$2,000 or greater, the following is required:

- Evidence the debt is paid in full using an acceptable source of funds, or
- Verify the borrower has made payment arrangements with the creditor and include the payment in the DTI, or
- If a payment arrangement is not available, calculate the monthly payment using 5% of the outstanding balance of each collection and include in the DTI Ratio.

2H.2(e) Co-signed Loans

When a borrower co-signs for a loan to enable another party to obtain credit, but is not actually repaying the debt, the borrower has a contingent liability.

The contingent liability must be included in the DTI ratio, unless there is documentation to evidence the co-obligor has been making payments for the last 12 consecutive months and the account is current with no history of delinquency during that time.

Evidence such as cancelled checks or automated savings withdrawals will be accepted.

2H.2(f) Court-ordered Assignment of Debt

When the borrower has an outstanding debt that was assigned to another party by a court order (e.g., divorce decree or separation agreement), and the creditor does not release the borrower from liability, the borrower has a contingent liability that must be included in the DTI ratio unless the divorce decree



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shows the ordering of the ex-spouse to make the payments. Evidence that the legally obligated party has made 12 months timely payments is not required.

A copy of the divorce decree or other court order ordering the spouse or other legally obligated party to make payments is required.

The payment history of the debt need not be taken into consideration after the transfer date occurred or assignment to another party.

2H.2(g) Disputed Accounts/Manual Underwrite

The following guidelines apply to all loans that are manually underwritten.

2H.2(g)(i) Derogatory Credit Accounts

Disputed derogatory credit accounts refer to disputed charge off accounts, disputed collection accounts, and disputed accounts with late payments in the last 24 months.

If borrower has \$1,000 or more collectively in disputed derogatory accounts, the monthly payment must be included in the debt calculation. The following are excluded from the cumulative balance:

- Disputed medical accounts; and
- Disputed derogatory credit resulting from identity theft, credit card theft or unauthorized use.

2H.2(g)(ii) Non-derogatory Disputed Accounts

Non-derogatory disputed accounts include the following account types:

- Disputed accounts with a zero balance;
- Disputed accounts with later payments aged 24 months or greater; or
- Disputed accounts that are current and paid as agreed.

If a borrower is disputing non-derogatory accounts or accounts which are not indicated on the credit report as disputed, review of the disputed accounts must be analyzed to determine effect on borrower's ability to repay.

If the dispute results in monthly debt payments being less than the amount indicated on the credit report, documentation must be provided to support the lower payments.



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2H.2(h) Federal Debt

Federal debt refers to debt owed to the federal government for which regular payments are being made. The monthly payment must be included in the monthly debt obligation and DTI ratio.

Documentation from the federal agency evidencing the repayment agreement and verification that the payments are being made on time must be provided.

See Chapter 2A Loan Eligibility for complete eligibility when the borrower has federal debt.

2H.2(i) Home Equity Lines of Credit

When the subject property has a home equity line of credit that has a balance and monthly payment, that payment must be considered part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment and there is no recurring monthly debt obligation, no monthly payment needs to be included in the recurring debt obligations.

If there are other open home equity lines of credit on the credit report with a zero balance, no monthly payment needs to be included in the recurring debt obligations.

2H.2(j) Installment Debt

Installment debt not secured by a financial asset, including student loans, automobile loans, and timeshares, etc., must be included in the borrower's monthly debt obligations unless all of the following exist:

- There are fewer than ten months remaining as of the date of closing; and
- The cumulative payments of all such debts are less than or equal to 5% of the borrower's gross monthly income.

An installment debt with fewer than ten monthly payments remaining should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her monthly obligations.

If the credit report does not include a monthly payment or the payment reported on the credit report is greater than the payment on the loan agreement or payment statement, the payment on the loan agreement or payment statement may be used if properly documented.



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A timeshare is considered an installment loan and not a mortgage debt.

2H.2(j)(i) Deferred Installment Debt

Deferred debt, excluding student loans, must be included in the DTI ratio.

All of the following documentation must be provided:

- Written documentation of deferral from the creditor;
- Evidence of the outstanding balance;
- Evidence of the terms of the liability; and
- Evidence of the anticipated monthly payment obligation, if available.

The actual monthly payment must be used, when available. If the actual payment is not available, use the terms of the debt or 5% of the outstanding balance to establish the monthly payment.

For information about deferred student loans, see 2H.2(q) Student Loans.

2H.2(j)(ii) Pay Off or Pay Down of Debt

Pay off or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

Paying off installment debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing. Source of funds must also be documented.

Paying down installment debt to fewer than ten months to qualify for the mortgage is not permitted.

2H.2(k) Lease Payments

Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease.



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2H.2(l) Loans Secured by Financial Assets

Loans secured against deposited funds (signature loans, cash value of life insurance policies, 401(k) accounts, etc.) where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the borrower's assets, do not require consideration of repayment for qualifying purposes.

If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

See Chapter 2G Assets, 2G.3 (i) Loans Secured by Financial Assets for documentation requirements.

2H.2(m) Mortgage Assumptions

When the borrower sells a property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability (PITI) that must be included in the borrower's recurring monthly debt obligations unless there is documentation to evidence the co-obligor has been making payments for the last 12 consecutive months and the account is current with no history of delinquency during that time.

All of the following documentation must be provided:

- Assumption agreement or agreement creating the contingent liability; and
- Deed showing transfer of title out of the borrower's name.

2H.2(n) Negative Income

Negative income must be subtracted from the borrower's gross monthly income and not treated as a recurring monthly liability unless otherwise noted.

2H.2(o) Non-borrowing Spouse Debt in Community Property States

Non-borrowing spouse debt refers to debt owed by a spouse that are not owed by, or in the name of the borrower.



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A non-borrowing spouse may be required to sign either the security instrument or documentation evidencing that he or she is relinquishing all rights to the property if required by state law in order to perfect a valid and enforceable first lien, as is the case in some community property states. If the non-borrowing spouse executes the security instrument, they are not considered a borrower for underwriting purposes and need not sign the loan application or Note.

In all other cases, the non-borrowing spouse must not be on the security instrument or take title to the subject property.

If the property is located in a community property state, or the borrower resides in a community property state, the following requirements must be complied with:

- A credit report for the non-borrowing spouse is required to determine any joint or individual debts and to determine the DTI ratio. The credit report for the non-borrowing spouse should not be a joint report, it should be obtained separately;
- Obtain and document authorization from the non-borrowing spouse to pull a separate credit report. If the non-borrowing spouse refuses to provide authorization for the credit report, the loan must be rejected;
- Even if the non-borrowing spouse does not have a social security number, the credit reporting company should verify that the non-borrowing spouse has no credit history and no public records against them;
- Include the actual monthly payment obligation of the non-borrowing spouse in the DTI ratio calculation, **except for obligations specifically excluded by state law**. If the actual monthly payment is not available, calculate the monthly obligation by using the terms of the debt or 5% of outstanding balance;
- All open judgments and liens, including those of the non-borrowing spouse, must be resolved prior to closing;
- Disputed debts of the non-borrowing spouse need not be counted with acceptable documentation of the dispute;
- Credit history of the non-borrowing spouse should not be the sole basis for declining the loan;
- The credit report is for the purpose of establishing debt only and is not submitted to TOTAL for the purpose of credit evaluation;
- The credit for the non-borrowing spouse may be traditional or non-traditional; and



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- The loan file must reference the specific state law that justifies the exclusion of any debt from consideration.

| Known Community Property States | Community Property State Laws are Effective When | Include Debts in DTI | Exclude Debts from DTI if Acquired Prior to Marriage | Statutory Authority |
|---------------------------------|--|----------------------|--|--|
| Arizona | Married and domicile in same state | Yes | No | ARIZ. REV. STAT. ANN §25-13(A) |
| California | Married and domicile in same state | Yes | No | CAL FAM. CODE DIV. 4 Pt. 3 Ch. 2 §913(b)(1) and CAL FAM. CODE DIV. 4 Pt. 3 Ch. 2 §1612(a)(1) |
| Idaho | Married and domicile in same state | Yes | No | IDAHO CODE ANN. §§ 32-903 and 32-923(h) |
| Louisiana | Married and domicile in same state | Yes | No | LA CIV. CODE ANN. Arts. 2523 and 3526(2) |
| Nevada | Married and domicile in same state | Yes | Yes | NEV. REV. STAT. §123.130 |
| New Mexico | Married and domicile in same state | Yes | No | N.M. STAT. 40-3-9 |
| Texas | Married and domicile in same state | Yes | Yes | TEX. FAM. CODE ANN. §§ 3.001 and 4.003(1) |
| Washington | Married and domicile in same state | Yes | Yes | WASH. REV. CODE §26.16.010 |
| Wisconsin | Married and domicile in same state | Yes | Yes | WIS. STAT. §766.31(8) |



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2H.2(p) Other Real Estate Owned

Mortgage payments and related expenses must be included in the borrower's recurring debt obligations. This includes mortgage payments and related expenses on any property that is currently pending sale (not closing prior to subject transaction), or a property retained as a second home or investment property.

Determine the aggregate net negative rental income from all rental properties for qualification.

When the loan application reflects that the borrower owns other real estate free and clear of mortgage liens or encumbrances, documentation must be provided to evidence free and clear status of the property. The borrower must qualify with taxes, property insurance, homeowners' association dues/fees (if applicable), and any other related expenses, which must be documented.

2H.2(q) Private Savings Clubs

Private savings clubs are a non-traditional method of saving by making deposits into a member-managed resource pool.

If the borrower is obligated to make ongoing contributions under the pooled savings agreement, the monthly payment amount must be included in the borrower's monthly debt obligations.

The establishment and duration of the borrower's membership in the club and the amount of the required contribution must be documented.

2H.2(r) Revolving Charges/Lines of Credit

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.

If the credit report does not show a required minimum payment amount and the current account statement is not provided, use 5% of the outstanding balance as the recurring monthly debt obligation.



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2H.2(r)(i) Payoff Revolving Debt for Qualification

Payoff of debt to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

- For purchase and rate & term refinance transactions, the account must be paid in full (paying down to zero balance) prior to closing. Provide documentation from the creditor and/or updated credit supplement prior to closing showing the account paid in full.
- For cash-out refinance transactions underwritten by Newrez, paying off revolving debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing.
- Document funds came from an acceptable source and no new debt was incurred. The account does not have to be closed.

2H.2(r)(ii) Open 30-Day Charge Accounts

A 30-day charge account refers to a credit arrangement that requires payment in full on the account every month.

Verification must be provided to evidence that the borrower paid the outstanding balance in full on every 30-day account each month for the past 12 months. 30-day accounts that are paid monthly are not included in the borrower's monthly debt obligations. If the credit report reflects any late payments in the last 12 months, 5% of the outstanding balance must be calculated and included in the DTI ratio.

The credit report must be used to document that the borrower has paid the balance each month for the prior 12 months and to document the outstanding balance.

There must be sufficient funds to pay off the balance in excess of the funds and reserves required to close the loan.

2H.2(s) Student Loans

All student loans must be included in the DTI, regardless of the payment type or status of payments.



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If the payment used for the monthly obligation is less than the monthly reported on the credit report, obtain the following from the student loan servicer:

- Written documentation of the actual monthly payment;
- Payment status;
- Evidence of the outstanding balance; and
- Evidence of the terms of the student loan from the creditor.

To calculate the monthly payment, use one of the following:

- The payment reported on the credit report; or the actual documented payment, when the payment amount is above zero; or
- 0.5% of the outstanding balance, when the monthly payment reported on the credit report is zero.

The monthly payment may be excluded in the DTI when documentation from the student loan program, creditor, or student loan servicer indicates that the loan balance has been forgiven, canceled, discharged, or otherwise paid in full.

2H.2(t) Undisclosed Debt

Refer to Chapter 2F Credit; 2F.5(a) Undisclosed Debt Other than a Mortgage and 2F.5 (b) and Undisclosed Mortgage Debt.

2H.3 Obligations Not Considered Debt

Obligations not considered debt include:

- Automatic deductions from savings, when not associated with another type of obligation
- Charge-off accounts
- Childcare
- Collateralized loans secured by depository accounts
- Commuting costs
- Federal, state, and local taxes, if not delinquent and no payments are required
- Federal Insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- Insurance, other than property insurance

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- Medical collections
- Open accounts with zero balances
- Utilities
- Union dues
- Voluntary recurring debt or deductions, when not associated with another type of obligation

| Revision History | Date |
|---|------------|
| Updated Chart for Non-Borrowing Spouse in Community Property States with State Statute reference | 01.30.2024 |
| <p>Added following information for to be included in file for either AUS or Manual UW:</p> <ul style="list-style-type: none"> • Signed divorce decree with child support requirements • Clarified for Non-borrowing Spouse in community property states, DTI ratio does not include obligations specifically excluded by state law <p>Added or clarified for loans underwritten manually (this content is also located in Ch 2 F Credit :</p> <ul style="list-style-type: none"> • Collection accounts with manual underwriting requirements • Disputed Accounts (Derogatory or Non-Derogatory) • Closed end debts that will be paid within 10 months of closing date and the cumulative payments of all such debts are less than or equal to 5% of the borrower's gross monthly income , do not have to be included in the qualifying ratio. Pay down of the balance to meet the 10-month requirement is not permitted. | 04.01.2024 |



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2I.1 Income Documentation

2I.1(a) IRS Form 4506-C

2I.1(a)(i) General Requirements

- For loans underwritten by Newrez, borrower(s) are required to complete, sign and date IRS Form 4506-C, authorizing the Client or its assigns, to validate income information.
- IRS Form 4506-C can be used to obtain tax transcripts for multiple years or tax periods, but only one (1) tax form number can be requested per IRS Form 4506-C.
- IRS Form 4506-C must not expire before a reasonable time to allow for execution.
- The signed IRS Form 4506-C must include authorization for transcripts to coincide with the years reflected on the income documentation provided and used for qualification.
- Signature Requirements:
 - If filing jointly, each borrower (taxpayer) must sign the same IRS Form.
 - If separate filings, each borrower (taxpayer) must sign on separate forms.
 - The form must be signed exactly as the borrowers' name appears on the original return.
 - If a borrower's name changed, the borrower must sign with both the current name and changed name.

2I.1(a)(ii) Prior to Closing Requirements

Form 4506-C for business return(s) must be signed at closing when the business returns are used for qualification.

2I.1(a)(iii) At Closing Requirements

- Form 4506-C for each borrower whose income is used to qualify, regardless of income type (must be signed at closing).
- Form 4506-C must be an original signature and cannot be e-signed.

It is necessary to complete three (3) IRS Form 4506-Cs for a self-employed borrower whose income documentation consists of two (2) years individual income Tax Returns and two (2) years business Tax Returns for two (2) separate businesses. One (1) Form 4506-C will be required for the individual return and a separate Form 4506-C for each business return.



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2I.1(a)(iv) Completing IRS Form 4506-C

| Line # | | Individual Tax Returns | Business Tax Returns |
|--|---|--|--|
| 1-4. | Complete with appropriate borrower information. The address completed on the form must be the same as the address on the tax return even if not the borrower's current address. | | |
| 5. | a. IVES Participant name, address and SOR mailbox ID b. Customer File Number | | |
| 6. | Transcript Requested | Enter Form 1040 | Enter Form 1120, 1065, etc., as applicable |
| | a. Return Transcript | Check Box and/or 6c | |
| | b. Account Transcript | Leave Blank | |
| | c. Record of Account | Check Box and/or 6a | |
| 7. | Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript | Check Box 7 | Leave Blank |
| 8. | Year or period requested | Complete for the number of year(s) required to document income | |
| <p>The IRS will process the request if the IRS Form 4506-C for the business includes the following:</p> <ul style="list-style-type: none"> 1120: Borrower must sign name with title and only the following titles are acceptable <ul style="list-style-type: none"> ○ President ○ Vice President ○ Secretary ○ Treasurer ○ Assistant Treasurer ○ Chief Accounting Officer 1120S: Borrower must sign name with title and only the following titles are acceptable <ul style="list-style-type: none"> ○ President ○ Vice President ○ Secretary ○ Treasurer ○ Managing Member 1065: Borrower must sign name with title and only the following titles are acceptable | | | |



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- Partner
- Limited Partner

2I.1(b) Tax Transcripts

Tax transcript(s) may be required, at the underwriter's discretion. Refer to Product Profiles.

Information from the tax transcript and borrower-provided document must be compared and discrepancies explained and resolved with detailed comments provided.

If the IRS rejects tax transcripts requested (for reasons of possible identity fraud/theft, other identity related issues, or misuse of tax transcripts), the messaging for these reasons received from the IRS may state the following: "Due to limitations, the IRS is unable to process this request. The IRS will mail a notification to the borrower to explain the reason; please contact your borrower."

- The rejection of the IRS not fulfilling the online request must be in the loan file.
- The borrower may order their own tax transcripts and provide them to Newrez. All schedules must be required by the borrower for the past two (2) years Tax Returns were filed.

If a borrower is not required to file last years' tax return and the source of income cannot be validated through the IRS Form 4506-C process, documentation supporting the lack of filing Tax Returns must be provided. See IRS [Table 1-1.2011 Filing Requirements for Most Taxpayers](#) and Chapter [6A](#) Fraud for guidance when related to identify theft.

If income documents are not provided in English, a complete and accurate translation must be completed

2I.1(c) Paystubs

- The paystub must clearly identify the:
 - Borrower as the employee;
 - Gross earnings for the current pay period and year-to-date earnings;
 - Pay period;
 - Employer name; and
 - Date issued.
- If the borrower is paid hourly, the number of hours must be noted on the paystub,
- Paystubs must be computer-generated or typed by the employer.
 - For loans underwritten by Newrez, if the employer does not provide a computer-generated or



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typed paystub, the most recent years' income Tax Returns or tax transcripts are required with a written verification of employment completed in its entirety;

- Paystubs must not have any alterations;
- The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor;
- Paystubs that are issued electronically, via e-mail or downloaded from the Internet are acceptable. Documents must clearly identify the employer's name and source of information - for example, by including the information in the Internet banner;
- Paystubs that are issued electronically, via e-mail, or downloaded from the Internet are acceptable and must include the following:
 - Internet Uniform Resource Locator (URL Internet address) identifying the source of the information;
 - Date and time printed;
 - Verbal verification of employment;
 - The documentation must also contain information identifying the place of origin and/or the author of the documentation, all of which must be confirmed on the verbal verification; and
 - Documents downloaded directly from the Internet to a Word document or Excel spreadsheet are not acceptable.

2I.1(d) IRS W-2 (Wage and Tax Statement) Form

- The IRS W-2 must:
 - Clearly identify the borrower as the employee and the employer's name;
 - Be the employee copy provided by the employer;
 - Be computer-generated or type by the employer;
 - Not have any alterations; and
 - Be the original source of the information from a third-party, such as the borrower's human resources department, personnel, office, payroll department, company's payroll vendor, or supervisor.
- The following may be used in lieu of the IRS W-2 form provided the documentation reflects the complete income earned in the previous calendar year
 - Year-end paystub(s) or military Leave and Earnings Statement; and
 - W-2 transcript(s).



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2I.1(e) Written Verification of Employment (WVOE)

A written verification of employment must contain:

- Dates of employment;
- Position;
- Prospect of continued employment, when available;
- Probability of continued employment must be verified as good or better and evaluated based on the following:
 - Past employment record;
 - Qualifications for the position;
 - Previous training and education; and
 - Employer's confirmation of continued employment.
- Base pay amount and frequency. For employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week; and
- Additional salary information, which includes itemized bonus, overtime, or tip income, if applicable.

The borrower may not request completion of the written verification of employment directly from his or her employer.

Direct verification by a third-party employment verification is acceptable as long as:

- The borrower provided authorization to use third-party verification;
- The verified information provided conforms with the information that would be on a VOE or paystub; and
- The completion date follows the allowable age of documentation.

2I.1(f) Verbal Confirmation of Employment

Verbal confirmation of the borrower's current employment status is required for each borrower.

If a verbal confirmation cannot be obtained, a written verification of employment must be utilized to confirm employment and must be completed within the same time frame as a verbal confirmation.

To comply with a verbal confirmation of employment requirement, independently obtain the phone number and address for the borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, etc., or by contacting the applicable licensing bureau. In addition, the following must be met:



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| Verbal Confirmation of Employment | |
|-----------------------------------|--|
| Wage Earner | <p>A verbal confirmation of employment must be completed within ten (10) calendar days from the Note date and documented with the following information:</p> <ul style="list-style-type: none"> • Date of contact; • Borrower's employment status and job title; • Name, phone number and title of individual contacted at entity; • Name of the entity contacted; • Name and title of associate contacting employer; and • Method and source used to obtain the phone number. <p>Email Verification of Employment may be acceptable if all of the following is provided:</p> <ul style="list-style-type: none"> • Email verifies borrower's employment within 10 calendar days prior to the Note date and • Email includes all of the following: <ul style="list-style-type: none"> • Date • Borrower full name and work title • Current employment status for borrower • Borrower work email address for current employee and • Email address for individual verifying employment • Evidence must be provided to support the employer email address is accurate. <p>If using a third-party service to verify employment (e.g., The Work Number, Quick Confirm, LexisNexis, etc.) the Employment Verification must be ordered within 10 calendar days of the Note date and the employment information data (TWN "current as of" date) must be within 30 days of the date ordered.</p> |
| Self-Employed Borrower | <p>Non-Delegated Clients</p> <ul style="list-style-type: none"> • Verification of the existence of a self-employed borrower's business is required within 30 calendar days from the Note date. |



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| | |
|--|--|
| | <p>Verification of the existence of the business from a third party is required. A borrower's website is not acceptable as third-party verification.</p> <ul style="list-style-type: none">• Acceptable third party sources include, but are not limited to:<ul style="list-style-type: none">○ CPA (must be arm's length), regulatory agency, or the applicable licensing agency; or○ By verifying a phone directory listing and address for the borrower's business using a telephone book, the Intranet, directory assistance, Better Business Bureau. <p>Internet source. If using an internet source, such as Whitepages.com, Yellowpages.com, the phone number must be called to ensure the business is still in existence.</p> <p>Verification of current existence of the business obtained verbally from an acceptable third-party source must be documented and include all of the following:</p> <ul style="list-style-type: none">• Name and address of business;• Name of individual and entity contacted;• Date of verification; and• Name and title of associate who completed the verification. <p>Alternative documentation: Current and active business insurance policy or Errors and Omissions policy, documentation showing registration for remitting sales tax, supplier invoices, etc.</p> |
|--|--|

2I.1(g) Tax Returns

Tax Return refers to a U.S. federal income tax return or, for Borrowers who reside in Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Mariana Islands, or American Samoa and who are not required to file U.S. federal income taxes, must obtain the equivalent tax filing for the territory (a territory tax return).

Each tax return must be signed by the borrower.

In lieu of signed individual or business Tax Returns from the borrower, may obtain a signed

[IRS Form 4506](#), [IRS Form 4506-C](#), or [IRS Form 8821](#) and transcripts directly from the IRS.



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The following standards apply with using Income Tax Returns to verify income.

| Form | Requirements |
|--|--|
| <i>Individual Income Tax Returns (Form 1040)</i> | <ul style="list-style-type: none"> Complete with all schedules and W-2s, 1099s, K-1s, etc. Borrower's copy filed with the IRS |
| <i>Business Income Tax Returns (Form 1120, 1120S, 1065)</i> | <ul style="list-style-type: none"> Complete with all schedules and W-2s, 1099s, K-1s, etc. Borrower's copy filed with the IRS |
| Amended Income Tax Returns Filed Prior to the Application Date | Amended Tax Returns filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the tax return was amended 60 days or less prior to the application, evidence of payment must also be provided. |
| Amended Income Tax Returns Filed After the Application Date | <p>When amended Tax Returns are filed after the application date, due diligence must be exercised to determine the validity of the amended tax return. Examine the original tax return and the amended tax return for consistency with the previous filings to determine whether the use of the amended return is warranted.</p> <p>The following documentation should be reviewed when income from the amended return is required:</p> <ul style="list-style-type: none"> A letter of explanation regarding the reason for the re-file; Evidence of filing; and Payment and the ability to pay the tax if the check has not cancelled. <p>The underwriter must provide justification and commentary regarding its use.</p> |
| <i>IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns</i> | If <i>IRS Form 4868 Application for Automatic Extension of Time to File U.S. Individual Income Tax Return</i> is filed, the total tax liability reported on IRS Form 4868 must be reviewed and compared with the borrower's tax liability from the previous two (2) years as a measure of income source, stability, and continuance. If the estimated tax liability that is inconsistent with previous years, the current year tax return may be necessary. |



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| Use of IRS Forms to Obtain Individual Income Tax Information | <p>Tax Return Transcripts may be used in lieu of obtaining the income Tax Returns as long as they contain all of the information that would be included on the tax return.</p> <p>In certain instances, copies of the actual returns, schedules, or forms may be needed because the tax transcripts will not provide the detail required to qualify the borrower.</p> |
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21.1(h) Allowable Age of Individual Income Tax Returns

| IF Today's Date is... | THEN the Most Recent Years' Tax Return would be... |
|-------------------------------|--|
| February 18, 202 ⁵ | 202 ³ |
| May 18, 202 ⁵ | 202 ⁴ |
| December 15, 202 ⁵ | 202 ⁴ |

The below table provides the allowable age of individual income Tax Returns depending on the application and Note date.

| <p>Allowable age of Individual Tax Returns based on application date for borrowers whose income must be documented with Tax Returns (borrowers self-employed and non-self-employed).</p> <ul style="list-style-type: none"> • Self-employed income; • Employment by a family member or an interested party to the purchase transaction; • Rental income from an investment property; and • Other income sources as identified in the chapter. <p>Reminder: The Note date is based on all documentation in the file (paystub, bank statements, appraisal, etc.).</p> | | |
|---|------------------------------------|--|
| Application Date | Note Date | Documentation |
| Before May 17, 202 ⁵ | Before May 31, 202 ⁵ | <p>202⁴ Tax Return Filed</p> <p>Most recent filed Tax Return(s) per AUS</p> <ul style="list-style-type: none"> • 202⁴; or • 202⁴ and 202³ <p>202⁴ Tax Return Not Filed</p> <p>Most recent filed Tax Return(s) per AUS</p> |



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| | | <ul style="list-style-type: none"> • 2023; or • 2023 and 2022 |
| On or After May 17, 2025 | Before May 31, 2025 | 2024 Tax Return Filed Most recent year(s) Tax Returns per AUS |
| All | May 31, 2025, through October 31, 2025 | <ul style="list-style-type: none"> • 2024; or • 2024 and 2023 2024 Tax Return Not Filed Most recent year(s) Tax Returns per AUS <ul style="list-style-type: none"> • 2023; or • 2023 and 2022 <i>And all of the following</i> <ul style="list-style-type: none"> • Copy of Application for Automatic Extension of Time to File 2024 U.S. Individual Income Tax Return (IRS Form 4868) • Tax transcripts confirming “No Transcripts Available” for 2024 |
| All | On or After November 1, 2025 | Most recent year(s) Tax Returns per AUS <ul style="list-style-type: none"> • 2024; or • 2024 and 2023 • Use of a Tax Extension is not permitted |
| See the applicable section of this chapter for complete income documentation requirements for all borrowers (self-employed and non-self-employed) whose income must be documented with Tax Returns. | | |

21.2 Stable Monthly Income

The continuity of stable and predictable income must be demonstrated. Consider the length of the borrower's employment with all employers. Borrowers with frequent job changes who earn a consistent and predictable income and are able to pay debt obligations are considered to have a reliable flow of income for loan qualification. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen.

Income that is legally derived under Federal law and properly reported as income on the borrower's Tax Returns (when required) may be considered an acceptable source of qualifying income. Income that is legally derived



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under State law, but not Federal law, may not be considered an acceptable source of qualifying income.

Known economic conditions, such as plant closings, company bankruptcies, etc. that may affect the borrower's income, must be taken into consideration. Negative income must be subtracted from the borrower's gross monthly income and not treated as a recurring monthly liability.

21.2(a) Variable Income

For employees who are paid hourly and whose hours do not vary, the borrower's current hourly rate must be used to calculate effective income.

For employees who are paid hourly and whose hours vary, the income must be averaged over the past two (2) years. If an increase in pay can be documented, the most recent 12-month average of hours at the current pay rate may be used.

21.2(b) History of Receipt

A minimum history of two (2) years of receipt of income is required.

If a borrower does not meet the employment history recommendation for the two (2) years prior to the date of the loan application, the following are examples that may support an employment history of less than two (2) years.

| | |
|----------------------|---|
| Frequent Job Changes | <p>If the borrower has changed employers more than three (3) times in the previous 12-month period, or has changed lines of work, the stability of the borrower's income must be verified and documented with one (1) of the following:</p> <ul style="list-style-type: none">• Transcripts of training and education demonstrating qualification for the new position; or• Employment documentation evidencing continual increases in income and/or benefits. <p>Additional analysis is not required for fields of employment that regularly require a borrower to work for various employers (such as technology companies or union trades).</p> |
| Employment Gaps | <p>The stability of employment and income and its likelihood of continuance should be factored into the underwriting decision when there are gaps of employment</p> |

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| | <p>of six months or more (an extended absence).</p> <p>A borrower may have recently returned to the work force after an extended absence. For example, employment for a borrower who took several years off to raise children and then returned to the work force may be considered effective and stable provided the following are met:</p> <ul style="list-style-type: none"> • The borrower has been employed in their current line of work for six (6) months or more at the time of case number assignment; and • A two-year work history prior to the absence from the work force is documented. <p>Exception Due to COVID-10 Related Economic Event</p> <ul style="list-style-type: none"> • Non-Self-Employment Income <ul style="list-style-type: none"> ○ Borrower has been employed in the current job or same line of work for at least one (1) month at the time of case number assignment; or ○ Borrower has been employed in a different job or line of work for at least six (6) months at the time of case number assignment; and the Borrower has an aggregate two-year work history prior to case number assignment excluding gaps in employment, using traditional or alternative employment verification. ○ Must obtain a written Verification(s) of Employment identifying the time period of temporary loss of employment, temporary loss of income, or temporary loss of hours is required. <p>Self-Employment Income</p> <ul style="list-style-type: none"> • The months where the business was closed, or income was reduced may be excluded when calculating income. |
| Temporary Leave - Reduction in Income | <p>Borrower's with a temporary reduction of income due to short-term disability or similar temporary leave, the following must be verified and documented:</p> <ul style="list-style-type: none"> • Borrower intends to return to work; • Borrower has the right to return to work; and • Borrower qualifies taking into account any reduction of income due to the circumstance. <p>Borrower's returning to work before or at the time of the first mortgage</p> |



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| | <p>payment due date, use of the borrower's pre-leave income may be used for qualifying.</p> <p>For borrower's returning to work after the first mortgage payment due date, the borrower's current income plus available surplus liquid asset reserves, to supplement the amount of the borrower's pre-leave income.</p> <ul style="list-style-type: none"> • Surplus liquid asset reserves refers to funds that are above and beyond required reserves. <p>The amount of the monthly income supplement is the total amount of:</p> <ul style="list-style-type: none"> • surplus reserves divided by number of months between first mortgage payment due date and the borrower's intended date of return to work. (\$5000 / 2 months = \$2,500 surplus reserves) <p>The following documentation is required:</p> <ul style="list-style-type: none"> • Written statement from borrower confirming intent to return to work and return date; • Current employer generated documentation confirming borrower is eligible to return after leave; and • Documented sufficient liquid assets, to supplement borrower's income through intended return date with current employer. Verified liquid assets are in addition to funds required for closing. Reserves do not include: <ul style="list-style-type: none"> ○ Proceeds from cashout transactions; ○ Incidental cash received at settlement in other loan transactions; ○ Gift funds; ○ Equity in another property; or ○ Borrowed funds from any source. |
| Furloughed Borrower | <p>Borrowers in a state with an active furlough policy must qualify with the reduced income. Payments from a third party (credit union or other source) to supplement unfunded budgets are not permitted, even if the source is approved by the employer.</p> <p>Full pay may be used if there is evidence from the employer or third party documentation that the furlough will end within the next 60 days and there is no</p> |



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| | discussion to extend the furlough. |
| Government Shutdown | For federal, state, tribal, or local government employees temporarily out of work due to a government shutdown or other similar, temporary events (where lost income is anticipated to be recovered), income preceding the shutdown can be considered as effective income. |

21.3 Base Pay, Bonus, Overtime, Commission, and Tip Income

21.3(a) Base Pay (Salary or Hourly)

Borrowers who receive a base pay receive a consistent wage or salary from an employer in return for a service rendered and have less than 25% ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semimonthly basis.

Follow TOTAL or obtain one (1) of the following:

- Most recent paystub and a completed Written Verification of Employment or Direct, Third-Party Verification (TPV); or
- Most recent year-to-date paystub(s) and two (2) years' W-2s.
- Borrowers Paid Hourly
 - Employees paid hourly and whose hours do not vary use the current hourly rate to calculate income.
 - Employees paid hourly and whose hours vary (variable income): average income over the previous two (2) years. If an increase in pay rate can be documented, use the most recent 12-month average of the hours at the current pay rate.

21.3(b) Exception Due to COVID-19 Related Economic Event for Salaried and Hourly Employees

- Salaried Borrowers: Use the current salary to calculate income.
- Borrowers Paid Hourly
 - Employees who are paid hourly and whose hours do not vary, the borrower's current hourly rate must be used to calculate income.
 - Employees who are paid hourly and whose hours vary, the borrower's currently hourly rate must be used to calculate the effective income by using the lesser of:
 - The average of the income in accordance with the hourly standard section listed above



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- for the time period prior to the COVID-19 Related Economic Event; or
- The average of the income earned since the COVID-19 Related Economic Event.

21.3(c) Second-Job Employment

Second-job employment refers to employment that is not the borrower's primary employment. The second job is in addition to the borrower's primary employment.

Second-job or multiple-job employment refers to employment that is not the borrower's primary employment and is generally less than 40 hours per week. The second job is in addition to the borrower's primary employment.

A borrower must have at least two (2) years, uninterrupted history on all second or multiple jobs and the current position is reasonably likely to continue to consider effective income.

Income must be averaged over the previous two (2) years to calculate effective income. If an increase in pay rate is documented, a 12 month average of hours at the current pay rate may be used.

21.3(d) Part-time to Full-time Employment

All of the following must be provided for a borrower who has historically been employed on a part-time basis and indicates that he or she will now be working full-time:

- Written confirmation from the employer that the borrower is working full-time;
- Paystub evidencing the borrower's full-time pay; and
- Written explanation from the borrower explaining the reason for switching from part-time employment.

Likelihood of continuance must be considered.

21.3(e) Past Employment Documentation

Direct verification of borrower's employment and income history for the previous two years is not required if all of the following conditions are met:

- The current employer confirms a two-year employment history, or a paystub reflects a hiring date.
- Only base pay is used to qualify borrower (no Overtime, bonus or Tip income may be used).
- The Borrower executes the following for the previous two tax years:
 - [IRS 4506](#), request for Copy of Tax Return,
 - [IRS Form 4506-C](#), IVES Request for Transcript of Tax Return, or



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- [IRS Form 8821](#) Tax Information Authorization.

If the applicant has not been employed with the same employer for the previous two years and/or not all conditions shown above can be met, then one or a combination of the following for the most recent two years must be obtained to verify the borrower's employment history:

- IRS Form W-2(s);
- Written VOE(s);
- Direct verification of employment by a TPV vendor, subject to the following requirements:
 - The Borrower has provided authorization for the Mortgagee to verify income and employment; and
 - The date of the data in the verification meets all FHA Requirements in Maximum Age of Mortgage Documents and/or
- Evidence supporting enrollment in school or the military during the most recent two full years.

21.3(f) Bonus, Overtime, and Tip Income

Bonus, overtime, and tip income is variable compensation in addition to any employee's straight salary or hourly wage and is considered effective income if the borrower has received this income for the past two (2) years. Bonus, overtime, and tip income that has been received for less than two (2) years may be considered effective income if it is documented that the income has been consistently earned over a period of not less than 12 months and it is reasonably likely to continue.

Follow TOTAL or obtain one (1) of the following:

- Most recent paystub and a completed Written Verification of Employment or Direct, third-party verification (TPV); or
- Most recent year-to-date paystub(s) and two (2) years' IRS Form W-2s.

Written Verification of Employment, employer letter or equivalent itemizing bonus, overtime, or tip income, as needed.

Effective income must be calculated as the lesser of:

- The average income earned over the prior two (2) years (if less than two (2) years, the length of time the income has been earned); or
- The average earned over the previous year.



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21.1(f)(i) Exception Due to COVID-19 Related Economic Event for Bonus, Overtime and Tip Income

Calculate the income by using the lesser of:

- The Standard Guideline above using income prior to the COVID-19 Related Economic Event; or
- The average of bonus, overtime or tip income earned since returning to work after the COVID-19 Related Economic Event.

21.3(g) Commission Income

Commission income is variable income defined as a fee or percentage paid to an employee for performing a service and may be acceptable if the income has been received for at least one (1) year prior in the same or similar line of work and it is reasonably likely to continue.

Follow TOTAL or obtain one (1) of the following:

- Most recent paystub and a completed Written Verification of Employment or Direct, third-party verification (TPV); or
- Most recent year-to-date paystub(s) and two (2) years' IRS Form W-2s.

Written Verification of Employment, employer letter or equivalent itemizing commission income, as needed.

21.3(f)(i) Commission Income/Manual

Commission income must be calculated using the lesser of:

- The average Commission earned over either:
 - The previous two years; or
 - The length of time commission income has been earned if less than two years; or
- The average commission income earned over the previous year.

21.3 (f)(ii) Exception Due to COVID-19 Related Economic Event for Commission Income

Calculate commission by using the lesser of:

- The Standard Guideline above using income prior to the COVID-19 Related Economic Event; or
- The average of the commission income earned since returning to work after the COVID-19 Related Economic Event.

Follow TOTAL documentation requirements.



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2I.3(h) Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Hazard or flight pay, rations, clothing allowance, quarter's allowance, and proficiency pay may be counted as income if they are verified as regular and continuous.

Obtain a copy of the borrower's military Leave and Earnings Statement (LES) to verify amount of income and the Expiration Term of Service date. If the Expiration Term of Service date is within the first 12 months of the mortgage, this income may only be considered if the borrower confirms their intent to continue military service.

2I.4 Self-Employed Income

A self-employed borrower is an individual who has 25% or greater ownership interest in a business or receives 1099s to document income. Some examples of self-employed individuals include contract workers, real estate agents, etc., or individuals relying on investments as their primary source of income.

Income from self-employment may be considered effective income if the borrower has been self-employed operating the same business in the same location for at least two (2) years.

Self-employment income received for 12 to 24 months may be considered effective income if the borrower was previously employed in the same line of work in which the borrower is self-employed or a related occupation for at least two (2) years. Self-employment of less than one (1) year will not be considered for qualifying purposes.

When a borrower uses funds for down payment, closing costs or reserves from his or her self-employed business, the impact must be considered in the analysis of the business. See Chapter [2G Assets, 2G.4 \(b\)](#) Business Funds for more information.

Income obtained from businesses with annual earnings that are stable or increasing is acceptable. If the income from the business shows a greater than 20% decline in effective income over the analysis period, the mortgage must be downgraded and manually underwritten.

2I.4(a) Exception Due to COVID-19 Related Economic Event

Self-employment income may be acceptable if:

- The borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling two (2) years.



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- The borrower has an aggregate self-employment history before and after the COVID-19 Related Economic Event totaling between one (1) and two (2) years, the income may be considered if the borrower was previously employed in the same line of work in which the borrower is self-employed or in a related occupation for at least two (2) years.

For self-employed borrowers with a COVID-19 Related Economic Event that have since regained income at a level less than 80% of their income prior to the COVID-19 Related Economic Event, the loan must be downgraded and manually underwritten.

21.4(b) Refer and Manual Underwrite/Downgrade

Self-employment income may be considered stable after a 20% reduction with:

- Documentation that the reduction in income was the result of an extenuating circumstance.
- The borrower can demonstrate the income has been stable or increasing for a minimum of 12 months; and
- The borrower qualifies using the reduced income.

21.4(c) Exception Due to COVID-19 Related Economic Event

Self-employment income may be considered stable after a 20% reduction with:

- Documentation that the reduction in income was the result of a COVID-19 Related Economic Event;
- The borrower can demonstrate the income has been stable or increasing for a minimum of six (6) months; and
- The borrower qualifies using the reduced income.

21.4(d) Income Documentation/Manual Underwrite

The following income documentation is required for self-employed borrowers:

- Most recent two (2) years' individual income and business Tax Returns, including all schedules;
- For TOTAL decision only, most recent two (2) years' business Tax Returns unless the following is met:
 - Individual income Tax Returns show increasing self-employment income over the past two (2) years;
 - Funds to close are not coming from business accounts; and
 - The transaction is not a cash-out refinance.
- A year-to-date profit and loss statement (P&L) and balance sheet is required if more than a calendar quarter has elapsed since date of most recent calendar or fiscal year-end tax return was



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filed. A balance sheet is not required for self-employed borrowers filing Schedule C income.

- If the loan is being manually underwritten, a business credit report for all corporations and S Corporations is required.

If the self-employed income used to qualify the borrower exceeds the two-year average of Tax Returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.

The underwriter may request additional information such as business license, if necessary, to further support the determination of the stability of the borrower's income.

21.4(e) Exception Due to COVID-19 Related Economic Event

Self-employed borrowers who, due to a COVID-19 Related Economic Event, experienced a reduction of income, must provide the standard income documentation above and all of the following:

- Letter of explanation for the time period of income loss or reduction;
- Most recent two (2) years' business Tax Returns (may not be waived);
- And either of the following:
 - An audited year-to-date profit and loss statement reporting business revenue, expenses, and net income up to and including the most recent month preceding the case assignment date; or
 - An unaudited year-to-date profit and loss statement, signed by the borrower, up to and including the most recent month preceding the case number assignment date, and
 - Three (3) of the most recent business bank statements no older than the latest three (3) months represented on the year-to-date profit and loss statement. Monthly deposits on the business bank statements must support the earnings on the unaudited year-to-date profit and loss statement.

21.4(f) Analysis and Calculation of Self-Employed Income

Self-employment income is calculated by using the lesser of:

- Average gross self-employment income earned over:
 - The previous two (2) years; or
 - The length of time self-employment income has been earned if less than two (2) years (where permitted); or
- The average gross self-employment income earned over the previous one (1) year.

21.4(g) Exception Due to COVID-19 Related Economic Event Income Calculation

Self-employed borrowers with a COVID-19 Related Economic Event that have regained income at a level



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greater than or equal to 80% of their pre-COVID-19 income, for a minimum of six (6) months, must calculate gross self-employment income by using the lesser of:

- The average gross self-employment income earned over the previous two (2) years prior to the COVID-19 Related Economic Event; or
- The average gross self-employment income earned over the previous six (6) months after the COVID-19 Related Economic Event.

Negative income must be subtracted from the borrower's gross monthly income, and not treated as a recurring monthly liability unless otherwise noted.

If the self-employed income used to qualify the Borrower exceeds the two (2) year average of Tax Returns, an audited P&L or signed quarterly tax return must be obtained from the IRS.

21.4(h) Analyzing the IRS 1040 Individual Income Tax Return

| IRS Form 1040 Heading | Description |
|---|--|
| Wages, Salaries and Tips | <p>An amount shown under this heading may indicate that the individual</p> <ul style="list-style-type: none">• is a salaried employee of a corporation; or• has other sources of income. <p>This section may also indicate that the spouse is employed, in which case the spouse's income must be subtracted from the borrower's gross income.</p> |
| Business Income and Loss (Schedule C) | <p>Sole proprietorship income calculated on Schedule C is business income.</p> <p>Depreciation (includes business miles), depletion, amortization, and casualty losses may be added back to the gross income.</p> <ul style="list-style-type: none">• FHA accepts use of Appendix 2.0, Analyzing IRS Forms, and will permit the depreciation of the business miles shown on Sch C. based on the approved mileage rate for the specific tax year. |
| Business Use of Home | <p>Mortgage interest, MIP, real estate taxes, and property insurance deducted for business use of a house may be added back to the gross income.</p> |
| Rents, Royalties, Partnerships (Schedule E) | <p>Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E.</p> |
| Capital Gain and Losses | <p>Capital gains or losses generally occur only one (1) time and should not be</p> |



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| (Schedule D) | <p>considered when determining Effective Income. However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income.</p> <p>Three (3) years' Tax Returns are required to evaluate an earnings trend. If the trend</p> <ul style="list-style-type: none"> • results in a gain, it may be added as income; or • consistently shows a loss, it must be deducted from the total income. |
| Interest and Dividend Income (Schedule B) | <p>This taxable/tax-exempt income may be added back to the adjusted gross income only if it</p> <ul style="list-style-type: none"> • has been received for the past two (2) years; and • is expected to continue. <p>If the asset providing the interest and dividend income will be liquidated for cash to close, that portion must be deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.</p> |
| Farm Income or Loss (Schedule F) | Any depreciation shown on Schedule F may be added back to the gross income. |
| IRA Distributions, Pensions, Annuities, and Social Security Benefits | The nontaxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for at least first three (3) years. |
| Adjustments to Income | <p>Adjustments to income may be added back to the adjusted gross income if they are</p> <ul style="list-style-type: none"> • IRA and Keogh retirement deductions; or • penalties on early withdrawal of savings health insurance deductions, and alimony payments. |

21.4(i) Analyzing IRS Form 1120, U.S. Corporation Income Tax Return

A Corporation refers to a state-chartered business owned by its stockholders.

To determine the borrower's income, the adjusted business income must be multiplied by the Borrower's percentage of ownership in the business.

Corporate compensation to the officers, in proportion to the percentage of ownership, is shown on the



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corporate tax return (IRS Form 1120), and individual Tax Returns. If the borrower's percentage of ownership does not appear on the Tax Returns, obtain the information from the corporations' accountant, along with evidence that the borrower has the right to any compensation.

The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

| Adjustment Item | Description of Adjustment |
|-------------------------------|--|
| Depreciation and Depletion | Add the corporation's depreciation and depletion back to the after-tax income. |
| Fiscal Year vs. Calendar Year | If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return. |
| Cash Withdrawals | The borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating. |

21.4(j) Analyzing IRS Form 1120S, U.S. Income Tax Return for an S Corporation

An S Corporation refers to a small start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership.

Income for owners of S Corporations comes from IRS form W-2 wages and is taxed at the individual rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the borrower's individual IRS Form 1040.

Depreciation and depletion may be added back to income in proportion to the Borrower's percentage of ownership in the corporation. The borrower's income must be reduced proportionately by the total obligations payable by the corporation in less than one (1) year.

21.4(k) Analyzing IRS Form 1065, U.S. Return of Partnership Income

A Partnership refers to when two (2) or more individuals form a business, and share in profits, losses, and responsibility for running the company. Each partner pays taxes on their proportionate share of the partnership's net income.



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Both general and limited partnerships report income on IRS Form 1065, and the partners' share of income is carried over to Schedule E of IRS Form 1040.

Both depreciation and depletion may be added back to the income in proportion to the borrower's share of the income.

The borrower's income must be reduced proportionately by the total obligation payable by the partnership in less than one (1) year.

2I.5 Rental Income

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three (3) years. For each income source used to qualify the borrower, determine that both the source and the amount of the income are stable.

Rental income from second homes cannot be used to qualify.

2I.5(a) Rental Income from Subject Property (Total and Manual)

Requirements below include the subject 1-unit property with an Accessory Dwelling Unit (ADU).

Note:

- For Cash Out refinance transactions, rental income cannot be used to qualify.
- No income from commercial space may be included in Rental Income calculations.

| History of Receiving Rental Income | Limited or No History of Rental Income |
|--|--|
| When the borrower has a history of receiving rental income from the subject property: <ul style="list-style-type: none">• Most recent two (2) years' individual income Tax Returns including Schedule E; and• If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, or other legal document, etc.). | When the borrower does not have a history of rental income from the subject since the previous tax filing and must meet one of the documentation requirements below: <ul style="list-style-type: none">• <i>1 Unit with an ADU: Uniform Residential Appraisal (Fannie Mae Form 1004/Freddie Mac Form 70)</i>• <i>Single-Family Comparable Rent Schedule (Form 1007/) or Small Residential Income Property Appraisal Report (Form 1025)</i>• Prospective lease, if available. |
| When the borrower has a history of receiving rental | When the borrower does not have a history of |



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| <p>income from the subject property, obtain the most recent two (2) years' signed Tax Returns including Schedule E</p> <ul style="list-style-type: none"> • Average the Schedule E or • If the property has been owned for less than 2 years, annualize the rental income for the length of time the property has been owned | <p>receiving rental income, since the previous tax filing, use :</p> <ul style="list-style-type: none"> • 75% of the lesser of: <ul style="list-style-type: none"> ○ The fair market rent reported by the appraiser; or ○ The lease or other rental agreement ○ In addition, for a 1-unit subject property with an ADU, rental income from an ADU may not exceed 30% of the total effective income used to qualify. |
|--|--|

21.5(b) Rental Income from Other Real Estate Owned (Includes Borrower's Departing Residence and Other Real Estate Owned) **(Total and Manual)**

If rental income will be received from the conversion of the borrower's primary residence to an investment property, the following is required:

- The borrower must be relocating more than 100 miles from the current primary residence;
- A fully executed, 12-month lease; and
- Evidence of the most recent months' receipt of rental income for the property.

| History of Receiving Rental Income | Limited or No History of Rental Income |
|---|--|
| <p>When the borrower has a history of receiving rental income from the property from the previous tax filing, provide:</p> <ul style="list-style-type: none"> • Most recent two (2) years' signed Tax Returns including Schedule E | <p>When the borrower does not have a history of rental income from the property since the previous tax filing, including property being vacated by the borrower, obtain an appraisal evidencing market rent and that the borrower has at least 25% equity in the property. The appraisal does not have to be completed by an FHA Roster Appraiser.</p> <p>Document rental income with:</p> <ul style="list-style-type: none"> • 1-unit or 1-unit with an ADU: <i>Uniform Residential Appraisal</i> (Fannie Mae Form 1004/Freddie Mac Form 70) and <i>Single-Family Comparable Rent Schedule</i> (Fannie Mae Form) |



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| | 1007/Freddie Mac Form 1000) or <ul style="list-style-type: none"> 2-4 unit: or <i>Small Residential Income Property Appraisal Report</i> (Form 1025/Freddie Mac 70 and, Prospective lease, if available. |
| Income Calculation | |
| <ul style="list-style-type: none"> Average the amount shown on Schedule E. Add back depreciation, mortgage interest, taxes, insurance any HOA dues to the net income or loss. If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.). | Deduct the PITI from: <ul style="list-style-type: none"> 75% of the lesser of: <ul style="list-style-type: none"> fair market rent reported by the appraiser; or the rent reflected in the lease or other rental agreement. If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.). |

2I.5(c) Treatment of Income or Loss

| | |
|---|---|
| One-unit with an ADU Subject Property or Two- Unit Subject Property | <ul style="list-style-type: none"> Net subject property rental income must be added to the borrower's total monthly income. The total mortgage payment may not be reduced by the net subject property rental income. Rental Income documented by Fannie Mae Form 1004/Freddie Mac Form 70 and a Fannie Mae Form 1007/Freddie Mac Form 1000, Single Family Comparable Rent Schedule showing fair market rent and if available, the prospective leases. |
| Three- to Four-Unit Subject Property | <ul style="list-style-type: none"> Net self-sufficiency rental income refers to the rental income produced by the subject property over and above the PITI. The PITI divided by the monthly net self-sufficiency rental income may not exceed 100%. Net self-sufficiency rental income is calculated by using the appraisers estimate of fair market rent from all units, including the borrower occupies, and subtracting the greater of the appraiser's estimate for |



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| | vacancies and maintenance, or 25% of the fair market rent. |
| Net Rental Income/Loss from Other Property Owned (Total and Manual) | <ul style="list-style-type: none">• If the monthly rental income less the full PITI is positive, it must be added to the total monthly income.• If the monthly rental income less the full PITI is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.• The full PITI for the rental property is factored into the amount of the net rental income (or loss), therefore it should not be counted as a monthly obligation. It must be reported on the loan application.• The full monthly payment for the borrower's primary residence must be counted as a monthly obligation.• Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss.• If a property has been owned for less than two years, apply the following:<ul style="list-style-type: none">○ Annualize the rental income for the length of time the property has been owned; and○ Document the date of acquisition using the deed, closing disclosure or similar legal document. |

2I.6 Other Income Sources

See [2I.1\(h\)](#) Allowable Age of Individual Tax Returns based on application date and available tax transcripts for borrowers whose income is based on Tax Returns (borrowers self-employed and non -self-employed) or allowable age of tax transcripts based on application date and available tax transcripts for borrowers whose income is not based on Tax Returns (borrowers not self-employed).

- [Alimony and Child Support Payments](#)
- [Annuity Income](#)
- [Auto Allowances and Expense Account Payments](#)
- [Boarder Income](#)
- [Cannabis Business](#)
- [Capital Gains and Losses](#)
- [Disability Benefits](#)



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- [Employer Differential](#)
- [Employment by a Family-Owned Business](#)
- [Expected Income](#)
- [Foster Care Income](#)
- [Foreign Income Earned by a U.S. Citizen](#)
- [Interest and Dividend Income](#)
- [Hemp Income](#)
- [Mortgage Credit Certificates](#)
- [Nontaxable Income](#)
- [Notes Receivable Income](#)
- [Public Assistance](#)
- [Retirement Income, Pension, and IRA Distribution](#)
- [Seasonal Income](#)
- [Social Security Disability Income](#)
- [Social Security Retirement Income](#)
- [Temporary Help Services](#)
- [Temporary Leave](#)
- [Trust Income](#)
- [Unemployment Income](#)
- [Union Members](#)
- [VA Benefits](#)

21.6(a) Alimony and Child Support Payments

Alimony and child support payments will be considered provided the payment terms confirm that the income will continue for at least three (3) years from the date of the closing.

The borrower's regular receipt of the full payment due and any limitations on the continuance of the income must be determined:

- If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child and income continuance; and
- The duration of the alimony payments must be determined for continuance.



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The income may not be considered stable when a borrower has been receiving full, regular, and timely payments for less than the required time or has been receiving full or partial payments on an inconsistent or sporadic basis.

One (1) of the following must be provided in addition to the documentation requirements below for court-ordered or voluntary payments:

- A copy of a written legal agreement, or final divorce decree describing the payment terms for the alimony or child support, the amount of the award and the period of time over which it will be received; or
- Any applicable state law document that mandates alimony or child support, which must specify the conditions under which payments must be made.
 - The minimum documentation required is: receipt of the front and pertinent pages of the divorce decree, settlement agreement and/or court order showing the financial details.

| | |
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| Court-Ordered Payments | <p>When using a final divorce decree, legal separation agreement, or court order, one (1) of the following must be provided to document receipt for the most recent three (3) months:</p> <ul style="list-style-type: none">• Bank statements or deposits slips showing regular deposit of funds;• Cancelled checks;• Documentation from child support agency; and• Court records. <p>If the court ordered payments have not been received consistently for the most recent three (3) months, an average of the income received over the previous two (2) years must be developed to be used as effective income.</p> <p>If Alimony, Child Support, and Maintenance Income have been received for less than two years, the average, over the time of receipt, must be used as effective income (when having less than 24/mo. history is supported).</p> |
| Voluntary Payments | <p>When using evidence of voluntary payments, one (1) of the following must be provided to document receipt for the most recent 12 months:</p> <ul style="list-style-type: none">• Bank statements or deposit slips showing regular deposit of funds;• Most recent individual income Tax Returns with all schedules; or• Cancelled checks. |



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| | <p>If the voluntary payments have been received consistently (consistent dollar amount as opposed to a variable payment amount each month) for the most recent six (6) months, the current payment may be used as effective income. If the voluntary payments have not been received consistently for the most recent six (6) months, an average of the income received over the previous two (2) years must be developed to be used as effective income.</p> <p>If Alimony, Child Support, and Maintenance Income have been received for less than two years, the average, over the time of receipt, must be used as effective income (when having less than 24/mo. history is supported).</p> |
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21.6(b) Annuity Income

All of the following must be provided to document annuity income:

- A copy of the legal agreement establishing the annuity and guaranteeing the continuation for at least three (3) years from closing; and
- Most recent bank statement or transaction history from the bank to document receipt of the annuity.

Any assets used as funds to close must be subtracted from the borrower's liquid assets prior to calculating the annuity income.

21.6(c) Automobile Allowance/Expense Account Payments

Automobile allowance paid to cover specific expenses related to a borrower's employment may be an acceptable source of income if it has been received for the past two (2) years.

Use the full amount of the automobile allowance as effective income.

21.6(d) Boarder Income (Total/Manual)

The following guidelines apply to loan transactions that are either underwritten using Total or Manual Underwriting.

Boarder income is income received from an individual renting space inside the borrower's dwelling unit. This income is only acceptable if the borrower has a two-year history of receiving boarder income that is shown on their Tax Returns and is currently receiving boarder income. A renter of an ADU is not a Boarder.



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All of the following must be provided:

- Most recent two (2) years individual income Tax Returns; and
- Current lease.

For purchase transactions, obtain a copy of the executed written agreement documenting the boarder's intent to continue boarding with the borrower. Income is calculated by using the lesser of a two (2) year average or current lease.

The rental income from existing Boarders of the subject property may be considered if the occupying Borrower has a 12-month history of receiving income from Boarders and is currently receiving income from Boarders. Rental Income from Boarders is permitted whether the borrower currently rents or owns the dwelling unit.

The following must be obtained to verify and document the existing Rental Income from the Boarders:

- Evidence of rental history over the previous 12 months;
- Evidence of Rental Income received from Boarders for at least nine of the most recent 12 months in the form of:
 - the Borrower's Tax Returns; or
 - bank statements, canceled checks, or deposit slips, showing rental payments received;
- Evidence that the Boarder's address is the same as the Borrower's address; and
- A copy of the executed written agreement documenting the boarding terms and the Boarder's intent to continue boarding with the Borrower.

Effective Income from rental Income from Boarders must be calculated using the lesser of:

- The 12-month average; or
- The current rent as documented in the written agreement.

Where Rental Income from Boarders has been documented for at least nine of the last 12 months, the rental income must be averaged over a 12-month period.

The amount of rental income from Boarders used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower.

21.6(e) Cannabis Business

Employment or ownership in a Cannabis business is not permitted.



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21.6(f) Capital Gains and Losses

Capital gains or losses generally occur only one time and therefore should not be considered as either a gain or loss in determining effective income. However, if there is a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income.

The most recent three (3) years' individual income Tax Returns with all schedules is required.

If the trend

- results in a gain, it may be added as effective income.
- consistently shows a loss, it must be deducted from the total income.

21.6(g) Disability Benefits

Disability Benefits are benefits received from the Social Security Administration (SSA), Department of Veterans Affairs (VA), other public agencies, or a private disability insurance provider.

Obtain documentation that establishes, verified and documents award benefits to the borrower. If any disability income is due to expire within three (3) years from the date of application, the income not eligible.

Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower may not be questioned.

| Income Type | Requirements |
|----------------------------|---|
| Social Security Disability | For Social Security Disability income, including Supplemental Security Income (SSI), obtain a copy of the last Notice of Award letter, or an equivalent document that establishes award benefits to the borrower, and one (1) of the following: <ul style="list-style-type: none">• Individual income Tax Returns;• Most recent bank statement evidencing receipt of income from the SSA;• Proof of Income Letter, also known as a “Budget Letter” or “Benefits Letter” that evidences income from the SSA; or• Copy of the borrower’s form SSA-1099/1042S, Social Security Benefit Statement. |
| VA Disability | Obtain a copy of the Veteran’s last Benefits Letter showing the amount of the |



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| | assistance, and one (1) of the following: <ul style="list-style-type: none">• Individual income Tax Returns; or• Most recent bank statement evidencing receipt of income from the VA. For Manual UW, if the benefits letter does not have a defined expiration date, the income is considered to be effective and reasonably likely to continue for at least three years. |
| Private Disability | Obtain documentation from the private disability insurance provider showing the amount of the assistance and the expiration date of the benefits, if any, and one (1) of the following: <ul style="list-style-type: none">• Individual income Tax Returns; or• Most recent bank statement evidencing receipt of income from the insurance provider. |

21.6(h) Employer Differential

If the employer subsidizes a borrower's mortgage payment through direct payments, the amount of the payments is considered gross income.

- The payments cannot be used to offset the mortgage payment directly; and
- Mortgage differential payments are only allowed if the employer sends the funds to the borrower. The employer may not pay the mortgage lender directly.

21.6(i) Employment by a Family-Owned Business/Manual

A borrower employed by a family member or employed by a family-owned business may be eligible. There must be verification and documentation that the borrower is not an owner of the business. [Expected Income](#) from a family held business is not permitted.

A corporate tax return, Schedule K-1 (IRS form 1065), or official letter from CPA on their business letterhead indicating ownership percentage is required and all of the following:

- Most recent, computer-generated paystub. If the paystub is not computer generated, the accountant must provide a signed payroll ledger.
- Most recent two (2) years' IRS Form W2s; and
- Most recent two (2) years' individual income Tax Returns, including all schedules.

Manual UW - Calculation of Effective Income

Salaried: For employees who are salaried and whose income has been and will likely to be consistently



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earned, use the current salary for effective income.

Hourly:

- For employees who are paid hourly and whose hours do not vary, the current hourly rate must be used to calculate effective income.
- For employees who are paid hourly and their hours vary, the income must be averaged over the previous two years. If an increase in pay rate is documented, may use the most recent 12-month average of hours at current pay rate.

See the Exception Due to COVID-19 Related Economic Event for income calculations based on the applicable income type received.

2I.6(j) Expected Income

Expected income refers to income from cost-of-living adjustments, performance raises, a new job, or retirement income. Expected income must be received within 60 days after closing. Expected income from a family-owned business is not permitted.

All of the following is required:

- Employer to verify and document the existence and amount of expected income, in writing, and that it is guaranteed to begin within 60 days of the Note date;
- For expected retirement income, verify the amount and that it is guaranteed to being within 60 days of the Note date; and
- Evidence of sufficient income or cash reserves to support the mortgage payments and any other obligations during the interim between loan closing and the beginning of the receipt of the income.

2I.6(k) Foreign Income Earned by a U.S. Citizen

Foreign income refers to income received by a borrower from sources located outside of the United States by a foreign corporation or a foreign government and is paid in foreign currency.

Income from a foreign source is acceptable when:

- The income is reported on the borrower's most recent (2) years' individual income Tax Returns including all schedules and it is reasonably likely to continue; and
- Income paid in foreign currency must be converted into U.S. currency and deposited into a U.S. or State regulated financial institution.



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Use standard income documentation based on the source and income type.

21.6(l) Foster Care Income

Foster care income may be considered effective income provided the income has been received for the last two (2) years and is expected to continue for the next three (3) years from the date of the application.

Letters or exhibits from the paying agency establishing the amount, frequency and duration of these payments is required.

21.6(m) Hemp Income

Income derived from hemp may be eligible in states where hemp is legal. The borrower must:

- Provide a written attestation by the hemp grower that they are validly licensed; or
- Obtain a copy of such license.

Hemp income is eligible in all states except the following:

- Washington, D.C.
- Idaho
- Mississippi

21.6(n) Interest and Dividend Income

Interest and dividend income is variable income that may be used to qualify if the income has been received for the past two (2) years. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.

Evidence of sufficient assets after closing to support continuance of the interest and/or dividend for the next three (3) years from the date of the closing based on a recent bank statement and all of the following must be provided:

- Most recent two (2) years' individual income Tax Returns with all schedules; and
- Most recent account statements.

Interest and dividend income must be calculated by using the lesser of:

- The average income earned over the previous two (2) years; or
- The average income earned over the previous one (1) year.



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21.6(o) Mortgage Credit Certificates – Delegated Clients

Mortgage Credit certificates refer to government mortgage payment subsidies other than Section 8 Homeownership vouchers issued in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time home buyer to obtain a mortgage secured by their primary residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.

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| Calculation | <p>The amount of the MCC tax credit may be added to the borrower's income rather than as a reduction to the amount of the mortgage payment. Use the following calculation to determine the available income:</p> $[(\text{Mortgage amount}) \times (\text{Note Rate}) \times (\text{MCC \%})] \div 12 = \text{Amount added to borrower's monthly income.}$ <p><u>Example</u> \$100,000 mortgage 7.5% note rate Eligible for 20% MCC credit</p> <p>Amount added to monthly income would be \$125 $[(\\$100,000 \times 7.5\% \times 20\%)]$ $= \\$1500 \div 12 = \\125</p> |
| Qualifying Income | <p>The amount used as qualifying income cannot exceed the maximum mortgage interest credit permitted by the IRS. A history of receipt of the MCC tax credit is not required.</p> |
| <ul style="list-style-type: none">• The FHA loan file must contain a copy of the MCC and documented calculation of the adjustment to the borrower's income.• Mortgage credit certificate payments are only allowed if the employer sends the funds to the borrower. The employer may not pay the mortgage lender directly.• For refinance transactions, an MCC may remain in place as long as there is confirmation from the MCC provider that the MCC remains in effect for the new mortgage. Copies of the MCC documents, including reissue certification, must be in the loan file.• As the originating/participating lender, you must comply with all IRS reporting requirements for mortgage loans originated and closed with Mortgage Credit Certificates. | |



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21.6(p) Nontaxable Income

Generally, income is taxable unless it is specifically exempted by law. Nontaxable income may be shown on the borrower's tax return but is not taxed. Verify and document that the source of income is nontaxable.

Verify and document that the source of income is nontaxable using any of the following:

- Individual income tax return; or
- Equivalent documentation evidencing the income is nontaxable; or
- Obtaining IRS tax transcripts that evidence that the income is nontaxable.

If the income is verified as nontaxable, and the income and its tax-exempt status is likely to continue, the income must be grossed-up only if needed to qualify the borrowers. Develop an "adjusted gross income" for the borrower.

The percentage of nontaxable income that may be added cannot exceed the greater of 15% or the same tax rate used to calculate the borrower's income from the previous year. If the borrower is not required to file an individual income tax return, the nontaxable income may be grossed up by 15%.

Filing requirements for most taxpayers can be found on the [IRS](#) website in addition to the attached [Social Security Benefits Worksheet](#) to determine amount of benefits that are nontaxable.

Additional adjustments or allowances based on the number of the borrower's dependents is not permitted.

The following income types are generally nontaxable, or a portion of the income is nontaxable. This list is not all-inclusive:

- Child Support Income
- Disability Income
- Government Assistance Programs
- Housing Choice Voucher program (HCV)
- Military Allowances
- Retirement, Pension, Annuity Income, or IRA Distributions
- Social Security Disability Income
- Social Security Retirement Income
- Supplemental Social Security Income
- Unemployment Compensation
- VA Benefits



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2I.6(q) Notes Receivable

Ongoing revenue received from Note income may be considered effective income. Verification that the income can be expected to continue for a minimum of three (3) years from the date of the closing is required.

Obtain a copy of the Note documenting the amount, frequency, and duration of payments. In addition, one (1) of the following must be provided to evidence receipt for most recent 12 months:

- Most recent individual income Tax Returns with all schedules.
- Bank statements or deposit slips showing regular deposit of funds; or
- Cancelled checks.

If the amount of note receivable income fluctuates, an average over the last 12 months must be calculated to determine effective income.

2I.6(r) Public Assistance

Public assistance (e.g., Temporary Assistance for Needy Families (TANF), etc.) may be considered effective income if it is expected to continue for the next three (3) years from the date of the application. Refer to [Seasonal Unemployment](#) section for details regarding the use of unemployment benefits.

Letters or exhibits from the paying agency establishing the amount, frequency, and duration of these payments must be provided.

2I.1(r)(i) Housing Choice Voucher Homeownership Program (Section 8)

The Housing Choice Homeownership Voucher program refers to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

The following documentation is required:

- Verify and document receipt of the Housing Choice Voucher homeownership subsidies. This income may be considered reasonably likely to continue for three (3) years;
- The income used may be considered effective monthly income if it is not used as an offset to the monthly mortgage payment. Use the current subsidy rate to calculate the income;

2I.6(s) Retirement Income, Pension, and IRA Distribution

Retirement (401(k), or IRA) and pension monthly distributions require evidence of continuance for three (3) years from the date of closing. The borrower must have unrestricted access without penalty to the



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accounts.

| Income Type | Requirements |
|----------------------------------|--|
| Pension | One (1) of the following must be provided: <ul style="list-style-type: none">• Most recent individual income tax return with all schedules;• Most recent bank statement showing the deposit; or• Pension or retirement letter from former employer. |
| Retirement IRA, 401(k), or Keogh | The most recent IRA or 401(k) statement and one (1) of the following must be provided: <ul style="list-style-type: none">• Most recent individual income tax return with all schedules; or• Copy of most recent bank statement showing the deposit. <p>If the IRA or 401(k) income fluctuates, develop and average of the income received over the previous two (2) years. If the income has been received less than two (2) years, develop the average over the time of receipt.</p> |
| Expected Retirement Income | Verify the amount of the expected retirement income and that it is guaranteed to begin within 60 days of closing. |

21.6(t) Seasonal Income

Seasonal part-time or seasonal second job employment refers to employment that is not year round, regardless of the number of hours per week the borrower works on the job.

Seasonal employment income may be considered effective income if the borrower has worked in the same job or same line of seasonal work for the past two (2) years and is likely to be rehired for the next season.

All of the following must be provided:

- Written Verification of Employment;
- Most recent paystub(s), if available;
- Most recent two (2) years' W-2s or individual income Tax Returns with all schedules; and
- Written confirmation from the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.

For seasonal employees with unemployment income, unemployment income for the past two (2) years



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must be documented and there must be reasonable assurance that this income will continue. See [21.6\(b\)](#) Unemployment Income requirements and documentation.

Seasonal income must be averaged over the past two (2) years. If income received cannot meet these requirements, it should only be considered a compensating factor.

21.6(u) Social Security Disability Income

Verify and document the borrower's receipt of income from the Social Security Administration (SSA) for long-term disability and that it is likely to continue for at least three (3) years from the case number assignment date. If the disability income does not have a defined expiration date, the income can be considered likely to continue. Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower be questioned.

A copy of the last Notice of Award or equivalent document that establishes award benefit is required in addition to one (1) of the following:

- Most recent individual income Tax Returns;
- Most recent bank statement;
- Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter"; or
- Most recent SSA-1099/1042S.

21.6(v) Social Security Retirement Income

Verify and document the borrower's receipt of income from the Social Security Administration (SSA) and that it is likely to continue for at least three (3) years from the case number assignment date.

One (1) of the following must be provided:

- Most recent individual income Tax Returns;
- Most recent bank statement;
- Proof of Income Letter, also known as a "Budget Letter" or "Benefits Letter"; or
- Most recent SSA-1099/1042S.

In addition to verification of income, the continuance of this income must be documented with one (1) of the following:

- A copy of the last Notice of Award letter, which states the SSA's determination on the borrower's eligibility for SSA income; or
- An equivalent document that establishes award benefits to the borrower (equivalent document).



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If any income from the SSA is due to expire within three (3) years from the case number assignment date that income may not be used for qualifying. If the Notice of Award or equivalent document does not have a defined expiration date, the income must be considered effective and reasonably likely to continue. Additional documentation may not be requested from the borrower to demonstrate continuance of SSA income. If the Notice of Award letter or equivalent document specifies a future start date for receipt of income, this income may only be considered effective on the specified start date.

2I.6(w) Temporary Help Services

Contract firms and temporary staffing firms may contract out the services of their employees to other employers. The employment and income may be considered stable when the borrower has demonstrated the ability to maintain steady and continuous employment and income with this employment structure for the most recent two (2) years.

Follow TOTAL or obtain one (1) of the following:

- Most recent paystub and a completed Written Verification of Employment or Direct, Third-Party Verification (TPV); or
- Most recent year-to-date paystub(s) and two (2) years' IRS form W-2s.

2I.6(x) Temporary Leave

Temporary leave from work is generally short term in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer.

If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three (3) years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income.

During a temporary leave, a borrower's income may be reduced and/or completely interrupted. It must be determined that during and after temporary leave, the borrower has the capacity to repay the mortgage and all other monthly obligations.

All of the following is required:

- Verification of pre-leave employment and income history in accordance with standard guidelines;
- No evidence or information from employer indicating borrower does not have the right to return to



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work after leave period;

- Borrower's written confirmation of intent to return to work;
- Agreed-upon date of return evidenced by documentation generated by the employer and provided by the borrower or employer (or third party service designated by employer);
- Age of documentation compliance requirements not required;
- Verbal Verification of Employment; the borrower is considered employed if the employer confirms the borrower is currently on temporary leave;
- Amount and duration of borrower's temporary leave income; and
- All available liquid assets used to supplement the reduced income for the duration of leave must be verified.

| | |
|--|--|
| Return to Work Prior to First Mortgage Payment | Use the monthly pre-leave income. |
| Return to Work After First Mortgage Payment | <p>Use the lesser of the monthly leave income or pre-leave income. If the monthly leave income is less than the pre-leave income:</p> <ul style="list-style-type: none"> • Supplement with available liquid reserves • Total qualifying income may not exceed the gross monthly income received upon return to work • Assets required to support the payment may not be counted towards available reserves |
| Supplemental Income Amount | <p>Supplemental Income Amount = Available liquid reserves divided by the number of months of supplemental income:</p> <ul style="list-style-type: none"> • Available liquid reserves: subtract funds need to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount • Number of months supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income |
| Qualifying Income | Total qualifying income = supplemental income plus the temporary leave income. |



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21.6(y) Trust Income

A copy of the Trust Agreement or Trustee Statement is required and must confirm the continuance of receipt of the trust income for at least three (3) years from closing.

In addition, the most recent bank statement or transaction history from the bank must be provided to document the frequency, duration, and amount of the distribution.

21.6(z) Unemployment Income

Unemployment income, such as those received by seasonal workers, must have been received for the past two (2) years and must be likely to continue for the next three (3) years.

All of the following must be provided:

- Most recent two (2) years' individual income Tax Returns with all schedules; and
- Income must be clearly associated with seasonal layoffs and expected to recur and likely to continue.

See Seasonal Income for additional information on seasonal employees.

21.6(aa) Union Members

Union members may hold several jobs during a year. Union members must be employed at the time of closing. Verification of income for a union member requires the following documentation:

- Current paystub from present employer. If there has been more than one (1) employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings;
- Most recent two (2) years' IRS form W-2s from all employers; and
- Most recent two (2) years' individual income Tax Returns with all schedules, if necessary, to document temporary or sporadic employment and unemployment income.

Develop an average of most recent two (2) years.

The loan application should reflect the borrower's current employer in the Employment Information and the Union information as the prior employer. All employers in the past two (2) years do not need to be reflected on the loan application.



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21.6(bb) VA Benefits

VA Benefits income (other than disability) may be used to qualify with verification that the income can be expected to continue for a minimum of three (3) years from the date of the loan application. A letter or distribution form from the Veteran's Administration is required to document VA benefits income.

VA education benefits are not an eligible source of income.

21.7 Unacceptable Sources of Income

Income from sources considered ineligible include, but is not limited to:

- Income derived from business activity that may be permitted by State law but is prohibited by Federal law.
- Income derived from the subject property with land being leased to another party
- Income determined to be temporary or one-time in nature
- **Income or employment from Cannabis business**
- Income paid in the form of cryptocurrency is not permitted
- Incremental income derived from gambling
- Lump sum payments of lottery earnings that are not on-going
- Lump sum payment such as inheritances or lawsuit settlements
- Non-incidental income received from farming/agricultural use of a property
- Rental income received from the borrower's second home
- Restricted Stock Units
- Retained earnings in a company
- Stock options
- Taxable forms of income not declared on individual income Tax Returns
- Trailing co-borrower income
- Unverifiable income
- Use of assets as income
- VA education benefits

| Revision History | Date |
|---|------------|
| <ul style="list-style-type: none">• FHA ML 2025-04 released 01.13.2025 revised Rental Income policy from Boarder Income on Subject property for both Total and Manual Transactions. Updates requirements are: | 02.27.2025 |



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|---|-------------------|
| <p>Rental income from existing Boarders of the subject property may be considered if the occupying Borrower has a 12-month history of receiving income from Boarders and is currently receiving income from Boarders. Rental Income from Boarders is permitted whether the borrower currently rents or owns the dwelling unit.</p> <p>The following must be obtained to verify and document the existing Rental Income from the Boarders:</p> <ul style="list-style-type: none"> • Evidence of rental history over the previous 12 months; • Evidence of Rental Income received from Boarders for at least nine of the most recent 12 months in the form of: <ul style="list-style-type: none"> ○ the Borrower's Tax Returns; or ○ bank statements, canceled checks, or deposit slips, showing rental payments received; • Evidence that the Boarder's address is the same as the Borrower's address; and • A copy of the executed written agreement documenting the boarding terms and the Boarder's intent to continue boarding with the Borrower. <p>Effective Income from rental Income from Boarders must be calculated using the lesser of:</p> <ul style="list-style-type: none"> • The 12-month average; or • The current rent as documented in the written agreement. <p>Where Rental Income from Boarders has been documented for at least nine of the last 12 months, the rental income must be averaged over a 12-month period.</p> <p>The amount of rental income from Boarders used as Effective Income must not exceed 30 percent of the total monthly Effective Income used to qualify the Borrower.</p> <ul style="list-style-type: none"> • Cannibus Business added to both income sections to identify overlay for employment ownership is not permitted: : <ul style="list-style-type: none"> ○ (1) Other Sources of Income and ○ (2) Unacceptable Sources of income | |
| <p>FHA 4000.1 updates for Rental Income as of 04.10.2025:</p> <ul style="list-style-type: none"> • Links completed for Freddie Mac Form 1000 and | <p>03.27.2025</p> |



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| | |
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| <ul style="list-style-type: none">• Added Depreciation, mortgage interest, taxes, insurance and any HOA dues shown on Schedule E may be added back to the net income or loss when there is a history of net rental income.• Removed Marijuana Income references• Updated Allowable Age of Individual Tax Returns for 2024 tax filing | |
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Chapter 2J Appraisal Requirements

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2J.1 Appraiser Requirements

2J.1(a) Appraisal Integrity and Conduct

The appraiser must perform all FHA appraisal assignments in a competent, independent, impartial, and objective manner. The appraiser must avoid practices that could affect the reliability of the appraisal report opinions and conclusions. In addition to compliance with USPAP, including the Competency Rule, the appraiser must not:

- Discriminate in developing any part of the appraisal or value conclusion based on characteristics that are protected by federal, state, or local laws;
- Misrepresent the scope of work performed in the completion of the FHA appraisal; or develop or communicate an appraisal report to FHA that is knowingly misleading or fraudulent.

The appraiser's performance must comply with all applicable federal, state, and local laws, including the Fair Housing Act and other federal, state, or local antidiscrimination laws and must adhere to all state and local laws relating to appraisal, licensing, and certification requirements.

2J.1(b) Appraiser Independence

[FHA Appraiser Independence](#) requirements ensure and safeguard appraiser independence and enhance the overall appraisal process to provide a greater level of integrity to the appraisal ordering process and appraiser contact. Compliance with the FHA Appraiser Independence Rules is mandatory.

FHA-approved lenders are prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained, or compensated in any manner by a mortgage originator or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan.

See Chapter 1C Representations, Warranties, & Covenants, Section C102, in this Client Guide.

2J.1(c) Nondiscrimination Policy

The appraiser must be knowledgeable of and fully comply with all federal, state, and local laws, including any antidiscrimination laws, rules applicable to the appraisal of the subject property, or any provisions of the Fair Housing Act. No part of the appraisal analysis or reporting may be based on the race, color, religion, sex, actual or perceived sexual orientation, actual or perceived gender identity, age, actual or perceived marital status, disability, familial status, national origin of either the prospective owners or occupants of the



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property, present owners or occupants of the property, or the present owners or occupants of the properties in the vicinity of the property, or on any other basis prohibited by federal, state, or local law.

2J.1(d) Commencement of the Appraisal

The appraiser must be provided with, review and analyze all of the following before beginning an appraisal:

- A complete copy of the executed sales contract for the subject if a purchase;
- The land lease, if applicable;
- Surveys or legal descriptions, if available;
- Any other legal documents contained in the loan file;
- A point of contract and contact information so the appraiser can communicate any noncompliance issues; and
- If new construction, a fully executed [form HUD-92541, Builder's Certification of Plans, Specification, and Site](#), dated no more than 30 days prior to the date of the appraisal order and documents related to new construction, including plans, specifications, and any exhibits provided that will assist the appraiser in determining what is to be built, or if now under construction, what will be built when finished.

All known information regarding any environmental hazard that is in or on the subject property, or in the vicinity of the property, must be disclosed, whether obtained from the borrower, the real estate broker, or any other party to the transaction.

2J.1(e) Appraisal Management Company (AMC)

Ensure all of the following:

- FHA roster appraisers are compensated at a rate that is customary and reasonable for appraisal services performed in the market area of the property being appraised;
- The fee for the actual completion of an FHA appraisal may not include a fee for management of the appraisal process or any activity other than the performance of the appraisal; and
- Any management fees charged by an AMC or other third party must be for actual services related to ordering, processing, or reviewing of appraisals performed for FHA financing.

2J.1(f) Appraiser Selection

The appraisal must be ordered from an appraiser who:

- Is on the [FHA Appraiser Roster](#);



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- Is on the [Appraisal Subcommittee's \(ASC\) National Registry](#);
- Is not listed on HUD's [LDP](#) list or [CAIVRS](#) or subject to any current loss of standing or suspension as a certified appraiser in any state;
- Is knowledgeable of the Uniform Standards of Professional Appraisal Practice (USPAP);
- Is qualified and knowledgeable in the specific market in which the property is located;
- Is a state-certified residential or state-certified general appraiser in all states in which the appraiser performs an appraisal; and
- Has the appropriate education, training, and actual field experience.

The appraiser who conducted the appraisal must be correctly identified in the FHA Connection. Supervisory appraisers are not permitted.

To avoid conflicts of interest or the appearance of conflicts, no substantive communications with an appraiser relating to or having an impact on valuation, including ordering, or managing an appraisal assignment Correspondent client loan production staff:

- Who is compensated on a commission basis upon the successful completion of a loan; and
- Who reports to any officer of the Correspondent client not independent of the loan production staff and process

All Correspondent clients must demonstrate that the appraisal order was conducted in compliance with these guidelines and that it has established prudent safeguards to isolate its collateral evaluation process from influence or interference from its loan production process.

2J.1(f)(i) Non-Delegated Clients

The FHA appraisal may be ordered through the non-delegated Client's own Appraisal Management Company (AMC).

Non-Delegated Clients must provide paid invoice and XML to Appraisal correspondentunderwritingsupport@newrez.com

If the underwriter approves the appraisal, a Loan Decision Letter will be updated indicating the appraisal cleared and uploaded to Image Central.

If the underwriter requests corrections or additional information, the underwriter will notify the Client.



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The Client is responsible for obtaining the information from the AMC.

If the information cannot be obtained, the appraisal may be rejected.

If the AMC or the appraiser update the appraisal, a new XML file will be required. For transferring an existing appraisal to Newrez, see 2J.5 Transferred Appraisals.

2J.2 Electronic Appraisal Delivery Portal

All FHA appraisal reports must be submitted to FHA's Electronic Appraisal Delivery (EAD) portal in order to be underwritten. Underwriters will not be able to log in appraisal reports in FHA Connection if the appraisal report is not successfully uploaded into EAD. The Appraisal Logging Update screen will have the following statement when the appraisal was successfully submitted to EAD: "Note: Screen loaded from EAD/Electronic Appraisal Data."

2J.3 Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices. Be aware of these deficiencies and address them with the appraiser. If the appraiser is unwilling to resolve the issue, discuss this with the appropriate Home Ownership Center (HOC).

- Failure to:
 - Conduct a complete physical inspection of the subject property or the sales comparable sales.
 - Provide complete appraisal information per USPAP Standards.
 - Obtain timely and suitable comparable data. Report the highest and best use of the property.
 - Report special assessments such as community association fees.
 - Correctly report the form of ownership interest.
 - Accurately report all readily observable property defects and adverse conditions that affect the property marketability. Report major defects which may impair the health or safety of the property occupants.
 - Report conflicts of interest.
 - Report verified sales concession like seller paid points or closing costs.
 - Recognize the property is in a flood zone.
 - Correctly identify public water and sewer versus private systems.
- Incomplete interior and exterior visual inspections of the subject property or lack of a visual inspection for the exterior of the comparable sales.



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- Inconsistencies and calculation errors.
- Incorrectly reporting or analyzing significant physical characteristics.
- Insufficient information included in report to enable users to understand the report properly.
- Lack of required photographs and maps.
- Not providing the cost approach, where applicable.
- Not completing the income approach on a 3-4-unit dwelling.
- Not disclosing that the seller was related to the appraiser.
- Not reporting land use restrictions.
- Not reporting limiting conditions that affect the appraisal, such as but not limited to proximity to a municipal landfill, pending zoning changes, necessary repairs, etc.
- Not verifying the sales information through public records or with a copy of the sales contract.
- Providing incomplete or inaccurate descriptions of the neighborhood.
- Providing inaccurate analysis of the property characteristics.
- Stating neighborhood is primarily residential in nature when it is commercial in nature.
- Use of data, particularly comparable sales data that was provided by parties who have a financial interest in the sale or financing of the subject property without the appraiser's verification of the information from a disinterested source. It would be inappropriate for an appraiser to use comparable sales provided by the real estate broker who is managing the sale of the subject property, unless the appraiser verifies the accuracy of the data provided with another source and makes an independent investigation to determine that the comparable sales provided were the best ones available.
- Use of listings instead of actual sales without explanations.
- Use of adjustments to the comparable sales that do not reflect the market's reaction to the differences between the subject property and the comparable sales, or the failure to make adjustments when they are clearly indicated.
- Value conclusions not supported by data and analysis in appraisal report.

2J.4 Appraisal and Case Number Assignment Date

Every FHA appraisal report must correspond to an FHA case number. The case number must be listed on the first page of the appraisal report. The case number assignment date must precede the effective date of the appraisal report, unless the underwriter certifies, via the certification field in the Appraisal Logging Screen in [FHAC](#) that the appraisal was ordered for conventional lending or government-guaranteed loan purposes and was performed by an FHA Roster Appraiser.



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The underwriter must ensure that the appraisal was performed in accordance with FHA appraisal reporting requirements. The intended use of the appraisal must indicate that it is solely to assist FHA in assessing the risk of the subject property securing the loan. FHA and Client must be indicated as the intended users of the appraisal report.

2J.5 Transferred Appraisals

Newrez will accept an appraisal that was transferred from another lender, provided the transfer was completed in compliance with FHA requirements. At the borrower's request, a transfer of the case to the second lender must be completed within five (5) business days. The appraiser is not required to provide the appraisal to Newrez. The Client's name on the appraisal does not need to reflect the new lender.

Newrez may not request the appraiser to re-address the appraisal. If Newrez finds deficiencies in the appraisal a new appraisal must be ordered. If an existing appraisal is used for a different borrower, the new borrower's information must be entered into [FHAC](#). Newrez must collect an appraisal fee from the new borrower and refund the fee to the original borrower.

If a case transfer is involved, the borrower's information must be entered into [FHAC](#). Newrez must collect an appraisal fee from the borrower, and send the fee to the original mortgagee, which, in turn, must refund the fee to the original borrower.

2J.5(a) Non-Delegated Clients

Use the following procedures when transferring an appraisal to NewRez:

- Advise Newrez of request for transfer on Underwriting Submission Checklist
- Provide explanation for assignment and transfer
- Case number must be assigned to NewRez and emailed to CorrespondentUnderwritingSupport@Newrez.com (allow 24 hours for assignment change in [FHAC](#))
- Provide paid invoice and XML to CorrespondentUnderwritingSupport@Newrez.com

The appraiser and AMC may not be on NewRez's Exclusionary List. See Chapter 2A Eligibility, 2A.4 Excluded Parties.

Newrez will upload the appraisal into the [EAD portal](#) and will obtain the SSR and completed appraisal review.

- If the underwriter approves the appraisal, a Loan Decision Letter will be updated indicating the



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appraisal cleared and uploaded to Image Central.

- If the underwriter finds deficiencies with the appraisal, the appraisal will be rejected, and a new appraisal will be required.

2J.6 Ordering a Second Appraisal

Ordering an additional appraisal to achieve an increase in value for the property and/or the elimination or reduction of deficiencies and/or repairs is prohibited.

A second appraisal may be ordered for loans that are in accordance with the requirements of property flipping.

2J.6(a) Second Appraisal by Original Lender

A second appraisal may only be ordered if the **Direct Endorsement (DE)** underwriter determines the first appraisal is materially deficient and the appraiser is unable or uncooperative in resolving the deficiency. The deficiency must be fully documented and the status of the appraisal in the loan file. The Client must pay for the second appraisal.

Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability or that indicate a potential violation of fair housing laws or professional standards related to nondiscrimination. Material deficiencies include, but are not limited to:

- Appraiser performing the first appraisal is on NewRez's exclusionary list;
- Failure to report readily observable defects that impact the health and safety of the occupancy and structural soundness of the house;
- Reliance upon outdated or dissimilar comparable sales when more recent and/or comparable sales were available as of the effective date of the appraisal; and
- Fraudulent statements or conclusions when the appraiser had reason to know or should have known that such statements or conclusions compromise the integrity, accuracy or thoroughness or the appraisal.

2J.6(b) Second Appraisal by Second Lender

A second appraisal may only be ordered when:

- The first appraisal contains material deficiencies as determined by the underwriter for the second mortgage;
- The appraiser performing the first appraisal is prohibited from performing appraisals for NewRez; or



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- The first lender fails to provide a copy of the appraisal to NewRez in a timely manner, and the failure would cause a delay in closing and harm to the borrower, including loss of interest rate lock, violation of sales contract deadline, occurrence of foreclosure proceedings and imposition of late fees.

Do not order a new case number, however second appraisal data must be logged in to [FHAC](#).

The second appraisal must be used and both appraisals be in the case binder, except in the case of the first lender failing to provide the appraisal. The DE underwriter must document and retain in the loan file the explanation for why the second appraisal was ordered.

2J.7 Quality of Appraisal

The appraisal must be evaluated to ensure it complies with the requirements in 4000.1 Handbook, [Valuation and Reporting Protocols](#) (IID.4), and any additional appraisal requirements that are specific to the subject property.

2J.8 Reconsideration of Value

The underwriter may request a reconsideration of value when the Appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the Appraiser with all relevant data that is necessary for a reconsideration of value.

The appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the Borrower, the Borrower must not be held responsible for the additional costs. The effective date of the appraisal is the date the Appraiser inspected the Property.

2J.9 Appraisal Report Forms and Exhibits

All appraisals must be performed in strict accordance with and comply with all applicable local, state, and federal laws, regulations, and orders, and must conform to the current Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation.

Review each appraisal in detail for completeness, accuracy, and assessment of the current fair market value.



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2J.9(a) Conditional Commitment/Direct Endorsement Statement of Appraised Value

The [Conditional Commitment Direct Endorsement Statement of Appraised Value Form, HUD-92800.5B](#), is the underwriter's acceptance of the appraisal. By signing this document, the underwriter is stating that the property is eligible for FHA mortgage insurance.

One copy of the Direct Endorsement Statement of Appraised Value must be provided to the borrower, one copy must be included in the FHA Case binder and one copy is retained in the loan file. The borrower should be advised to read the front and back of this form.

2J.9(b) Appraisal Forms

An FHA approved appraiser must prepare the appraisal form and attachments. The appraisal report must be on the current version of the appropriate appraisal form.

| Form | Use |
|--|--|
| <i>Uniform Residential Appraisal Report</i> (Fannie Mae Form 1004/Freddie Mac Form 70) | Use for appraisals of one-unit properties (including a one-unit property with an accessory apartment) and units in PUD projects. |
| <i>Individual Condominium Unit Appraisal Report</i> (Fannie Mae Form 1073/Freddie Mac Form 465) | Use for appraisals of one-unit properties in condominium projects, including site condominiums. |
| <i>Manufactured Home Appraisal Report</i> (Fannie Mae Form 1004C/Freddie Mac Form 70B) | Use for appraisals of one-unit manufactured homes. |
| <i>Small Residential Income Property Appraisal Report</i> (Fannie Mae Form 1025/Freddie Mac Form 72) | Use for appraisals of two- to four-unit properties. |
| <i>Compliance Inspection Report</i> (form HUD-92051) | Use for Compliance of Final Inspection for new construction properties and manufactured housing. |
| <i>Certification of Completion</i> (Fannie Mae Form 1004D/Freddie Mac Form 442) | Use for Compliance of Final Inspection for existing property. |
| <i>Appraisal Update and/or Completion Report</i> Fannie Mae Form 1004D/Freddie Mac Form 442) | Use for all one- to four-unit appraisal reports. |



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| <i>Opinion of Market Rent</i> (Fannie Mae Form 1007/Freddie Mac Form 1000) | Use for appraisals for inclusion of ADU opinion of market rent |
|--|--|

2J.9(b)(i) Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442)

An update to the appraisal may only be ordered if the Client:

- Is the intended user of the original appraisal; or
- Has received permission from the original client and the appraiser.

An appraisal update may be used only if:

- It is performed by an FHA appraiser who is currently in good standing on the FHA Appraiser Roster:
 - If a substitute appraiser is used due to the lack of the original appraiser availability, the substitute appraiser must state they concur with the analysis and conclusions in the original appraisal report. The file must document in the case binder why the original appraiser was not used.
- The subject property has not declined in value;
- The building improvements that contribute value to the subject property can be observed from the street or a public way;
- The exterior inspection of the subject property reveals no deficiencies or other significant changes;
- The appraisal update was performed by the appraiser within one year from the effective date of the initial appraisal being updated; and
- The appraisal update is performed before the disbursement date.

The appraiser must adhere to the Scope of Work and Appraiser's Certification listed on the form.

If the appraiser concurs with the original appraisal report and determines that the value has not declined, they must indicate so and provide any necessary comments. A photo of the front of the subject property taken from the public street must be provided.

If the appraiser does not concur with the original data report or the property value has declined, they

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must indicate so on the form and a photo is not required.

2J.9(b)(ii) Photographs, Exhibits and Map Requirements

The appraiser must include a legible street map showing the location of the subject and each of the comparable properties, including sales, rentals, listings, and other data points utilized. If substantial distance exists between the subject and comparable properties, additional legible maps must be included.

The appraiser must include a building sketch showing the GLA, all exterior dimensions of the house, patios, porches, decks, garages, breezeways, and any other attachments or outbuildings contributing value. The sketch must show “covered” or “uncovered” to indicate a roof or no roof (such as over a patio). The appraiser must show the calculations used to arrive at the estimated GLA. The appraiser must provide an interior sketch or floor plan for Properties exhibiting functional obsolescence attributable to the floor plan design.

The appraiser must provide photographs as required in the table below and any additional exterior and interior photographs, reports, studies, analysis, or copies of prior listings in support of the appraiser’s observation and analysis.

| Photograph Exhibit | Minimum Photograph Requirement |
|------------------------------|---|
| Subject Property Exterior | <ul style="list-style-type: none"> • Front and rear at opposite angles to show all sides of the dwelling. • Improvements with Contributory Value not captured in the front or rear photograph. • Street scene photograph to include a portion of the subject site. • New Construction: include photographs that show the subject’s grade and drainage. • Proposed Construction: include a photograph that shows the grade of the vacant lot. |
| Subject Property Interior | <ul style="list-style-type: none"> • Kitchen, main living area, bathrooms, bedrooms. • Any other rooms representing overall condition. • Basement, attic, and crawl space. • Recent updates, such as restoration, remodeling, and renovation. • For two- to four-unit properties, also include photographs of hallways, |



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| | foyers, laundry rooms and other common areas. |
| Comparable Sales, Listings, Pending Sales, Rentals, etc. | <ul style="list-style-type: none">• Front view of each comparable utilized.• Photographs taken at an angle to depict both the front and the side when possible.• Multiple Listing Service (MLS) photographs are acceptable to exhibit comparable condition at the time of sale. However, appraisers must include their own photographs as well, to document compliance. |
| View | Photographs of any negative or position view influences that affect value or marketability |
| Subject Property Deficiencies | Photographs of the deficiency or condition requiring inspection or repair. |
| Condo Project | Additional photographs of the common areas and shared amenities of the condo project. |

2J.9(b)(iii) Appraisal Attachments

The appraisal attachments must be prepared and signed (if applicable) by an approved appraiser. The appraisal attachments must be on the current version.

- Photographs as required above;
- Location map showing the subject property and the comparable sales;
- Diagram of the floor plan detailing room layout;
- Exterior building sketch;
- Statement of Assumptions and Limiting Conditions and Appraiser's Certification;
- Any other certifications, if applicable (roof, water, etc.);
- Certificate of Occupancy, if applicable; and
- Any state specific forms relating to property.

The appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.

The appraiser must provide support for conclusions regarding housing trends and overall market conditions reported in the "Neighborhood" section. The appraiser's analysis and conclusions must be



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based on the information reported on this form. The appraiser's study of the market affecting the subject property include sufficient data for a statistical analysis to be relevant.

If any required data is unavailable or is considered unreliable, the appraiser must provide an explanation. It is recognized that not all data sources will be able to provide data for the shaded areas on the form; if it is available, however, the appraiser must include in the analysis.

If data sources provide the required information as an average instead of the median, the appraiser must report the available figure and identify it as an average. The appraiser must explain any anomalies in the data, such as seasonal markets, new construction, foreclosures, etc.

Fannie Mae appraisal forms that are used for streamlined appraisal or a qualitative sales comparison analysis, such as Fannie Mae Forms 2055 or 2065, are not permitted.

2J.10 Appraisal Report Review

2J.10(a) DE Underwriter Responsibilities

The DE underwriter:

- Must evaluate the appraisal and any supporting documentation to determine if the property complies with HUD's Property Acceptability Criteria;
- Is responsible for identifying any problems or potential problems with the integrity, accuracy, and thoroughness of an appraisal;
- Will determine which repairs for existing properties must be made for the property to be eligible;
- Must evaluate the appraisal and ensure it complies with the requirements of this chapter and any additional appraisal requirements that are specific to the subject property; and
- Must evaluate the appraisal to ensure the appraisal complies with all federal, state, and local laws, including FHA and other federal, state, or local antidiscrimination laws.

2J.10(b) Appraiser Responsibilities

The appraiser must:

- Observe, analyze, and report that the property meets HUD's Property Acceptability Criteria, including MPR and MPS;
- Provide preliminary verification that HUD's Property Acceptability Criteria have been met;
- Provide an appraised value for the subject property; and



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- Provide an explanation if the property seller is not the owner of record.

The appraiser must review and analyze the following and report the results of that analysis in the appraisal report:

- The complete copy of the executed sales contract for the subject,
- Documents related to new construction (plans, specifications, and any exhibits provided), if applicable;
- The land lease, if applicable;
- Surveys or legal descriptions, if available; and
- Any other legal documents contained in the loan file.

2J.10(c) Minimum Property Requirements (MPR) and Minimum Property Standards (MPS)

Minimum Property Requirements (MPR) refer to general requirements that all homes insured by FHA be safe, sound, and secure.

Minimum Property Standards (MPS) refer to regulatory requirements relating to the safety, soundness, and security of New Construction.

When the Appraiser's observation of a property reveals noncompliance with the Property Acceptability Criteria, the appraiser must note all repairs necessary to make the property comply with HUD's Property Acceptability Criteria, together with the estimated cost to cure. If the appraiser cannot determine that the property meets HUD's MPR or MPS, an inspection from a qualified entity should be obtained to make the determination.

Professional judgment must be used in determining when the subject property condition poses a threat to the health and safety of the occupant and/or jeopardizes the soundness and structural integrity of the subject property, such that additional inspections and/or repairs are necessary.

2J.10(d) Defective Conditions

The appraisal must be evaluated in accordance with this section to determine if the property is eligible. If defective conditions exist and cannot be remedied, the underwriter must reject the property.



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Defective conditions refer to defective constructing, evidence of continuing settlement, excessive dampness, leakage, decay, termites, environmental hazards, or other conditions affecting the health and safety of occupants, collateral security, or structural soundness of the improvement.

The appraiser must:

- Identify all defective conditions;
- Identify those that are curable and will make the property comply MPRs;
- Provide an estimate to cure; and
- Provide photographs of the defective conditions.

The underwriter must obtain evidence of completion of any inspections, repairs, or certifications noted on the appraisal or are required by the underwriter. Regardless of the appraiser's suggested repairs, the underwriter will determine which repairs are required. See Required Repairs.

2J.10(d)(i) Inspections by a Qualified Individual or Entity

If the appraiser cannot determine that a property meets FHA's MPR or MPS, an inspection by a qualified individual or entity may be required.

Conditions that require an inspection by a qualified individual or entity include:

- Standing water against the foundation and/or excessively damp basements;
- Hazardous materials on the site or within the improvements;
- Faulty or defective mechanical systems (electrical, plumbing or heating/cooling);
- Evidence of possible structural failure (e.g., settlement or bulging foundation wall); unsupported floor joists, cracked masonry walls or foundation);
- Evidence of pest infestation;
- Leaking or worn-out roofs; and
- Any other condition that in the judgment of the appraiser warrants an inspection.

The appraiser may not recommend inspections only as a means of limiting liability. The reason or indication of a particular problem must be given when requiring an inspection.

2J.10(e) Legal and Land Use Considerations



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| Party or Lot Line Wall | <p>A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the ridge of the roof.</p> <p>The appraiser must note if the party or lot line wall does not extend to the roof or beyond.</p> |
| Non-residential Use of the Property | <p>The appraiser must calculate the non-residential portion of any residential property. Storage areas or similar spaces that are integral parts of the non-residential portion must be included in the calculation of the non-residential area.</p> <p>The appraiser must comment on any non -residential use within the property and state the percentage of the total floor area that is utilized as non -residential. The appraiser must report whether the non-residential use is legal and in compliance with current zoning requirements.</p> <p>Any non-residential use:</p> <ul style="list-style-type: none"> • Must not exceed 49% of the total floor area; • Must be subordinate to its residential use, character, and appearance; • May not impair the residential character or marketability of the property; and • Must be legally permitted and conform to current zoning requirements. |
| Zoning | <p>The appraiser must determine if current use complies with zoning ordinances.</p> <ul style="list-style-type: none"> • If the property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the appraiser must report the property as "Legal Non-Conforming" and provide a brief explanation; • The appraiser must analyze and report any adverse effect that the non-conforming use has on the property's value and marketability; and • The appraiser must determine whether the property may be legally rebuilt if destroyed. |



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| | <p>If the property cannot be legally rebuilt, it is not eligible.</p> |
| Encroachments | <p>Encroachment refers to an interference with an intrusion onto another's property.</p> <p>The appraiser must report the presence of any encroachments affecting the subject property so the underwriter can determine eligibility.</p> <p>The appraiser must identify any encroachments:</p> <ul style="list-style-type: none">• If the subject's dwelling, garage, or other improvement do not encroach onto an adjacent property, right-of-way, utility easement, or building restriction line; and• By the subject or adjacent property fences is acceptable provided such encroachment does not affect the marketability of the subject property. |
| Easements and Deed Restrictions | <p>An easement refers to an interest in land owned by another person, consisting of the right to use or control the land, or an area above or below it, for a specific limited purpose.</p> <p>A deed restriction refers to a private agreement that restricts the use of real estate in some way and is listed in the deed.</p> <p>The appraiser must analyze and report the effect that easements and other legal restrictions, such as deed restrictions, may have on the use, value, and marketability of the property. The appraiser must review recorded subdivision plats when available.</p> <p>If the appraiser notes the presence of any easements and deed restriction, the underwriter must review and determine eligibility. See Chapter 2D Property Types, 2D.1 Deed/Resale Restrictions for acceptable deed restrictions.</p> |

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2J.10(f) Externalities

Externalities refer to off-site conditions that affect a property's value. Externalities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas liens, overhead electric power transmission lines and local distribution lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks.

The appraiser must report the presence of externalities and consider how externalities affect the marketability and value of the property, report the issues and the market's reaction, and address any positive or negative effects on the value of the subject property.

The underwriter must review the appraisal report and determine if there are any positive or negative effects on the value of the subject property due to any externalities as reported by the appraiser.

| Externality | Requirement |
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| Heavy Traffic | The appraiser must analyze and report if close proximity to heavily traveled roadways or railways has an effect on the marketability and value of a site because of excess noise and safety issues. |
| Airport Noise and Hazards | <p>The appraiser must:</p> <ul style="list-style-type: none"> Identify if the property is affected by noise and hazards of low flying aircraft because it is near an airport; Review airport contour maps and analyze accordingly; and Determine and report the marketability of the property based on this analysis. |
| Special Airport Hazards | <p>For properties located in Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields the following applies:</p> <ul style="list-style-type: none"> Existing Dwellings: The borrower must acknowledge the hazard. New Construction: The property is ineligible. <p>Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible if it is determined that the property complies with Department of Defense guidelines.</p> |
| Proximity to High | The appraiser must identify if the dwelling or related property improvement is |



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| Pressure Gas Lines | <p>near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both above ground and subsurface and determine and report marketability based on this analysis.</p> <p>The appraiser must identify the deficiency of MPR or MPS if the property is located less than ten (10) feet from the nearest boundary of the pipeline easement.</p> |
| Overhead Electric Power Transmission and Local Distribution Lines | <p>Overhead electric power transmission lines refer to electric lines that supply power from generation stations to local distribution lines. Local distribution lines refer to electric lines that commonly supply power to residential housing developments, similar facilities, and individual properties.</p> <p>The appraiser must identify the deficiency of MPR or MPS if the overhead electric power transmission lines or the local distribution lines pass directly over any dwelling, structure, or related property improvement, including pools, spas, or water features.</p> <p>The appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances and must determine if the guidelines for encroachments apply.</p> <p>The underwriter must confirm:</p> <ul style="list-style-type: none"> • That any overhead electric power transmission lines do not pass directly over any dwelling, structure, or related property improvement, including pools. The power line must be relocated for a property to be eligible; and • That the residential service drop line do not pass directly over any pool, spa, or water feature. <p>If the dwelling or related improvements are located within the easement area or appear to be located within an unsafe distance of any power line or tower, a certification must be obtained from the appropriate utility company or local regulatory agency stating that the relationship between the improvements and local distribution lines conforms to local standards and is safe.</p> |
| Smoke, Fumes, and | Excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, |

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| Offensive or Noxious Odors | poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the property. The appraiser considers the effect of the of any of these conditions that exist and do not threaten the occupants or marketability. |
| Stationary Storage Tanks | <p>Any above ground stationary storage tanks must be more than 300 feet of the subject property line if it has a capacity of 1,000 gallons or more of flammable or explosive material.</p> <p>Any above ground stationary storage tanks within 300 feet of the subject property line with a capacity of 1,000 gallons or more of flammable or explosive material are ineligible.</p> |

2J.10(g) Site Conditions

2J.10(g)(i) Access to Property

Adequate vehicular access to a property refers to an all -weather road surface over which emergency and passenger vehicles can pass at all times.

The property must have safe pedestrian access and adequate vehicular from a public street or private street that is protected by a permanent recorded easement, ownership interest, or is owned and maintained by an HOA. Shared driveways that are not part of an HOA must also meet these requirements.

2J.10(g)(ii) On Site Hazards and Nuisances

On site hazards and nuisances refer to conditions that may endanger the health and safety of the occupants or the structural integrity or marketability of the property.

The appraiser must:

- Report and comment on the presence of all on site hazards and nuisances;
- Provide photographs of potential problems or issues to assist the underwriter in understanding the problem;
- Report any special conditions that may exist or arise during the construction and necessitate precautionary or hazard mitigation measures for new or proposed construction; and



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- Special site conditions include rock formations, unstable soils or slopes, high ground water levels, springs, and other conditions that may have a negative effect on the value.

The underwriter must require corrective work to mitigate potential adverse effects from any on site hazard or nuisances reported by the appraiser.

2J.10(g)(iii) Topography

The surface and subsurface water should be diverted from the dwelling to ensure drainage away from the foundation.

The appraiser must report any danger due to topographic conditions (e.g., earth and mud slides from adjoining properties, falling rocks, and avalanches) to the subject property or the adjoining land.

The property must be inspected by a qualified individual or entity if:

- The purchase contract indicates, or the appraiser observes any dampness because of a foundation issue or surface; and
- If the appraiser notes surface and subsurface water that is not diverted from the dwelling.

2J.10(g)(iv) Grading and Drainage

The subject property must have adequate grading and proper drainage control measures (may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation) and should not have any observable evidence of standing water adjacent to the foundation that indicates improper drainage.

2J.10(g)(v) Suitability of Soil

The appraiser must consider the readily observable soil and subsoil conditions of the site, including the type and permeability of the soil, the depth of the water table, surface drainage conditions, compaction, rock formation, and other physical features that affect the value of the site, or its suitability for development or support of the existing improvements.

The appraiser should also consider events published reports regarding the instability of the soil and surface support of the land as related to the subject and proximate properties.



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2J.10(g)(vi) Land Subsidence and Sinkholes

Land subsidence refers to the lowering of the land-surface elevation from changes that take place underground, including damage caused by sinkholes.

The danger of ground subsidence may be encountered where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as a high percentage of organic material, areas of mining activity or extraction of subsurface minerals, or where the subsurface is unstable and subject to slippage or expansion. Typical signs include fissures or cracks in the terrain, damaged foundations, sinkholes, or settlement problems.

The underwriter must determine eligibility or the need to require the purchase of subsidence insurance.

2J.10(g)(vii) Oil or Gas Wells

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| Operating for Proposed | <ul style="list-style-type: none">• The dwelling cannot be located within 75 feet of an operating or proposed well. The distance is measured from the dwelling to the site boundary, not to the actual well site.• If the dwelling is located within 75 feet of an operating oil or gas well, reject the property unless mitigations measures are completed. |
| Abandoned Well | <ul style="list-style-type: none">• An abandoned gas or oil well on the subject site or an adjacent property is not permitted unless a letter from the local jurisdiction or the appropriate state agency stating that the subject well was permanently abandoned in a safe manner is provided.• A property located near a gas well that emits hydrogen sulfide is acceptable if a petroleum engineer has established the minimum clearance. The appraiser must assess any impact that the location of the well has on the value and marketability of the property. |

2J.10(g)(viii) Hydrogen Sulfide Gas Wells (Sour Gas Wells)

Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum



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industry regulation and for public health and safety.

An inspection by a qualified individual or entity and provides evidence that the minimum clearance has been established is required.

2J.10(g)(ix) Slush Pits

A slush pit refers to a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.

If the property has a slush pit, the appraisal must be made subject to the removal of all unstable and toxic materials and the site made safe.

2J.10(g)(x) Flood Zones

The appraisal must indicate the FEMA zone designation, the map panel number and map date. If the property is located within a Special Flood Hazard Area (SFHA), a copy of the flood map panel must be attached to the appraisal report.

If the property is not shown on any map and the appraisal indicates "not mapped," the appraiser must quantify the effect on value, if any, for properties situated within a designated SFHA.

A flood zone determination must be obtained independent of any assessment made by the appraiser to cover Life of Loan Flood Certification.

A property is not eligible if:

- A residential building and related improvements to the property are located within SFHA Zone A, a Special Flood Zone Area, or Zone V, a Coastal High Hazard Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- The improvements are, or are proposed to be, located within a Coastal Barrier Resource System (BCRS).

| Property | Requirements |
|--|---|
| New Construction of Site Built Housing or Units in a | If any portion of the dwelling, related structures, or equipment essential to the value of the property and subject to flood damage is located within an SFHA, the property is not eligible unless one (1) of the following occurs: |



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| Condominium Project or Legal Phase | <ul style="list-style-type: none"> • A FEMA final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) is obtained that removes the property from SFHA. • A FEMA National Flood Insurance Program Elevation Certificate (FEMA Form FF-206-FY-22-152) based on the finished construction, documenting the lowest floor including the basement, and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with FHIP criteria, and insurance under NFIP is obtained. • The Mortgagee must ensure that Flood Insurance is obtained when a FEMA Flood Elevation Certificate (FEMA Form FF-206-FY-22-152) documents that the Property remains located with an SFHA. <p>The building permit application submission date, or its equivalent date, will be required on form HUD-92541, Builder's Certification of Plans, Specifications, and Site. In jurisdictions where the building permits are not issued, an equivalent application submission date represents the request for jurisdictional approval to start construction. The construction start date serves as the equivalent date when no prior application submission date is available.</p> |
| Existing Construction of Site Built Housing | When any portion of the residential improvements is determined to be located within an SFHA, insurance under FHIP must be obtained. |
| Existing Construction Condominiums | The homeowners' association (HOA) must obtain insurance under the NFIP on buildings located within the SFHA. The flood insurance coverage must protect the interest of the borrowers who hold title to the individual unit, as well as the common areas of the condo project. |
| Existing and New Construction Manufactured Housing | <p>The finished grade level beneath the manufactured home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related structures, or equipment essential to the property value and subject to flood damage for both new and existing manufactured homes are located within an SFHA, the property is not eligible unless one (1) of the following is obtained:</p> <ul style="list-style-type: none"> • A FEMA issued LOMA or LOMR that removed the property from the SFHA; or • A FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form FF-206-FY-22-152) prepared by a licensed engineer or surveyor stating that the finished grade beneath the manufactured |



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| | <p>home is at or above the 100-year frequency flood elevation, and insurance under the NFIP is obtained.</p> <p>The Mortgagee must ensure that Flood Insurance is obtained when a FEMA Flood Elevation Certificate (FEMA Form FF-206-FY-22-152) documents that the Property remains located within an SFHA.</p> |
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See Chapter 5 Insurance & Loan Documents for complete Flood Insurance requirements.

2J.10(g)(xi) Coastal Barrier Resources Systems (CBRS)

Properties located in a Coastal Barrier Resources System (CBRS) are not eligible.

2J.10(g)(xii) Mineral, Oil and Gas Reservations or Leases

The appraiser must analyze and report the degree to which the residential benefits may be impaired, or the property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

The appraiser should consider the following:

- The rights granted by the reservation or lease causes an infringement on the property rights of the fee owner; and
- The hazards, nuisances, or damages that may arise or accrue to the subject property from exercise of reservation or lease privileges on neighboring properties.

2J.10(g)(xiii) Excess and Surplus Land

Excess land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land may have the potential to be sold separately.

Surplus land refers to land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off. Surplus land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.



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The appraisal must indicate the highest and best use analysis in the appraisal report to support the appraiser's conclusion of the existence of excess land. The appraiser must include surplus land in the valuation.

If the subject of an appraisal contains two (2) or more legally conforming platted lots under one (1) legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is excess land. The value of the second lot must be excluded from the final value conclusion of the appraisal and the appraiser must provide a value of only the principal site and improvements under a hypothetical condition.

2J.10(g)(xiv) Soil Contamination

Soil contamination refers to the presence of manufactured chemicals or other alterations to the natural soil environment.

Conditions that indicate soil contamination include the existence of underground storage tanks used for heating oil, pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums, or odors.

2J.10(g)(xv) Residential Underground Storage Tanks

The appraiser must note any readily observable surface evidence of residential underground storage tanks, such as fill pipes, pumps, ventilation caps, etc. If there is readily observable evidence of leakage or on-site contamination, the appraiser must require further inspection.

2J.10(h) Characteristics of Property Improvements

2J.10(h)(i) Living Unit

Each living unit must contain one (1) of the following:

- A continuing and sufficient supply of safe and potable water under adequate pressure and of appropriate quality for all household uses;
- Sanitary facilities and a safe method of sewage disposal;
- Every living unit must have at least one (1) bathroom, which must include, at a minimum, a water closet, lavatory, and a bathtub or shower;
- Adequate space for healthful and comfortable living conditions;



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- Heating adequate for healthful and comfortable living conditions;
- Domestic hot water; and
- Electricity adequate for lighting and for mechanical equipment used in the living unit; and
- Every living unit must have at least one (1) area with kitchen facilities, including both a sink with potable running water and a stove utility hookup at a minimum.

Appliances that will remain in the subject property and that contribute to the market value must be operational.

FHA does not have a minimum size requirement for one- to four-family dwellings and condominium units.

2J.10(h)(ii) Access to Living Unit

Access to the living unit must be provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit.

For an attached dwelling, the access may be by means of alley, easement, common area, or passage through the dwelling.

There must be an emergency release latch for at least one (1) window in each bedroom where security bars are present.

The property is ineligible if access to the living unit is not provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit.

2J.10(h)(iii) Non-Standard House Styles

Non-standard house style refers to unique properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower-than-normal ceiling heights, and other houses that in the appraiser's opinion, are unique.

The appraiser must provide a comment that the non-standard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a property to be fully marketable, the appraiser must demonstrate that it is located in an area of similar types of construction and blend in with the landscape.

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2J.10(h)(iv) Accessory Dwelling Unit (ADU) Existing or New Construction

An accessory dwelling unit (ADU) refers to a habitable living unit added to, created within, or detached from a primary single-family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

As part of the highest and best use analysis, the appraiser must make the determination to classify the property as a single family dwelling with an ADU, or a two-unit dwelling. The conclusion of the highest and best use analysis will then determine the classification of the subject property and the analysis and reporting required. More than one (1) ADU located on the subject property is ineligible.

An Accessory Dwelling Unit:

- Is usually subordinate in size, location, and appearance to the primary dwelling unit;
 - May or may not have separately metered utilities or separate means of ingress or egress; and
 - Must not include the living area of the ADU in the calculation of the gross living area (GLA) of the primary dwelling and
 - ADU must comply with zoning requirements which may include legal non-conforming use.
-

One-Unit Single Family Dwelling with an ADU

When the highest and best use analysis determines property to be a single-family dwelling with an ADU, the appraiser must provide:

- Description of the ADU characteristics;
- Summarize the ADU's market acceptance;
- Report the Gross Living Area of the ADU separate from primary dwelling;
- State whether the ADU can be legally rented without restrictions; and
- Report the current ADU occupancy and relevant details of any known lease agreements

Market Rental Analysis:

The Appraiser may provide the ADU market rent only if:

- Highest and best use is determined to be a one-unit single family dwelling with an ADU;
 - ADU is legally rentable without restrictions;
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- The appraiser determines that a non-transient monthly market rent can be credibly developed.

The analysis of the rental data must include support for the ADU comparable rental selections, adjustments applied and the opinion of the ADU market rent. Appraiser must include the ADU opinion of market rent using the Fannie Mae-Form 1007 /Freddie Mac Form 1000 and include following supplement statement:

- This form is completed to provide FHA an opinion of the market rent of the subject's legally rentable Accessory Dwelling Unit (ADU). Sufficient competitive market data exists to develop credible results.

Comparable Rent schedule for ADU Market Rent Analysis

- A sufficient number of comparable rents must be included to produce a credible ADU market rent estimate,
 - The comparable sales used to develop the ADU market rent *must not* include properties rented for hotel or transient purposes or for periods less than 30 days.
 - At least one comparable sale must be included that is a single family dwelling with a rented ADU; if this is not available, the appraiser must supplement with the most appropriate rental available and summarize the reason for the selection and how the marketability of the ADU was determined
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2J.10(h)(v) Additional Manufactured Home on Property

When the primary dwelling is stick-built, a manufactured home on the lot may be considered an ADU and be given value if it meets the highest and best use and all FHA Manufactured Housing requirements. Refer to Chapter [2D](#) Property Types.

Value may be given to a manufactured home on the property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.



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2J.10(h)(vi) Leased Equipment, Components and Mechanical Systems

The value of leased mechanical systems and components must not be included in the appraised value. This includes furnaces, water heaters, fuel, or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the borrower.

The property value must not include the value of any equipment, including an energy system, which is not fully owned by the borrower. The terms of any leased equipment must be reviewed to ensure they do not contain any Legal Restrictions on Conveyance.

2J.10(h)(vii) Gross Living Area

The most common comparison for one-unit properties is the above-grade gross living area. The appraiser must be consistent when calculating and reporting the finished above-grade room count and the square footage of gross living area that is above-grade.

Finished basements and unfinished attic areas must not be included in the total GLA and the same measurement techniques for the subject must be used for the comparable sales and report the building dimensions in a consistent manner.

When any part of a finished level is below grade, the appraiser must report all of that level as below-grade finished area and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area.

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| Additions and Converted Space | Room additions and garage conversions should be included in the GLA of the dwelling, provided that the addition or conversion space: <ul style="list-style-type: none">• Is accessible from the interior of the main dwelling in a functional manner;• Has a permanent and sufficient heat source; and• Was built in keeping with the design, appeal, and quality of construction of the main dwelling. |
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| | Room additions and garage conversions that do not meet the above criteria are to be addressed as a separate line item in the sales grid, not in the GLA. Any impact of inferior quality garage conversions and room additions on marketability as well as contributory value should be discussed. |
| Partially Below-Grade Habitable Space | <p>Partially Below-Grade Habitable Space refers to living area constructed partially below grade but has the full utility of GLA.</p> <p>The appraiser must report the design and measurements of the subject property, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has on the analysis.</p> <p>Regardless of the description of the rooms, bedrooms, or baths as above grade or below grade, the appraiser must analyze all components of the subject property in the valuation process.</p> |
| | A room that cannot accommodate ingress or egress in the event of an emergency cannot be considered as a bedroom, regardless of location above or below grade. There must be an emergency release latch for at least one (1) window in each bedroom where security bars are present. |

2J.10(h)(viii) Appliances

Real property refers to the interests, benefits, and rights inherent in the ownership of physical real estate.

Personal property refers to tangible property, other than real property, such as cars, recreational vehicles, stamps, coins, or other collectibles. The value of personal property must not be included in the appraisal.

Cabinets and built-in appliances that are considered real property must be present and operational.

2J.10(h)(ix) Swimming Pools

The appraiser must:

- Report readily observable defects in a non-covered pool that would render the pool inoperable



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or unstable;

- Must condition the appraisal report for pools with unstable sides or structural issues to be repaired or permanently filled in accordance with local guidelines and the surrounding land regraded, if necessary; and
- Must complete the appraisal with the extraordinary assumption that the pool and its equipment can be restored to fully operating condition at normal costs if the pool has been winterized or cannot determine if the pool is in working order.

Empty or non-functioning swimming pools/spas may be acceptable if one (1) of the following requirements is met:

- The swimming pool/spa is secured by a cover that would be sufficiently sturdy to prevent a person from falling in the pool or through the cover;
- The swimming pool/spa has been filled with dirt;
- A fence surrounds the swimming pool/spa; and
- In addition, the appraiser must comment on the effect on the property's marketability and must not present a health or safety issue.

If the swimming pool does not meet acceptable requirements, confirm that any swimming pools on the property comply with all local ordinances.

2J.10(h)(x) Mechanical Components and Utilities

Mechanical systems must:

- Have reasonable future utility, durability, and economy;
- Be safe to operate;
- Be protected from destructive elements; and
- Have adequate capacity.

The appraiser must:

- Observe the physical condition of the plumbing, heating, and electrical systems;
- Operate the applicable systems and observe their performance;
- Condition for repair or further inspection if the systems are damaged or do not appear to function properly; and
- Note whether the utilities were on or off if the property is vacant.



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If the utilities are off at the time of the inspection, the appraiser must ask to have them turned on and complete all requirements under Mechanical Components. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities turned on or the mechanical systems functioning.

If the utilities are not on at the time of observation and the systems could not be operated, the appraisal must:

- Be subject to re-observation;
- Upon further observation, determine if the systems are in proper working order once the utilities are restored; and
- Be completed under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

If systems could not be operated due to weather conditions, the appraisal report must clearly note this. The systems should not be operated if doing so may damage equipment or when outside temperature will not allow the system to operate.

Electrical, plumbing, or heating/cooling certifications may be required when the appraiser cannot determine if one (1) or all of these systems are working properly.

| System | Requirement |
|-----------------------------|---|
| Heating and Cooling Systems | <p>The appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of the heating system must be adequate for healthful and comfortable living conditions, regardless of design, fuel, or heat source.</p> <p>The permanently installed heating system must:</p> <ul style="list-style-type: none">• Automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing;• Provide healthful and comfortable heat or is not safe to operate;• Rely upon a fuel source that is readily obtainable within the subject's geographic area;• Have market acceptance within the subject's marketplace; and |

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| | <ul style="list-style-type: none"> • Operate without human intervention for extended periods of time. <p>Central air conditioning is not required but, if installed, must be operational. If the air conditioning system is not operational, the appraiser must indicate the level of deferred maintenance, analyze, and report the effect on marketability, and include the cost to cure.</p> |
| Electrical System | <p>The electrical system must be adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling.</p> <p>The appraiser must:</p> <ul style="list-style-type: none"> • Examine the electrical system to ensure that there is no visible frayed wiring or exposed wires in the dwelling, including garage and basement areas, and report if the amps and panel size are inadequate for the property; and • Operate a sample of switches, lighting fixtures, and receptacles inside the house and garage, and on the exterior walls, and report any deficiencies. <p>The appraiser is not required to insert any tool, probe, or testing device inside the electrical panel or to dismantle any electrical device or control.</p> |
| Plumbing System | <p>The plumbing system must adequately function to supply water pressure, flow, and waste removal.</p> <p>The appraiser must:</p> <ul style="list-style-type: none"> • Flush the toilets and operate a sample of faucets to observe water pressure and flow, to determine that the plumbing system is intact, that it does not emit foul odors, that faucets function appropriately, that both cold and hot water run, and that there are no readily observable evidence of leaks or structural damage under fixtures; • Examine the water heater to ensure that it has a temperature and pressure-relief valve with piping to safely divert escaping steam or hot water; • Examine the septic system (if applicable) for any signs of failure or surface evidence of malfunction; and • Repair or further inspection is required if there are readily observable deficiencies. |



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| Hot Water Heater | The appraiser must turn on the hot water heater to ensure that the water heater is operating properly. |
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2J.10(h)(xi) Roof

The roof covering must prevent entrance of moisture or provide reasonable future utility, durability, and economy of maintenance and does not have a remaining physical life of at least two (2) years and not present a health or safety hazard.

If the roof has less than two (2) years of remaining life a professional roofer must inspect it.

When the appraiser is unable to view the roof, the appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.

Based on the information provided by the appraiser, the underwriter will determine whether a roofing inspection is required.

2J.10(h)(xii) Structural Conditions

The appraiser must perform a visual observation of the foundation and structure of the improvements and report those results. If the appraiser notes any structural issues, the appraiser must address the nature of the deficiency and require inspection.

The underwriter must confirm that the structure of the property is serviceable for the life of the mortgage. All foundations must be serviceable for the life of the mortgage and be adequate to withstand all normal loads imposed.

2J.10(h)(xiii) Attic

The appraiser must visually observe the interiors of all attic spaces to the extent that these areas are safely accessible. The appraiser is not required to disturb insulation, move personal items, furniture, equipment, or debris that obstructs access or visibility.

If the observation reveals evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), the appraiser must report this condition subject to inspection or subject



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to repairs.

The appraiser must report when the attic space is not safely accessible. The appraiser must complete the appraisal subject to inspection by a qualified third party only if further observation of inaccessible attic area(s) is necessary to determine compliance with MPR and MPS.

2J.10(h)(xiv) Foundation

The appraiser must examine the foundation for evidence of safety or structural deficiencies that may require repair. The appraiser must describe any deficiencies and report necessary repairs, alterations or required inspections.

For manufactured housing, the appraisal must be conditioned upon the certification of an engineer or architect that the foundation follows the [Permanent Foundations Guide for Manufactured Housing](#) (PFGMH).

2J.10(h)(xv) Basement

The basement must be free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the structure.

2J.10(h)(xvi) Crawl Space

The crawl space must satisfy all of the following criteria:

- The floor joist must be sufficiently above ground level to provide access for maintaining and repairing duct work and plumbing;
- If the crawl space contains any system components, the minimum required vertical clearance is 18 inches between grade and the bottom of the floor joists;
- The crawl space must be properly vented unless the area is mechanically conditioned;
- The crawl space must be free of trash, debris, and vermin; and
- The crawl space must not be excessively damp and must not have any water pooling. If moisture problems are evident, a qualified third party must perform an inspection and a vapor barrier and/or prevention of water infiltration must be required.

The appraiser must report any evidence that may indicate issues with structural support, dampness, damage, or vermin that may affect the safety, soundness, and security of the property.



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If access through a scuttle is limited and the appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulder is acceptable.

If there is no access to the crawl space but there is evidence of a deficient condition (such as water-stained sub flooring or smell of mold), the appraiser must report this condition. The appraiser must report the lack of accessibility. There is no requirement to cut open walls, ceilings, or floors.

2J.10(h)(xvii) Utility Services

Utility services refer to those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone. If utilities are not located on easements that have been permanently dedicated to the local government or appropriate public utility body, it must be confirmed that this information is recorded on the deed record.

Utilities located on easements that have been permanently dedicated to the local government or appropriate public utility body, should comply with the following:

- The subject property is an attached, detached or manufactured single family dwelling and the utilities are not independent for each living unit (not including ADUs);
- The utilities are not located on easements that have been permanently dedicated to the local government or appropriate public utility body;
- The property contains multiple living units under a single mortgage or ownership (two- to four-family properties) that utilize common services, such as water, sewer, gas, and electricity and is served by one (1) meter in jurisdictions that allow single meter rental properties if separate utility service shut-offs are not provided for each;
- If other facilities are not independent for each living unit, except common services such as laundry, storage space or heating, which may be provided in two- to four-living unit buildings under a single mortgage;
- The property contains living units under separate ownership and part of a larger planned community, that utilize common utility services provided from the main to the building line when protected by an easement or covenant and maintenance agreement, if individual utilities serving a living unit pass over, under, or through another living unit without provision for repair and maintenance of utilities without trespass on adjoining properties, or legal provision for permanent right of access for maintenance and repair of utilities; or
- If a single drain line in the building serves more than one (1) unit, and the building drain clean-outs are not accessible from the exterior.



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Whenever possible, connection should be made to a public or community water or sewage system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing on-site systems are acceptable provided they are functioning properly and meet the requirements of the local health department.

2J.10(h)(xviii) Environmental

The appraiser must report known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupants, the property's ability to serve as collateral, and the structural soundness of the improvements.

Environmental and safety hazards may include defective lead-paint, mold, toxic chemicals, radioactive materials, other pollution, hazardous activities, and potential damage to the structure from soil or other differential ground movements, subsidence, flood, and other hazards.

The underwriter must confirm that the property is free of all known environmental and safety hazards and adverse conditions that may affect the health and safety of the occupancy, the property's ability to serve as collateral, and the structural soundness of the improvements.

| Hazard | Requirement |
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| Lead-Based Paint | <ul style="list-style-type: none">• The appraiser must note the condition and location of all defective paint and require repair.• The underwriter must confirm that the property is free of lead paint hazards on properties built on or before 1978.• If the appraiser does not mention peeling paint in a pre-1978 property, yet the photographs show peeling, the underwriter must follow up with the appraiser.• See Chapter 2A for Lead Based Paint disclosures if the property was built on or before 1978. |
| Methamphetamine Contamination | <ul style="list-style-type: none">• If a property is contaminated by the presence of methamphetamine (meth), either by manufacture or consumption, the appraiser must render the appraisal subject to the property being certified safe for habitation. |



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| | <ul style="list-style-type: none"> • If the effective date of the appraisal is prior to certification that the property (site and dwelling) is safe for habitation, the appraiser should complete the appraisal subject to certification. • If the effective date of the appraisal is after certification that the property (site and dwelling) is safe for habitation, and the appraiser has been provided a copy of the certification by the certified hygienist, the appraiser must include a copy of the certification with the appraisal report. • The appraiser must analyze and report any long-term stigma caused by the property's contamination and any impact on value or marketability. • If the Client/Newrez has knowledge about the potential contamination of a property, the appraiser must be made aware. If the underwriter or appraiser identifies a property as contaminated by meth, the property is ineligible until it is certified safe for habitation. |
| Wood Destroying Insects/Organism, Termites | <ul style="list-style-type: none"> • When examination of new or existing construction reveals non-compliance with MPR and MPS, the appraiser must report the repairs necessary to make the property comply, provide an estimated cost to cure, provide descriptive photographs, and condition the appraisal for required repairs. • If compliance can only be affected by major repairs or alterations, the appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completion of the appraisal. • For existing properties, it must be confirmed that the property is free of wood destroying insects and organisms. If the appraisal is made subject to inspection by a qualified pest control specialist, an inspection must be obtained and evidence of any required treatment to confirm the property is free of wood destroying insects and organisms. • Soil poisoning is an unacceptable method for treating termites unless satisfactory assurance has been obtained to show that the treatment will not endanger the quality of the water supply. |



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2J.10(i) Repair Requirements

The underwriter must obtain any evidence of completion of any inspections, repairs, or certifications noted on the appraisal or are required by the underwriter.

If the Appraiser is being utilized to provide evidence of completion or repair(s) or condition(s) noted in the original appraisal report, Fannie Mae Form 1004D/Freddie Mac Form 442 must be used.

Regardless of the appraiser's suggested repairs, the underwriter will determine which repairs or inspections are required and listed on the [Conditional Commitment Direct Endorsement Statement of Appraised Value, form HUD 92800.5B](#). The DE underwriter must make detailed notes on the *HUD 92900-LT* supporting the omission or addition of repairs or inspections recommended by the appraiser. The appraisal does not have to be modified to match the [Conditional Commitment Direct Endorsement Statement of Appraised Value, form HUD 92800.5B](#).

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| Limited Required Repairs | <p>The appraiser must limit required repairs to those repairs necessary to:</p> <ul style="list-style-type: none">• Maintain the safety, security, and soundness of the property;• Preserve the continued marketability of the property; and• Protect the health and safety of the occupants. |
| As-is Condition and Cosmetic Repairs | <ul style="list-style-type: none">• The appraiser may complete an “as-is” appraisal for existing properties when minor property deficiencies, which result from deferred maintenance and normal wear and tear, do not affect the health and safety of the occupants or the security and soundness of the property.• Cosmetic or minor repairs are not required, but the appraiser must report and consider them in the overall condition when rating and valuing the property. Cosmetic repairs include missing and rails that do not pose a threat to safety, holes in window screens, cracked window glass, defective interior paint surfaces in housing constructed after 1978, minor plumbing leaks that do not cause damage (such as a dripping faucet), and other inoperable or damaged components that in the Appraiser’s professional judgment do not pose a health and safety issue to the occupants of the house.• If an element is functioning well but has not reached the end of its useful life, the appraiser should not recommend replacement because of age. |

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| Defective Conditions Requiring Repairs | The nature and degree of any noted deficiency will determine whether the appraiser must address the deficiency in the narrative comments area of the report under “condition of the property” or “physical deficiencies” affecting livability or structural soundness. |
| Conditions Requiring Inspection by a Qualified Individual or Entity | The appraiser must provide notice and make the appraisal subject to an inspection by a qualified individual or entity when the observation reveals evidence of a potential safety, soundness, or security issue beyond the appraiser’s ability to assess. The appraiser must report and describe the indication of a particular problem when requiring an inspection of any mechanical system, structural system, or other component requiring a repair. |

2J.10(j) Water Supply Systems

2J.10(j)(i) Public Water Supply System

The underwriter must confirm that a connection is made to a public or community water system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing on-site systems are acceptable, provided they are functioning properly and meet the requirements of the local health department.

When a public water supply system is present, the water quality is considered to be safe and potable and meet the requirements of the health authority with jurisdiction unless:

- The appraiser indicates deficiencies with the water or that the water is unsafe; or
- The health authority with jurisdiction issues a public notice indicating that the water is unsafe.

2J.10(j)(ii) Community Water Systems

A Community Water System refers to a central system that is owned, operated, and maintained by a private corporation or a nonprofit property owners’ association.

A Community Water System must comply with local jurisdiction requirements.

If the property is on a Community Water System, the appraiser must note the name of the water company on the appraisal report.



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2J.10(j)(iii) Individual Water Supply Systems (Wells)

When an Individual Water Supply System is present, ensure that the water quality meets the requirements of the health authority with jurisdiction.

If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the *National Primary Drinking Water* regulations in 40 CFR §§ 141 and 142.

If the subject property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point wells or artesian wells, the Property is not eligible for FHA mortgage insurance.

Requirements for the location of wells are located in CFR § 200.926d (f)(3).

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| Well Water Testing Requirements | <p>A well water test is required for, but not limited to, the following properties:</p> <ul style="list-style-type: none">• Newly constructed;• Where an appraiser has reported deficiencies with a well or the well water;• Where water is reported to be unsafe or known to be unsafe; or• Located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous waste. <p>All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. The borrower/owner or other interested party cannot collect and/or transport the sample.</p> |
| Required Documentation | <ul style="list-style-type: none">• A valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority may perform the well test, when needed.• The report must be within 180 days of the disbursement date. |



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| Appraiser Responsibility | <p>The appraiser must:</p> <ul style="list-style-type: none">• Report on the availability of connection to a public and/or Community Water System and any jurisdictional conditions requiring connection. When the appraiser obtains evidence that any of the water quality requirements are not met, the appraiser must notify the lender and provide an estimated cost to cure;• Note the deficiency of MPR or MPS if the subject property contains a well located within the foundation walls of an existing dwelling and there is no evidence that:<ul style="list-style-type: none">○ The local jurisdiction recognizes and permits such a location;○ That it is common to for the market area; and○ Does not adversely affect marketability.• Report when water to a property is supplied by dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site and report whether such systems are readily accepted by the local market.• Note the deficiency of MPR or MPS if the subject property has a water source that includes a mechanical chlorinator or is served by springs, lakes, rivers, sand-point, or artesian wells. <p>A pressure tank with a minimum capacity of 42 gallons must be provided. However, pre-pressured tanks and other pressurizing devices are acceptable if delivery between pump cycles equals or exceeds that of a 42-gallon tank. Tanks must be equipped with a clean-out plug at the lowest point and a suitable pressure relief valve.</p> <p>The appraiser must note any readily observable deficiencies regarding the well and require test or inspection if any of the following apply:</p> <ul style="list-style-type: none">• The water supply relies upon a water purification system due to the presence of contaminants;• Corrosion of pipes (plumbing);• Areas of intensive agricultural uses within one quarter mile;• Coal mining or gas drilling operations within one quarter mile; |
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| | <ul style="list-style-type: none"> • A dump, junk yard, landfill, factory, gas station, or dry-cleaning operation within one quarter mile; or • An unusually objectionable taste, smell, or appearance of well water. <p>The appraiser must also be familiar with the minimum distance requirements between private wells and sources or pollution and, if discernible, comment on them. The appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building structures but may provide estimated distances if comfortable doing so. When available, the appraiser should obtain from the homeowner or Client/NewRez a copy of a survey or other documents attesting to the separation distances between the well and septic system or other sources of pollution.</p> |
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| Individual Water Supply for Minimum Property Requirements for Existing Construction | |
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| 1 | Property line: 10 feet |
| 2 | Septic tank: 50 feet |
| 3 | Drain field: 100 feet |
| 4 | Septic tank drain field reduced to 75 feet is allowed by local authority |
| 5 | If the subject property line is adjacent to residential property, the local well distance requirements apply. If the subject property is adjacent to non -residential property or roadway, there needs to be a separation distance of at least 10 feet from the property line. |
| Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1) | |
| 1 | Lead-free piping |
| 2 | If no local chemical and bacteriological water standards; state standards apply |
| 3 | Connection of public water whenever possible |
| 4 | Wells must deliver a continuous water flow of five (5) gallons per minute over at least a four-hour period |
| Water Wells Minimum Property Standards for Existing Construction | |
| 1 | Existing wells must deliver a continuous water flow at a minimum of three (3) gallons per minute |
| 2 | No exposure to environmental contamination |

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| 3 | Continuing supply of safe and potable water |
| 4 | Domestic hot water |
| 5 | Water quality must meet requirement of local jurisdictional or the EPA if no local standard |

2J.10(j)(iv) Shared Wells

A shared well refers to a well that services two to four homes where there is a binding shared well agreement between the property owners.

If the subject property has a shared well, the appraiser must report it and note any readily observable deficiencies. The appraiser must also obtain a Shared Well Agreement and include it in the appraisal report for NewRez to review the agreement to determine eligibility.

Confirm that a shared well:

- Serves existing properties that cannot feasibly be connected to an acceptable public or community water supply system;
- Is capable of providing a continuous supply of water to all dwelling units so that each existing construction property simultaneously will be assured of at least three (3) gallons per minute (five (5) gallons per minute for proposed construction) over a continuous four-hour period (the well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling unit during construction during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties);
- Provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the EPA's National Interim Primary Drinking Water Regulations;
- Has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling unit without interrupting service to the other properties; and
- Serves no more than four (4) living units or properties.

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| Well Water Testing Requirements | <p>A well water test is required for, but not limited to, properties:</p> <ul style="list-style-type: none"> • That are newly constructed; • Where an appraiser has reported deficiencies with a well or the well water; • Where water is reported to be unsafe or known to be unsafe; or • Located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes. <p>All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. The borrower/owner or other interested party cannot collect and/or transport the sample.</p> |
| Required Documentation | <ul style="list-style-type: none"> • A valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority may perform the well test, when needed. • The water well test report must be within 180 days of the disbursement date |

For both new and existing construction properties, the underwriter must ensure that the shared well agreement complies with the guidance provided in the following table.

| Provisions that must be reflected in any acceptable shared well agreement include the following: | |
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| 1 | Require that the agreement be binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joiner by any lender holding a mortgage on any property connected to the shared well. |
| 2 | Permit well water sampling and testing by the local authority ant the request of any party at any time. |
| 3 | Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties. |
| 4 | Ensure continuity of water service to "supplied" parties if the "supplying" party has no |

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| | further need for the shared well system. "Supplied" parties normally should assume all costs for their continuing water supply. |
| 5 | Prohibit well water usage by a party for other than bona fide domestic purposes. |
| 6 | Prohibit connection of any additional living unit to the shared well system without: <ul style="list-style-type: none"> • The consent of all parties; • The appropriate amendment of the agreement; and • Compliance with #3. |
| 7 | Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for proposed construction) of the shared well. |
| 8 | Establish assessments for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection, and testing. |
| 9 | Specify that no party may install landscaping or improvements that will impair use of the easements. |
| 10 | Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection, or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties. |
| 11 | Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved property. |
| 12 | Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement, or improvement. |
| 13 | Require that any necessary replacement or improvement of a system elements) will at least restore original system performance. |
| 14 | Specify required cost sharing for: <ul style="list-style-type: none"> • The energy supply for the well pump; • System maintenance, including repairs, testing, inspection, and disinfection; • System component replacement due to wear, obsolescence, incrustation, or corrosion; and • System improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection. |
| 15 | Specify that no party is responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be |

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| | equally shared. |
| 16 | Require that each party be responsible for: <ul style="list-style-type: none"> • Prompt repair of any detected leak in this water service line or plumbing system; • Repair costs to correct system damage caused by a resident or guest at their property; and • Necessary repair or replacement of the service line connecting the system to the dwelling. |
| 17 | Require equal sharing of repair costs for damage caused by persons other than a resident or guest at a property sharing the well. |
| 18 | Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided. |
| 19 | Ensure prompt collection from all parties and prompt payment of system operations, maintenance, replacement, or improvement costs. |
| 20 | Ensure prompt collection from all parties and prompt payment of system operations, maintenance, replacement, or improvement costs. |
| 21 | Specify that the recorded agreement may not be amended during the term of a federally insured or-guaranteed mortgage on any property served, except as provided in items #5 and #11 above. |
| 22 | Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. parties to the agreement must equally share arbitration costs. |

2J.10(j)(v) Individual Residential Water Purification Systems

An Individual Residential Water Purification System refers to equipment, either point-of-entry or point-of-use, installed on properties that otherwise do not have access to a continuous supply of safe and potable water.

Individual Residential Water Purification Systems are not permitted.

2J.10(k) Sewage Systems

A sewage system refers to wastewater systems designed to treat and dispose of effluent on the same



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property that produces the wastewater. When the onsite sewage disposal system is not sufficient and an off-site system is available, connection to the off-site sewage system is required.

The appraiser must inspect the onsite sewage system and require an inspection to ensure that the system is in good working order if there are signs of system failure. The appraiser must report the availability of public sewer.

The underwriter must confirm that a connection is made to a public or community sewage disposal system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing sewage systems are acceptable provided they are functioning properly and meet the requirements of the local health department.

When the sewage system is not sufficient and an off-site system is available, connection to the off-site system must be confirmed. When the sewage system is not sufficient, and an off-site system is not available, the property must be rejected unless the onsite sewage disposal system is repaired or replaced and complies with local health department standards.

2J.11 Development of Market Value

Market Value refers to the most probable price which a property should bring in a competitive and open market under all condition requisite to a for sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

There are three (3) valuation approaches:

- Sales comparison approach
- Income approach
- Cost approach



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The appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant and obtain credible and verifiable data to support the application of the three (3) approaches to value.

2J.11(a) Sales Comparison Approach

The sales comparison approach is required for all appraisals.

If the data from the market area is insufficient to support some of these requirements, the appraiser must provide the best information available and include an explanation of the issue, the data available, the conclusions reached, and the steps taken to attempt to meet these guidelines.

The appraisal report must include as many comparable properties are necessary to support the analysis and conclusion. At a minimum, the appraisal report must include:

- The most recent and relevant sales, preferably within the last six (6) months;
- At least three (3) sales that closed no longer than 12 months prior to the effective date of the appraisal; and
- Additional support by including more sales, offerings, offerings under contract, or relevant sales that closed more than 12 months prior to the effective date of the appraisal.

The appraiser must research, report, and analyze the prior three (3) year sales history of the subject property and prior 12-month sales history of the comparable sales.

2J.11(a)(i) Comparable Sales Selection

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| Property Characteristics | Comparable sales should be selected based on similar location and physical characteristics, not sales price. Comparable sale selection must be based on properties having the same or similar location characteristics, physical characteristics, and the priority of the market assigns to each factor. |
| Transaction of Characteristics | An arm's length transaction refers to a transaction between unrelated parties and meet the requirements of market value. |

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| | <p>The appraiser must utilize arm's length transactions for comparable sales except when there is evidence that REO sales or short sale/pre-foreclosure sales (PFS) are so prevalent that normal arm's length transactions are not present or supported by the market trend.</p> <p>A transaction involving a foreclosure transfer to a lender is not evidence of the market value and is not a valid type of comparable sale.</p> <p>The common types of property transfers listed below require investigation and analysis to ensure that they meet the definition of an arm's length transaction:</p> <ul style="list-style-type: none"> • REO sale • Transfer from lender to new owner • Short sale/PFS Estate sale • Court ordered sale • Relocation sale • Flip transactions |
| Rural and Slow Growth Markets | <p>If insufficient comparable sales have occurred within the previous six (6) months, at least three (3) sales that closed within 12 months prior to the effective date of the appraisal must be used.</p> <p>Where there is a scarcity of recent comparable sales, comparable sales older than 12 months may be used. The most recent and relevant sales must be reported and a thorough explanation of the market conditions, the levels of supply and demand, and a reason for lack of sales data must be included.</p> |

2J.11(a)(ii) Comparable Sales Inside and Outside Established Subdivision or Projects

For properties located in established subdivisions or for units in established condominium, or PUD projects, comparable sales from within the subject property's subdivision or project should be used if the project has resale activity.



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Arm's length resale activity from within the subdivision or project is the best indicator of value for properties in the subdivision or project. If comparable sales located outside of the subject neighborhood are used, an explanation with the analysis is required.

2J.11(a)(iii) Comparable Sales Inside and Outside New Subdivisions or Projects

For properties located in new subdivisions or for units in new (or recently converted) condominium or PUD projects, the comparable sales from within the subject subdivision or project as well as in the general market area should be used.

Whenever possible, at least one (1) comparable sale from the subject subdivision or project and at least one (1) comparable sale from outside the subject subdivision or project or subdivision should be used so that this market acceptance may be directly compared.

2J.11(a)(iv) Sales Concessions

Adjustments to the comparable sales must be made for special or creative financing or sales concessions. No adjustment is necessary for those costs, which are normally paid sellers as a result of tradition or law in a market area; those costs are readily identifiable since the seller pays these costs in all sales transactions. Special or creative financing adjustment can be made to the comparable sale by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction.

Adjustments are not calculated on a dollar-for-dollar cost of the financing or sales concessions. However, the dollar amount of any adjustment should approximate the market's reaction to the sales concessions based on the appraiser's analysis of observable and supportable market trends and expectations. The adjustment should reflect the difference between the sales price with the sales concession and what the property would have sold for without the concessions under typical market conditions.

All comparable sales transactions must be verified for sales concessions and reported in the appraisal. The appraisal must clearly state how and to what extent the sale was verified. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (buyers, sellers, real estate agents involved in the transaction, or one (1) of their representatives), the appraiser must report the lack of verification.



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Market-based adjustments must be made to the comparable sales for any sales or financing concessions that may have affected the sales price. The sales concessions of the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. The appraiser must include an explanation of the effect of the sales concessions on the sale price of the comparable.

2J.11(a)(v) Bracketing

Bracketing refers to selecting comparable sales with features that are superior or inferior to the subject.

Comparable sales must be selected based on the principal of substitution. Comparable sales should not be chosen only because their prices bracket a desired or estimated value.

To determine the best comparable sales, the appraiser must use bracketing techniques when possible and appropriate.

2J.11(a)(vi) Adjustments

The following are the preferred underwriting guidelines for line item, net, and gross adjustments:

- 10% line item adjustments
- 15% net adjustments
- 25% gross adjustments

2J.11(a)(vii) Market Condition (Time) Adjustments

Market condition adjustments refer to adjustments made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal.

The comparable sales may be adjusted if they were contracted for sale during a market period different from that of the date of the valuation. If a market-to-market (time) adjustment is warranted, it must be applied to the date of contract rather than the date of closing or deed recordation, when the date of the contract is known.

The appraisal report must provide a summary comment and support for all conclusions relating to the trend of the current market and the adjustment.



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An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

2J.11(a)(viii) Market Conditions and Changing Markets

An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

The analysis and valuation of properties to be used as collateral for FHA-insured financing must consider and properly address market trends in the subject's market. The appraiser must determine if the market property value trends are increasing, stable, or declining.

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| Increasing Markets | <p>Increasing market refers to any neighborhood, market area, or region that demonstrates an increase in prices or improvement in other market conditions as evidenced by a decrease of existing inventory and reduced marketing times.</p> <p>In an increasing market, positive market condition adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.</p> |
| Declining Markets | <p>Declining Market refers to any neighborhood, market area, or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory and extended marketing times.</p> <p>In a declining market, negative market condition adjustments should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison.</p> |

The appraiser must report market conditions and determine when housing trends are increasing, stable or declining and provide a summary comment as to the continuance of the current trend or if



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the trend is changing and provide support for all conclusions. If the appraiser bases the adjustment on a published source, the appraiser must include a copy, which must be included in the addendum.

In changing markets with increasing market or declining market trends, the appraiser must include an absorption rate analysis, at least two (2) comparable sales that closed within 90 days prior to the effective date of the appraisal, a minimum of two (2) active listings or pending sales on the SCA Grid (in addition to at least three (3) settled sales). If the appraiser cannot comply with these requirements due to a lack of market data, a detailed explanation is required to support the market trend conclusion and include all data and analysis used to identify the current forecasted market.

For active listings or pending sales, the appraiser must:

- Ensure they are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable sales;
- Use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sales price ratios;
- Include the original list price, any revised list prices, and calculate the total Days on Market (DOM);
- The appraiser must provide an explanation for the DOM that does not approximate periods reported in the "Neighborhood" section of the appraisal;
- Reconcile the adjusted values of active listings or pending sales with the adjusted values of the closed sales provided; and
- If the adjusted values of the closed comparable sales are higher than the adjusted values of the active listings or pending sales, determine if a market condition is appropriate.

2J.11(a)(ix) Effective Age and Remaining Economic Life

The effective age reflects the condition of a property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant differences between the actual and effective ages requires an explanation.

The remaining economic life must be stated as a single number or as a range for all property types, including condominiums. The appraiser must provide an explanation if the remaining economic life is less than 30 years. The mortgage term must be less than or equal to the remaining economic life of the property.



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2J.11(b) Cost Approach

The appraiser may use any of the creditable and recognized methods to complete the cost approach (unit in place, segregated costs, price per unit, detailed builder's cost method, or any other creditable source that can be duplicated).

If the appraiser uses cost estimates provided by the contractor or builder, the cost estimates must be reasonable and independently verified. The appraiser must estimate the site value. Acceptable methodology used to estimate land value includes sales comparisons, allocation, and extraction.

2J.11(c) Income Approach

The appraiser should apply the income approach to a single-family property when there is evidence of recently rented and then sold data pairs. The appraiser must verify if the subject or the comparable rentals and sales are subject to rent control restriction. If comparable sales do not have rent control restrictions like the subject, an appropriate adjustment should be applied.

2J.11(d) Final Reconciliation and Conclusion

The underwriter must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the property.

The FHA Roster appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report.

A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the appraiser. A trainee or licensee may accompany the appraiser on the observations but may not perform the observations in place of the appraiser.

The appraiser must select the comparable sales and perform all critical analyses contained in the appraisal report. The appraiser must also inspect the subject property and at least the exterior of the comparable sales.

If another appraiser or trainee appraiser aided or participated in the preparation of the appraisal, the appraiser must disclose the name and role in developing the appraisal report.



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2J.11(e) Reconsideration of Value

The underwriter may request a reconsideration of value when the appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the appraiser with all relevant data that is necessary for a reconsideration of value.

The appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the borrower, the borrower may not pay the additional costs. The effective date of the appraisal is the date the appraiser inspected the property.

2J.12 Leasehold Interest

The appraiser must be provided with a copy of the lease. The appraiser must analyze and report:

- The terms of the ground lease, including the amount of the ground rent.
- The term of the lease.
- If the lease is renewable.
- If the lessee has the right of redemption (the right to obtain a fee simple title). If the ground rent can increase or decrease over the life of the lease term.

The appraiser must estimate and report the value of the leasehold interest using the calculation below and provide support for the capitalization rate selected.

The appraiser must apply the appropriate techniques to each of the approaches to value included in the analysis.

- In the cost approach, the value of the land reported must be its leasehold interest.
- In the income approach, the sales used to derive the GRM factor must be based on properties under similar ground rent terms (or be adjusted to similar ground rent terms).
- In the sales comparison approach, the comparable sales must be adjusted for their lack of similarity to the subject in the "Ownership Rights" section.

2J.13 Mixed-Use Properties

Mixed-use properties are eligible when:

- A minimum of 51% of the entire building square footage is for residential use; and
- The commercial use will not affect the health and safety of the occupants.

When valuing a mixed-use property, the appraiser must:



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- Include all components of the real estate in the analysis;
- Not include business valuation or the value of personal property or business fixtures in the appraisal;
- Provide measurements and calculations of the building area on the building sketch to show what portion of the subject property is allocated to residential use, and what portion is allocated to non-residential use; and
- Provide a statement as to whether the commercial use will or will not affect the health and safety of the occupants of the residential property.

2J.14 Manufactured Housing

When valuing a manufactured home, the appraiser must:

- Calculate GLA based on the overall length, including living areas and other projections that are at least seven (7) feet in height;
- Not include bay windows, roof overhangs, drawbars, couplings or hitches in the length and width measurements;
- At least two (2) of the comparable sales must be manufactured homes (combining land and some sales is not acceptable); and
- New construction manufactured homes;
 - Cost approach to value analysis must be completed for new construction units and be cited in the reconciliation discussion section (appraiser to provide name of cost service and reference page numbers (if using paper version) of cost tables or factors. If the retail purchase price, including delivery, installation, and set up costs are available, the appraiser may use this information (copy of invoice(s) showing all costs) and be appended to the report.
 - Appraisal must be conditioned upon the certification of the engineer or architect that the manufactured home foundation is in compliance with PFGMH.
 - Appraiser must report the information on the data plate within the appraisal, including the manufacturer name, serial number, model, and date of manufacture, as well as wind, roof load, and thermal zone maps.
 - Property tax estimates must be based on the land and improvements.
- For a Manufactured Home certified based on the construction requirements of Fannie Mae's MH Advantage® or Freddie Mac's CHOICEHome® program, the appraiser must include:
 - At least two comparable sales with similar certification, when available. If fewer than two comparable MH Advantage® or CHOICEHome® sales are available, the appraiser must use the most appropriate site-built comparable sales available, and
 - provide detailed justification to support the selection of comparable Properties and the



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adjustments made for dissimilarities to the subject Property.

- The property must have Fannie Mae's MH Advantage Sticker or Freddie Mac's CHOICEHome Label affixed near the HUD data plate and the appraiser must include photos in the appraisal report.

2J.15 Property Assessed Clean Energy (PACE)

For purchase transactions, the appraiser must review the sales contract and property tax records and report the outstanding amount of the PACE obligation(s) and the valuation impact of the PACE-related improvements.

See Chapter 2C FHA Financing, 2C.5 Property Assessed Clean Energy (PACE) for requirements when a PACE or PACE-like loan exists.

| Revision History | Date |
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| <p>FHA ML 2024-20 updates completed for:</p> <ul style="list-style-type: none">• Updated Grid for FHA Flood Zone Requirements to identify: Existing, New Construction or Site Built Homes, as part of property identification. Added New Construction property elevation requirements in SFHA's with link to (FEMA Form FF-206-FY-22-152) and requirements based on the finished construction, documenting that when the building permit application submission date, or its equivalent date is was before or after 1/1/2025 and• The Mortgagee must ensure that Flood Insurance is obtained when a FEMA Flood Elevation Certificate (FEMA Form FF-206-FY-22-152) document that the Property remains located with an SFHA.• The building permit application submission date, or its equivalent date, will be required on form HUD-9251, Builder's Certification of Plans, Specifications, and Site.• Modified requirements based on FHA 2025-10 (released 02.21.2025 issuing partial waiver for properties located in coastal high hazard areas to be constructed with the lowest floor is at least two feet above the base flood elevation for one year with final date in February 2026 to be released. | 02.27.2025 |
| <p>FHA 4000.1 changes/updates:</p> <ul style="list-style-type: none">• Minium Property requirements and Standards: replaced word examination with the Appraiser's observation• Second Appraisal by Second lender to reflect:<ul style="list-style-type: none">○ Or vs. and in requirement stating: Appraiser performing 1st appraisal is prohibited from performing appraisals for second mortgage and○ Purchase contract changed to reflect sales contract | 03.27.2025 |



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| FHA 4000.1 changes/updates: | 04.29.2025 |
| <ul style="list-style-type: none">• Removed Borrower-Initiated Reconsideration of Value processes• Value Minimum Property requirements and Standards: replaced word examination with the Appraiser's observation• Updated Second Appraisal by Second lender to reflect:<ul style="list-style-type: none">○ Or vs. and in requirement stating: Appraiser performing 1st appraisal is prohibited from performing appraisals for second mortgage and Purchase contract changed to reflect sales contract | |



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3A.1 Overview

The purpose of credit and property underwriting is to ensure that each loan meets Newrez quality standards. A loan meets Newrez underwriting quality standards if the credit, character, capacity, and collateral are consistent with the Loan Program under which the loan is sold to Newrez. The likelihood of timely repayment is expected to be commensurate with the credit quality of the Loan Program and the represented value of the subject property is expected to accurately reflect its market value.

This Underwriting chapter sets out underwriting standards that apply to all VA Loan Programs. Underwriting standards that vary from one Loan Program to another are described in our Product Profiles. In most cases, differences will not be referenced in this chapter. In addition, guidelines contained in this chapter are applicable to loans underwritten by Automated Underwriting and for manually underwritten loans.

Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

All Newrez overlays will be highlighted in yellow.

3A.2 Excluded Parties

Newrez's Exclusionary List, HUD's LDP list, and SAM must be checked to confirm eligibility for all parties involved in the transaction, excluding the Veteran, co-borrower(s), and VA Fee Appraiser, and must be evidenced in the loan file.

Other Parties to the Transaction are not eligible if they appear on the Newrez Exclusionary List or either of the following exclusionary lists:

- HUD [Limited Denial of Participation](#) (LDP) list; and
- [System for Award Management](#) (SAM) [Advanced Search-Exclusion](#). Follow the appropriate procedures defined by SAM.

Other Parties to the transaction include but are not limited to:

- Seller (except when selling the primary residence)
- Listing and selling real estate agent
- Builder
- Developer
- Loan originator



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- Loan processor
- Underwriter
- Appraiser
- Closing agent
- Title company
- Notary
- Insurance agents
- Trustees on deed

See Client Guide Chapter 1C, Representations, Warranties and Covenants, C102.AT No Individuals or Businesses on the Exclusionary List and Excluded Parties Checklist for guidance.

3A.3 Credit Alert Interactive Voice Response System (CAIVRS) and Delinquent Federal Debt

The Credit Alert Interactive Voice Response System ([CAIVRS](#)) is an automated communication link via FHA Connection that indicates whether or not the borrower is presently delinquent or has had a default claim paid in the last three years through any government loan program. The CAIVRS database contains records from the Department of Housing and Urban Development (HUD), Department of Education (ED), the Department of Justice (DOJ), the Small Business Administration (SBA), the United States Department of Agriculture (USDA), the Federal Deposit Insurance Corporation (FDIC) and the Department of Veterans' Affairs (VA).

The CAIVRS clearance must be obtained for all borrowers on the loan. The CAIVRS message should indicate "No Claims or Defaults" and a CAIVRS Code will be issued. A non-borrowing spouse, including in community property states, does not need to be checked against CAIVRS.

Regardless of the automated underwriting recommendation, if the borrower is currently delinquent on any federal debt (e.g., VA guaranteed mortgage, Title I loan, federal student loan, etc.), or has a lien secured by their property for any federal debt owed, as revealed by public records, credit information or HUD's CAIVRS, one of the following must be met:

- Evidence of payment in full; or
- Evidence of a current repayment plan acceptable to VA and evidence that the Veteran executed a promissory note for the entire debt balance.

A repayment plan is acceptable if:



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- The Veteran has been satisfactorily making payments prior to application;
- The Veteran's overall credit history and financial capacity indicate a reasonable likelihood that the repayment plan will be honored, and the outstanding amount of the indebtedness is not so large that it would prevent payment in full within a reasonable period (approximately one year); or
- The case involves unusually meritorious circumstances.

Examples

1. Consideration would be given to a Veteran with an outstanding/excellent credit history and adequate income whose debt balance is too large to be paid out in less than 18 months to two years.
2. VA will offer special consideration to a Veteran's claim that he or she was not previously aware of an overpayment of benefits.

3A.4 Loan Application

The initial Uniform Residential Loan Application (URLA) must be complete, including a full two-year history of employment and residency and all personal information for each borrower (social security number, date of birth, address, and education). If a borrower's employment history includes unemployment, the application must reflect at least two years of employment, therefore covering a longer period. The Veteran-borrower must be the first borrower on the loan application.

All declaration questions must be marked indicating the method of taking the application: face-to-face, by telephone, or by mail. The interviewer's name and employer must be completed in all cases, and all applications must be signed and dated by the borrower(s).

The final application for closing must adhere to the requirements above, including the borrower's complete and accurate financial information relied upon by the underwriter, and be signed and dated by all borrowers. All debt incurred during the application process and through loan closing must be disclosed on the final application. See Chapter [3F](#) Credit, [3F.5](#) Credit-Undisclosed Liabilities for more information.

All transactions are reviewed for reasonability as part of the underwriting process. The feasibility of occupancy claims, and the overall financial picture of the borrowers must be reasonable. Where conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the loan file.

A loan application may not be retaken for a borrower where misrepresentations are identified, such as under



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reported income to the IRS, fraudulent W-2s or paystubs. Due diligence must be exercised when determining whether to allow an application to proceed due to a change of borrower and occupancy representation.

See Chapter [6A](#) Fraud for red flag indicators.

3A.5 Identity Verification

The identity must be confirmed for each borrower whose credit is used for loan qualification prior to extension of credit.

The closing agent, notary public or signing attorney, as appropriate, must provide evidence that the identification document has been confirmed for each borrower. Acceptable forms of identification include:

- Valid state driver’s license with photo;
- Military photo ID;
- Permanent Resident Card with photo;
- Valid state non-driver’s license with photo;
- Military dependents photo ID;
- Department of Public Welfare photo ID; or
- US passport with photo.

3A.6 Social Security Number Validation

Evidence of a valid social security number is required for all borrowers. Any social security number discrepancies that are identified must be resolved.

3A.7 Documentation Age

| | |
|-------------------------|--|
| Age of Credit Documents | <p>The following documentation age limitations apply to all credit package documents (credit, asset, income, etc.):</p> <ul style="list-style-type: none">• For Automatically closed loans, no more than 120 days prior to the Note date for existing construction and 180 days for new, proposed and under construction.• For Single-Close construction loans, no more than 180 days prior to the interim construction loan closing.• For VA Prior Approval loans, no more than 120 days from the date the VA receives the application for existing construction and 180 days for new |
|-------------------------|--|



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| | |
|--------------------------------|--|
| | <p>construction.</p> <ul style="list-style-type: none">• The Note date is utilized for document expiration for all funding types including escrow and non-escrow fundings.• Documents whose validity for underwriting purposes is not affected by time, such as divorce decrees, are not subject to a document expiration date. |
| Age of Appraisal | <p>A Notice of Value (NOV) is valid for six (6) months.</p> <p>If a Veteran is under contract during the validity period, processing may continue until that transaction is either completed or terminated.</p> |
| Effective Date of Title Policy | <p>The effective date of the title insurance policy must be no earlier than the date on which the security instrument was recorded, and final title insurance policy must be dated within 45 days of loan closing.</p> |

3A.8 Occupancy

The feasibility of a borrower occupying the subject property must be considered when the borrower indicates the property will be his or her primary residence. On refinance transactions, compare the current address reported on the loan application to the addresses listed on the credit report and other documentation that may be in the loan file (e.g., paystubs, W-2s, bank statements, tax returns, etc.). A full explanation is required for any red flags or inconsistencies noted in the last 12 months.

3A.8(a) Primary Residence

A primary residence is a property that the Veteran occupies and certifies that they intend to personally occupy the subject property.

The law requires as of the date of certification, the Veteran must either

- Live in the subject property as their home; or
- Intend, upon completion of the loan and acquisition of the dwelling, to move into the property and use it as their home within 60 days. More than 60 days may be considered reasonable if both of the following conditions are met:
 - The Veteran certifies that they will personally occupy the property as their home at a specific date after loan closing; and
 - There is a particular future event that will make it possible for the Veteran to personally



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occupy the property as their home on a specific future date.

Occupancy at a date beyond 12 months after loan closing generally cannot be considered reasonable by VA.

The above requirement applies to all types of VA-guaranteed loans **except IRRRL's, Interest Rate Reduction Refinance Loans**. For IRRRL transactions, the Veteran only needs to certify that they previously occupied the property as their home.

Example: A Veteran living in a home purchased by a VA loan is transferred to a duty station overseas. The Veteran rents out the home. They may refinance the VA loan with an IRRRL based on previous occupancy of the home.

3A.8(b) Occupancy Categories

Occupancy or intent to occupy) also may be satisfied by one (1) of the following:

3A.8(b)(i) Occupancy by Veteran's Spouse or Dependent Child:

- Spouse or dependent child occupies the property as their primary residence for a Veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time. In the case of a dependent child, the Veteran's attorney-in-fact or legal guardian of the dependent child must make the certification and sign VA Form 26-1820, *Report and Certification of Loan Disbursement*.
- Occupancy by the spouse may also satisfy the requirement if the Veteran cannot personally occupy the dwelling within a reasonable time due to distant employment other than military service. In these specific cases, contact VA to determine if this type of occupancy meets VA requirements.

- Documentation must be included in the file regarding contact with VA.

Note: the cost of maintaining separate living arrangements should be considered in underwriting the loan.

For an IRRRL, a certification that the spouse or dependent child (or children) previously occupied the dwelling as a home will satisfy this requirement.



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3A.8(b)(ii) Occupancy for Deployed Active-Duty Members:

Single or married Service members while deployed from their permanent duty station, are in a temporary duty status and able to meet the occupancy requirement. This is true without regard to whether a spouse will be available to occupy the property prior to the Veteran's return from deployment.

3A.8(b)(iii) Occupancy After Retirement

If the Veteran states that they will retire within 12 months and wants a loan to purchase a home in the retirement location:

- Verify the Veteran's eligibility for retirement on a specified date. File to include a copy of the Veteran's application for retirement to their employer.
- Carefully consider the applicant's income after retirement. If the retirement income alone is insufficient, obtain firm commitments from an employer that meet the usual stability of income requirements.

Note:

- Only retirement on a specific date within 12 months qualifies.
- Retirement "within the next few years" or "in the near future" is not sufficient.

3A.8(b)(iv) Delayed Occupancy Due to Property Repairs or Improvements

Home improvements or refinancing loans for extensive changes to the property which will prevent the Veteran from occupying the property while work is being completed, constitute exceptions to the "reasonable time" requirement.

The Veteran must certify that they intend to occupy or reoccupy the property as a home upon completion of the substantial improvements or repairs.

3A.8(b)(v) Intermittent Occupancy

The veteran need not maintain a physical presence at the property daily. However, occupancy "as the Veteran's home" implies that the home is located within reasonable proximity of the Veteran's place of employment. If the Veteran's employment requires the Veteran's absence from home a substantial amount of time, the following two conditions must be met:

- The Veteran must have a history of continuous residence in the community, and
- There must be no indication that the Veteran has established, intends to establish, or may be required to establish, a principal residence elsewhere.



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Use of the property as a seasonal vacation home does not satisfy the occupancy requirement.

3A.8(b)(vi) The Certification

The veteran certifies that the occupancy requirement is met by properly executing VA Form 26-1820, Report and Certification of Loan Disbursement, at the time of loan closing. This is required for all loans.

This satisfies the lender's obligation to obtain the Veteran's occupancy certification.

The Occupancy certification may be accepted at face value unless there is specific information indicating the Veteran will not occupy the property as a home or does not intend to occupy within a reasonable time after loan closing.

If doubt exists, the test is whether a reasonable basis exists for concluding that the Veteran can and will occupy the property as certified. If the issues cannot be resolved involving the veteran's intent to occupy by applying the test, VA should be contacted for resolution.

Property address of record can be documented by, but is not limited to:

- Individual income tax returns;
- Driver's license; or
- Occupational licensing.

In addition, the loan documents must provide that the loan may be declared in default if the borrower makes misrepresentations for any provision of the application, including occupancy.

3A.9 Veteran Eligibility

3A.9(a) Veterans

An eligible borrower is a Veteran who is active duty or has honorably served in the Army, Navy, Air Force, Marines, or Coast Guard and who have met service requirements.

3A.9(b) Reserves and National Guard

Members of the Reserves and National Guard who are not otherwise eligible for loan guaranty benefits



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are eligible upon completion of six years' service in the Reserves or National Guard.

The borrower must have been honorably discharged from such service unless he or she is either in an inactive status awaiting final discharge, or still serving in the Reserves or National Guard.

3A.9(c) Surviving Spouse of Veteran

The following unmarried surviving spouse of a Veteran are eligible when:

- Veteran who died from service-connected causes;
- Veteran who died on active duty or from service-connected causes, who remarries on or after age 57 and on or after December 16, 2003;
- Veteran who was in receipt of disability compensation for 100% disability rating at time of death;
- Veteran who was in receipt of disability compensation for 100% disability rating for a minimum qualifying period (check with VA); or
- The spouse of an active-duty member who is listed as missing in action (MIA) or a prisoner of war (POW) for at least 90 days. Eligibility under this MIA/POW provision is limited to a one time use only.

3A.9(d) Other Qualifying Service

Congress has periodically granted Veteran status to groups other than members of the Army, Navy, Marine Corps and Coast Guard, such as certain members of the Public Health Service, cadets at the service academies, certain merchant seaman, etc. Contact the Winston-Salem Eligibility Center for assistance when one of these unique cases is encountered.

3A.10 Certification of Eligibility

The Certificate of Eligibility must have sufficient entitlement to meet minimum 25% guaranty of total loan amount or Ginnie Mae requirement of VA Guaranty plus down payment and/or equity that covers 25% of the Sales Price or Appraised Value, whichever is less.

A Certificate of Eligibility (COE) is issued by the Veterans Administration to verify a Veteran's eligibility for a VA loan and is evidence that the Veteran meets the basic requirements for a VA loan. The COE must be ordered prior to requesting a VA Case Number assignment and appraisal. **The COE must be dated within six (6) months of the application.**

Use WebLGY, an online feature to obtain an eligibility determination. Review the COE to determine if Veteran has sufficient entitlement to support LGY requirements. Contact the VA if there is some question as to the



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accuracy of the data on the COE.

Surviving Spouse COEs are not issued via an automated COE. To obtain a Surviving Spouse COE, upload the completed VA Form 26-1817 and supporting documentation into WebLGY, and complete the electronic application.

If the Veteran is not eligible, the VA will notify the Veteran of their appeal rights.

If the COE says “Non-Exempt,” ask the Veteran if they have a pending claim for compensation pending with VA or if they are an Active-Duty recipient of the Purple Heart Award. If so, obtain an updated COE no earlier than three (3) days before the loan closing using the COE “Correct” function in WebLGY.

Refer to [3A.13\(d\)](#) Funding Fee Exemption for exemption eligibility.

3A.10(a) IRRRL Transactions

A COE is not required on IRRRL transactions, however the loan information listed in the IRRRL case number assignment screen must be consistent with the current IRRRL application including the Veteran name, Veteran Funding Fee Exempt Status, and property address.

A surviving spouse (and co-obligor under the existing VA-guaranteed loan), of a Veteran who has since passed away and was eligible for a VA Funding Fee exemption, is not eligible for exemption from the VA Funding Fee unless the spouse is in receipt of VA DIC (Dependency and Indemnity Compensation). Verification of DIC receipt must be evidenced by award letter or through the RLC of jurisdiction.

3A.11 VA Loan Guaranty

VA guarantees a portion of the loan based on the Veteran's available entitlement, identified on the VA Form 26-1899, VA Loan Guaranty Certificate (LGC) by percentage and dollar amounts. If a loss occurs on the loan, VA will reimburse the loan holder for all or part of the loss.

Upon closing, VA automatically guarantees a loan (prior to the issuance of the LGC) provided the loan was made:

- By a supervised or a non-supervised lender with automatic authority; and
- In compliance with all applicable laws and regulations.

Evidence of guaranty, the Loan Guaranty Certificate, is generated electronically from WebLGY and is



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contingent upon all of the following:

- The Veteran, property and purpose of the loan being eligible;
- No fraud or material representation on the part of the lender; and
- Compliant with all applicable law and regulations.

3A.12 Entitlement

Entitlement is the amount of a Veteran's Home Loan Benefit available for use on a VA loan. The Veteran's Entitlement is the source of the authority to issue the VA Loan Guaranty. VA guaranty cannot exceed the entitlement. A Veteran must have sufficient entitlement and provide evidence of available entitlement.

A minimum investment of at least 25% of the loan amount is required:

- Veteran's available entitlement (amount of VA guaranty);
- Down payment; AND
- Equity in property (refinance).

3A.12(a) Basic Entitlement

The maximum available entitlement shown on the Certificate of Eligibility is \$36,000. The maximum loan amount is calculated by multiplying the available entitlement by four.

If the Veteran previously used entitlement, which has not been restored, available entitlement is reduced by the amount used on the prior loan(s).

3A.12(b) Bonus Entitlement

Bonus entitlement is only available for loan amounts more than \$144,000. Bonus entitlement will not be shown on the Certificate of Eligibility.

For Veterans with Full Entitlement, the maximum amount of bonus guaranty entitlement is 25% of the loan amount, without a cap on the loan amount.

Bonus entitlement may be used even when the Veteran has no basic entitlement remaining.

For Veterans with Partial Entitlement, where the Veteran has used their VA entitlement and that entitlement has not been restored, the maximum amount of guaranty entitlement is calculated by multiplying the FHFA Conforming Loan Limit (CLL) for one unit properties by 25% and then subtracting the amount of entitlement used or not restorable.



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For example, if a Veteran's COE shows \$36,000 in charged or non-restorable entitlement and is purchasing or refinancing a property located in a county listed with a CLL of \$548,250, the Veteran's remaining available entitlement would be \$ 101,062 ($\$548,250 \times 25\% = \$137,062$ minus \$36,000).

3A.12(c) Restoration of VA Entitlement

A Veteran who has previously used his or her entitlement to purchase a home with a VA loan can have the entitlement restored to purchase another home with a VA loan.

Entitlement can be restored if:

- The property that was purchased with the original VA loan has been sold and the loan paid in full;
- The property that was purchased with the original VA loan has been sold and a qualified Veteran agrees to assume the VA loan therefore substituting his or her entitlement for the same amount of entitlement that was used by the seller;
- The property that secured the VA-guaranteed loan has been sold and the loan has been paid in full; or
- An eligible Veteran-transferee has agreed to assume the outstanding balance on a VA loan and substitute his or her entitlement for the same amount originally used on the loan.

A one-time entitlement restoration is available for a Veteran who will retain the property after paying off the VA loan in full. For restoration of entitlement the following should be processed through WebLGY:

- Evidence of restored COE;
- Proof of service; and
- Evidence of a paid in full status for the previous loan.

3A.13 VA Funding Fee

The borrower must pay a funding fee. The funding fee may be financed in the loan, or the funding fee may be paid from loan proceeds or cash from the borrower. Newrez requires VA loans include proof that the VA funding fee was paid in the closed loan when purchased.

3A.13(a) Funding Fee Percentage

The appropriate Funding Fee percentage is found in the VA Funding Fee Table on our Product Profiles, using the following parameters:

- Determine the loan type. The funding fee varies depending upon whether the loan is a purchase, cash-out refinance or an IRRRL;



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- Determine that the Veteran is eligible for VA loan benefits through service in the regular military or the Reserves/National Guard by reviewing the COE. For Reserves/National Guard, the COE bears the notation, “RESERVES/NATIONAL GUARD - INCREASED FUNDING FEE;”
- Determine whether the Veteran is obtaining his or her first VA loan or is a subsequent user of VA home loan benefits by reviewing the COE. An entitlement code of “5” indicates subsequent use, as does a loan number entered in the “Loan Number” column;
- Determine the amount of down payment made by the Veteran;
- Calculate what percentage of the total sales price or construction cost of the property the Veteran is remitting as a down payment; and
- The down payment may come from the Veteran’s own funds or borrowed funds (excluding gift of equity or seller equity related to lease-purchase). This includes cases where the purchase price exceeds the reasonable value of the property, the difference between the purchase price and the reasonable value (is included in the percentage down calculation) must be paid by the Veteran in funds without borrowing.
- For construction loans only, equity in the secured property may be used as a down payment for calculating the funding fee.

3A.13(b) Calculating the Funding Fee

- For all loans except IRRRLs, apply the appropriate percentage from the VA Funding Fee Table to the loan amount.
- If the funding fee is paid in cash, apply the percentage to the loan amount without the funding fee amount included.
- For IRRRLs, calculate the funding fee by completing VA Form 26-8923, IRRRL Worksheet.

3A.13(c) Calculating the Funding Fee for Joint Loans

Apply the appropriate funding fee percentage to any portion of the loan allocated to a Veteran using his or her entitlement who is not exempt from the funding fee.

Example: On a no down payment loan to two (2) Veterans; one a first-time homebuyer (active duty) and one a subsequent user, funding fee percentages of 2.15% and 3.3% respectively would each be applied to one-half of the loan amount.

3A.13(d) Funding Fee Exemption

The exempt status from the VA Funding Fee is verified in the “Funding Fee” field on the VA Certificate of Eligibility and the “Veteran Funding Fee Exempt Status” field on the IRRRL Case Number Assignment



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form, for streamline refinance loans. The use of the *VA Form 26-8937, Verification of VA Benefits*, to verify Funding Fee exemption status is only used when the COE or IRRRL Case Number Assignment forms indicate "Contact RLC."

The following borrowers are exempt from paying the funding fee:

- A Veteran who is receiving disability compensation (or who, but for the receipt of retirement pay or active service pay), would be entitled to receive compensation;
- A surviving spouse of any Veteran (including a person who died during active military, naval, or air service) who died from a service - connected disability. The surviving spouse must be in receipt of Dependency and Indemnity Compensation (DIC) to be eligible for the Funding Fee exemption;
- A Veteran who is rated eligible to receive compensation resulting from a pre-discharge disability examination or rating or based on a pre-discharge review of existing medical evidence that results in the issuance of a memorandum rating before the loan closes; and
- A member of the Armed Forces who is serving on active duty and who provides, on or before closing, evidence of having been awarded the Purple Heart. Evidence of receipt of the Purple Heart award must be in the form of a Purple Heart certificate, DD214 clearly showing the Purple Heart award, or military orders. The following conditions must be on the COE to determine eligibility: *Active Duty Servicemember, Purple Heart recipient, and Funding Fee.*

If the Veteran's exempt status cannot be verified prior to loan closing, the funding fee must be remitted as if the borrower was not exempt.

3A.14 Borrower Eligibility

Any person signing an application for a loan is a borrower. All borrowers must sign the Note. All borrowers must have a social security number. An Individual Tax Identification Number (ITIN) is not permitted.

A borrower must be an individual and eligible Veteran as described in Veteran Eligibility in this section. Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts are not eligible. Living trusts may be eligible. See the Living Trusts section in this chapter.

VA must approve a co-borrower who is not the spouse of the Veteran by VA using the Joint Loan policy. Refer to Section [3A.15](#) Joint Loans and our Product Summaries for more information.

All marriages will be recognized regardless of whether they are opposite-sex or same-sex marriages.



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Documentation to prove marriage is not required.

Co-signers are not permitted. Borrowers must meet credit and program eligibility requirements.

3A.15 Joint Loans

A loan is considered a joint loan in any of the following circumstances:

- The Veteran and one (1) or more non-Veterans (who is not the Veteran's spouse);
- The Veteran and one (1) or more Veterans (who is not the Veteran's spouse) who will not be using their entitlement;
- The Veteran and one (1) or more Veterans (who is not the Veteran's spouse), all of whom will use their entitlement (e.g., two (2) unmarried Veterans);
- The Veteran and the Veteran's spouse (who is also a Veteran) and both entitlements to be used; or
- The Veteran and the Veteran's spouse will not be treated as a joint loan if the spouse is not a Veteran or is a Veteran who will not be using his/her entitlement on the loan.

3A.15(a) Occupancy Requirements

Any person who uses their entitlement on a joint loan must certify intent to personally occupy the property as their primary residence.

Any borrower on a joint loan who does not use entitlement for the loan (such as a non-Veteran), does not have to intend to occupy the property.

3A.15(b) Underwriting Joint Loans

Joint loans must receive final approval from the VA before closing.

The following loans must receive prior approval from the VA before closing:

- Joint loan to Veteran and one (1) or more non-Veterans (not spouse); or
- Joint loan to Veteran and one (1) or more Veterans (not spouse) not using their home loan entitlement.

Prior approval from the VA before closing is not required for joint loans of two (2) or more married or unmarried Veterans using their home loan entitlement, however a modified Post-Closing Prior Approval submission must be performed.

Veteran/Veteran (two (2) or more) Joint Loan (all borrowers are Veterans using entitlement or their



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spouses).

- Permits combining income to qualify;
- One (1) borrower can compensate for the another; and
- Each borrower must be creditworthy.

Veteran/Non-Veteran Joint Loan

- Veteran Income must cover his/her portion of the loan;
- Veteran Income can compensate for non-Veteran's portion of the loan;
- Non-Veteran's income cannot compensate for Veteran; and
- Each borrower must be creditworthy.

3A.15(c) Down Payment

Down payment is allocated equally between borrowers (it does not matter whose assets are the source of down payment funds).

3A.15(d) VA Funding Fee

Funding Fee is assessed only on portion of loan allocated to Veteran who is using entitlement.

3A.15(e) Calculating the Guaranty

VA loans must conform to GNMA secondary market guidelines which include:

- Purchase: Cash down payment and/or equity, plus the amount of available VA entitlement guaranty must equal at least 25% of:
 - The purchase price of the property, or
 - The Certificate of Reasonable Value (CRV)/NOV, whichever is less.
 - The funding fee charged by VA must not be included in this calculation.
- Refinance: VA entitlement guaranty plus cash or equity is equal to at least 25% of the CRV/NOV. Cash or equity is defined as the positive difference between the CRV/NOV and the new loan amount.

3A.16 Calculating the Guaranty of Joint Loans

For Joint Loans, VA will only guarantee the portion of the loan that is allocated to the Veteran. In particular with joint loans for a veteran/non-veteran (who is not the veteran's spouse), an additional downpayment may be required in order to meet GNMA's secondary market guidelines.

For assistance with calculating maximum loan amounts, refer to the applicable [Newrez worksheet located in the VA forms section on our website](#).



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3A.17 Examples for Calculating Guaranty Amount and Guaranty Percentage

Joint Loan (Veteran/Non-Veteran who is not the Veteran's Spouse)

Scenario 1

- Purchase Price of \$740,000 with a down payment of \$92,500 (section II, line L)
- Based on two buyer's, the Veteran's portion of the purchase price is \$370,000 (section II, line F)
- NOTE: once an appraised value and purchase price are entered, an initial down payment amount (section II, line L) will automatically populate. If the down payment is greater, then the additional amount can be entered (line L) in the option field for an additional down payment.
- The down payment is split equally between the number of buyers (section III, lines B and H)
- The Veteran's portion of the loan including any financed funding fee is \$327,796.88 (section III, line F)

| Section I - Buyer and COE Information | | | | | | | | | | |
|---------------------------------------|-------------|--------------|-----------|-------------|--------------|----------------------|-------------------|-----------------------|---------------|----------------|
| Buyers | Veteran Y/N | COE Ent Code | FF Exempt | Active/ Res | 1st Time Use | Portion | Previous Ent Used | Entitlement Available | Funding Fee % | Funding Fee \$ |
| Buyer 1 | Y | 10 | N | Active | Y | \$ 323,750 | 0 | 185000 | 1.25% | \$ 4,046.88 |
| Buyer 2 | N | | | | | \$ 323,750 | 0 | | | |
| Buyer 3 | | | | | | | 0 | | | |
| Buyer 4 | | | | | | | 0 | | | |
| Buyer 5 | | | | | | | 0 | | | |
| | | | | | | | 0 | 185000 | 1.25% | \$ 4,046.88 |
| Completed By: | | | | | | Date of Calculation: | | | | 1.25% |

| Section II - Borrower Equity Requirement | | |
|--|---|---------------|
| A | Appraised Value | \$ 750,000.00 |
| B | Purchase Price | \$ 740,000.00 |
| C | Number of Buyers | 2 |
| D | Number of Veteran buyers | 1 |
| E | Veteran's % of loan | 50.0% |
| F | Veteran's Portion of PP | 370,000.00 |
| G | Cash Down Payment Required due to Value less than Price | \$ - |
| | State County | |
| I | County Loan Limit | \$ 833,750.00 |
| J | New Adjusted VA Commitment Loan Limit | \$ 370,000.00 |
| K | Difference between Vets portion & county limit | \$ - |
| L | 25% of Difference (down pmt) | \$ 92,500.00 |



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| Section III - Split Base Loan Calculations Initial calculation | | | |
|--|---|-------------------------------|---------------|
| A | Adjusted Veteran Portion Purchase Price | | \$ 370,000.00 |
| B | Down Payment attributed to Veteran | Percent of Loan Amount 12.50% | \$ 46,250.00 |
| C | Veteran Base Loan Amount | | \$ 323,750.00 |
| D | Funding fee Percent | | 1.250000% |
| E | Funding Fee | | \$ 4,046.88 |
| F | Total Veteran Loan | | \$ 327,796.88 |
| G | Adjusted Non-Veteran Portion Purchase Price | | \$ 370,000.00 |
| H | Down Payment Non-Veteran Portion | % of Loan Amount 12.50% | \$ 46,250.00 |
| I | Non-Veteran Portion | | \$ 323,750.00 |
| J | Total Base Loan Amount | | \$ 647,500.00 |

| Section IV - Total Loan Final Calculation | | | |
|---|-----------------------|--|---------------|
| A | Base Loan Amount | | \$ 647,500.00 |
| B | Non-Veteran's Portion | | \$ 323,750.00 |
| C | Veteran's Portion | | \$ 323,750.00 |
| D | Funding Fee | | \$ 4,046.88 |
| E | Total Loan | | \$ 651,546.88 |

- VA's guaranty based on the veteran's portion of the loan is \$81,443.36 (Section V, line C) plus the down payment (Section V, line B) equals \$173,943.36
- To calculate the percentage of guaranty for GNMA purposes, use \$173,943.36 (VA guaranty plus down payment) divided by the lower purchase price of \$740,000 which equals 23.50%. Because this is less than the minimum 25% GNMA guaranty, the loan is ineligible.

| Section V - Guaranty Calculations | | | |
|-----------------------------------|--|---|---------------|
| A | Available Entitlement | | \$ 92,500.00 |
| C | VA Guaranty | | \$ 81,443.36 |
| B | Down pmt | Insufficient Guaranty, click the Recalculate button above | \$ 92,500.00 |
| D | Total Guaranty | | \$ 173,943.36 |
| E | Percent of VA Guaranty (Veteran portion of loan) | | 25.000000% |
| F | Percent of Guaranty (GNMA must be at least 25%) | | 23.50586% |

Less than 25%, click Recalculate button above

| Final Reconciliation of Required Joint Loan Information | | | |
|--|---|-----------------------------|--|
| Based on the information provided above, the following data is relevant to this loan: | | | |
| | 2 | Number of Borrowers | |
| | 1 | Number of Veteran Borrowers | |
| \$ 92,500.00 | | Down Payment Required | |
| \$ 647,500.00 | | Base Loan Amount | |
| \$ 4,046.88 | | Total Funding Fee | |
| \$ 651,546.88 | | Total Loan Amount | |
| \$ 173,943.36 | | Total Guaranty | |
| 23.50586% | | Guaranty % for GNMA pooling | |
| GNMA rules require 25% guaranty of the lower of the Purchase Price or Appraised Value, not the total loan. | | | |



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Scenario 2

- Simply click on the “recalculate” button in section II and the worksheet will automatically increase the down payment in an amount required to meet the minimum 25% GNMA guaranty.

| Section II - Borrower Equity Requirement | | | |
|--|---|------------------------------------|-----------------------------|
| A | Appraised Value | | \$ 750,000.00 |
| B | Purchase Price | | \$ 740,000.00 |
| C | Number of Buyers | | 2 |
| D | Number of Veteran buyers | | 1 |
| E | Veteran's % of loan | | 50.0% |
| F | Veteran's Portion of PP | | 370,000.00 |
| G | Cash Down Payment Required due to Value less than Price | | \$ - |
| I | County Loan Limit | State: CO County: JEFFERSON COUNTY | \$ 833,750.00 |
| J | New Adjusted VA Commitment Loan Limit | | \$ 370,000.00 |
| K | Difference between Vets portion & county limit | Recalculate | \$ - |
| L | 25% of Difference (down pmt) | Additional Down Payment (optional) | \$ 105,148.00 \$ 105,148.00 |

- The higher down payment (section V, line B) plus the VA guaranty Section V, line C) now equals \$105,148 (Section V, line D) divided by the lower purchase price of \$740,000 equals 25.0%. The loan now meets the minimum 25% guaranty required by GNMA and is eligible.

| Section III - Split Base Loan Calculations Initial calculation | | | |
|--|---|-------------------------------|---------------|
| A | Adjusted Veteran Portion Purchase Price | | \$ 370,000.00 |
| B | Down Payment attributed to Veteran | Percent of Loan Amount 14.21% | \$ 52,574.00 |
| C | Veteran Base Loan Amount | | \$ 317,426.00 |
| D | Funding fee Percent | | 1.250000% |
| E | Funding Fee | | \$ 3,967.83 |
| F | Total Veteran Loan | | \$ 321,393.83 |
| G | Adjusted Non-Veteran Portion Purchase Price | | \$ 370,000.00 |
| H | Down Payment Non-Veteran Portion | % of Loan Amount 14.21% | \$ 52,574.00 |
| I | Non-Veteran Portion | | \$ 317,426.00 |
| J | Total Base Loan Amount | | \$ 634,852.00 |

| Section IV - Total Loan Final Calculation | | | |
|---|-----------------------|--|---------------|
| A | Base Loan Amount | | \$ 634,852.00 |
| B | Non-Veteran's Portion | | \$ 317,426.00 |
| C | Veteran's Portion | | \$ 317,426.00 |
| D | Funding Fee | | \$ 3,967.83 |
| E | Total Loan | | \$ 638,819.83 |

| Section V - Guaranty Calculations | | | |
|-----------------------------------|--|--|---------------|
| A | Available Entitlement | | \$ 92,500.00 |
| C | VA Guaranty | | \$ 79,852.48 |
| B | Down pmt | | \$ 105,148.00 |
| D | Total Guaranty | | \$ 185,000.48 |
| E | Percent of VA Guaranty (Veteran portion of loan) | | 25.000000% |
| F | Percent of Guaranty (GNMA must be at least 25%) | | 25.000006% |

| Final Reconciliation of Required Joint Loan Information | | | |
|--|---|-----------------------------|--|
| Based on the information provided above, the following data is relevant to this loan: | | | |
| | 2 | Number of Borrowers | |
| | 1 | Number of Veteran Borrowers | |
| \$ 105,148.00 | | Down Payment Required | |
| \$ 634,852.00 | | Base Loan Amount | |
| \$ 3,967.83 | | Total Funding Fee | |
| \$ 638,819.83 | | Total Loan Amount | |
| \$ 185,000.48 | | Total Guaranty | |
| 25.000006% | | Guaranty % for GNMA pooling | |
| GNMA rules require 25% guaranty of the lower of the Purchase Price or Appraised Value, not the total loan. | | | |



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3A.18 Ownership Interests

The borrower must hold title to the property in their own name or a Living Trust, be obligated on the Note or credit instrument, and sign all security instruments. The borrower must hold title to the property as a fee simple estate. However, mortgages secured by a Leasehold Estate as described in the Leasehold Estates section below may be eligible with VA approval.

3A.18(a) Life Estate

A life estate is an estate whose duration is limited to the life of the party holding it, or some other person, upon whose death the right reverts to the grantor or their heirs. Properties vested in a life estate are not permitted.

3A.18(b) Leasehold Estate

A Leasehold must be submitted to and approved by the VA Regional Loan Center (RLC) with jurisdiction and before the NOV is issued. All of the following must be included in the submission package:

- Details of the ownership arrangement; and
- Copies of leases or other instruments creating the estate.

In addition, the lease must not have any servicing reporting requirements to the lessor and the lease must not require the lender to sign a subordination agreement.

3A.18(c) Certification of Trust

Trust Certifications are acceptable in all states provided the following is met:

- 1) The borrower(s) must be the creator of the trust (settlor, grantor, trustor).
- 2) The borrower(s) must be the trustee of the trust.
- 3) The borrower(s) must be the primary beneficiary of the trust during their lifetime.
- 4) The trust must be revocable.
- 5) The trustee must have the authority to buy/hold, sell and encumber the trust property.
- 6) The trust must have been created during the lifetime of the borrower.
- 7) The trust certificate must be fully executed.

3A.19 Loans to Trusts

For Non-Delegated Correspondents, all trust requests must be approved, in writing, by Newrez legal as early as practical, but should be submitted prior to loan approval.

It is unacceptable to instruct the borrower to deed the subject property out of a trust into his/her



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personal name for the purposes of obtaining financing and avoiding Newrez Trust approval.

If the borrower wants to remove the property from the trust in order to facilitate closing, we will require a signed written statement in the borrower's handwriting to the effect that (i) they made the decision to deed the property out of the trust of their own accord, (ii) they were not advised to take this action by any party to the loan transaction (lender, broker, escrow/settlement agent), (iii) this action is not intended to influence the lending process in any way, and (iv) they understand the legal implications of this decision.

3A.19(a) Inter Vivos Revocable Trust

An inter vivos revocable trust (living trust) is a trust:

- Created by an individual during his or her lifetime;
- Becomes effective during its creator's lifetime; and
- Can be changed, or canceled by its creator at any time, for any reason, during his or her lifetime.

3A.19(b) Trust and Trustee Requirements

Review the trust agreement (or the summary or certification of the trust agreement if applicable) to ensure that the living trust meets all of the requirements below:

- One or more natural persons establish the trust, solely or jointly. The person establishing the trust is known as the "Settlor," "Trustor," or "Grantor" (referred to below as "Settlor");
- The Settlor is the primary beneficiary of the Trust. If there is more than one Settlor, there can be more than one primary beneficiary;
- The income or assets of at least one individual establishing the trust must be used to qualify for the loan;
- The trustee(s) must include either:
 - The individual establishing the trust (or at least one (1) of the individuals if there are two (2) or more); or
 - An institutional trustee that customarily performs trust functions in and is authorized to act as trustee under the laws of the applicable state.
- The trustee has the power to mortgage the subject property for the purpose of securing a loan to the party (or parties) who are the borrowers on the Note;
- In the event the originally named trustee is unable or unwilling to serve, and the trust instrument has a mechanism for appointment of a successor trustee, the trust can properly act through the successor trustee;
- For a property that is the borrower's primary residence, at least one individual establishing the



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trust must occupy the security property and sign the loan documents;

- The loan may not be Texas Equity Loan subject to Article XVI, Section 50(a) (6) and 50(g) of the Texas Constitution;
- There is no unusual risk or impairment of lenders' rights, such as distributions required to be made in specified amounts other than net income; and
- The trust is valid under law.

3A.19(c) Certification of Trust

A certification of trust or a summary of trust is acceptable if required by state law.

3A.19(d) Title and Title Insurance Requirements

The title insurance policy for the subject property may not list any exceptions arising from the trust ownership of the property. Full title to the property must be vested either:

- In the trustee of the inter vivos revocable trust;
- Jointly in the trustee of the inter vivos revocable trust and in the name of an individual borrower;
- In the trustee of more than one (1) inter vivos revocable trust; or
- If title will be vested in the trustees of more than one (1) inter vivos revocable trust, the terms of the two (2) revocable inter vivos trust documents must complement each other and may not be in conflict with one another.

3A.19(e) Ineligible Trusts

The following trusts are ineligible:

- Blind Trusts
- Community Land Trusts
- Irrevocable Trusts
- Land Trusts

3A.20 Ineligible Programs

The following programs are not eligible:

- Farm Residence Loans
- Graduated Payment Mortgage (GPM)
- Growing Equity Mortgage (GEM)
- HFA Programs
- High-Cost Loans
- HPML Loans



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- Rehabilitations loans
- Specially Adapted Housing
- Supplemental Loans
- Texas Section 50(a)(6)

In addition to the above, the following are not eligible for Non-Delegated Clients:

- Energy Efficient Mortgages (EEM)
- Single-Close Modification of the Note



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| Revision History | Date |
|---|------------|
| Updated Ch. 3A.10 to identify this requirement as an overlay: The COE must be dated within six (6) months | 03.27.2025 |
| Expanded Occupancy criteria to include the following as shown in VA Lenders Handbook 26-7, Chapter 3: The VA Loan and Guaranty as of 05.14.2024: <ul style="list-style-type: none"> • The Law on Occupancy • Occupancy Timeline after closing • Occupancy by Veteran's Spouse or Dependent Child • Occupancy Requirements for Deployed Active-Duty Service Members • Occupancy After Retirement • Delayed Occupancy Due to Property repairs or Improvements • Intermittent Occupancy • The Certification - VA Form 26-1820, Report and Certification of Loan Disbursement | 04.29.2025 |
| New content added for VA Joint Loans: <ul style="list-style-type: none"> • Calculating The Guaranty • Calculation the Guaranty on Joint Loans • Examples for Calculating Guaranty Amount and Guaranty Percentage (2 scenarios) | 06.03.2025 |
| New section added Certification of Trust with following requirements Trust certifications are acceptable in all states provided the following is met: <ol style="list-style-type: none"> 1) The borrower(s) must be the creator of the trust (settlor, grantor, trustor). 2) The borrower(s) must be the trustee of the trust. 3) The borrower(s) must be the primary beneficiary of the trust during her lifetime. 4) The trust must be revocable. 5) The trustee must have the authority to buy/hold, sell and encumber trust property. 6) The trust must have been created during the lifetime of the borrower. 7) The trust certificate must be fully executed. Underwriting Joint Loans requirements updated to remove: | 06.26.2025 |



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- | | |
|---|--|
| <ul style="list-style-type: none">• Joint loans must be manually underwritten; and,• Loans are not eligible to be submitted to Automated underwriting. | |
|---|--|



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3B.1 Purchase Mortgage

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. The proceeds from the transaction must be used to:

- Finance the acquisition of the subject property;
- Convert an interim construction loan or term note into permanent financing; and
- Pay off the outstanding balance on the installment land contract or contract for deed.

Complete purchase agreements, including all addenda, are required for all purchase transactions. All purchase agreement terms must be considered in the underwriting decision. Any evidence of undisclosed conditions of the transaction must be investigated. Examples of undisclosed conditions are evidence of straw buyers (changes in purchaser on the purchase agreement) or possible undisclosed seller concessions, such as making mortgage payments on behalf of the borrower for the first few months of the loan.

Purchase transactions do not allow for cash back to the borrower at closing other than the following:

- Reimbursement for the borrower's overpayment of fees, including refunds that may be required in accordance with certain federal laws or regulations. The closing disclosure must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund;
- Costs paid by the borrower in advance (e.g., sales contract deposit, appraisal, and credit report fees); and
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the loan program.

3B.1(a) Owner of Record and Chain of Title

The property must be purchased from the owner of record and documentation to verify ownership must be obtained.

- Documentation may include, but is not limited to, one of the following:
 - A property sales history report;
 - A copy of the recorded deed from the seller;
 - A copy of the seller's Closing Disclosure;
 - A 36-month sales history from the appraisal (provided the appraisal shows the most recent sale of the property occurred at least one year ago); or
 - A property tax bill or title commitment/binder that demonstrates the seller's ownership of the



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property and the date it was acquired.

- If there is any conflicting information reflected in the documentation, the discrepancy must be resolved, and the loan filed documented accordingly;
- Transactions involving any assignment of the sales contract are not permitted;
- When the transaction is part of a corporate relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract.
- Transactions involving a double escrow are not permitted.

Intermediary Companies are not eligible in conjunction with VA financing. Intermediary Companies (IC) are entities that generally provide cash-offer assistance programs for the sale of the borrower's departing residence and/or the purchase of the borrower's new residence. An IC may be identified through the purchase agreement or through a separate contract. Examples of Intermediary Company programs are Homeward, RibbonCash Offers, and Zoom Casa.

3B.1(b) Dual Capacity

Parties acting in multiple roles in a single mortgage transaction are not eligible. For example:

- The real estate agent (selling agent or buyer's agent) for the subject property may not act as the loan officer for the borrowers purchasing the same subject property;
- The loan officer may not take their own application; or
- Spouses working as loan officers/real estate agents may not receive direct or indirect compensation.

3B.2 Interest Rate Reduction Refinance Loans (IRRRL)

An IRRRL is designed to lower the monthly principal and interest payments of an existing VA mortgage with no cash back to the borrower except for minor closing adjustments of no more than \$500.

An IRRRL transaction may include:

- Paying off the outstanding principal balance of an existing first loan plus any required per diem interest and late fees;
- Allowable closing costs and prepaid items;
- Maximum two discount points;
- Prepaid expenses;
- VA Funding Fee;
- Deferred mortgage payments or late payment under CARES Act; and



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- Incidental cash back not to exceed \$500 (no cash back permitted for owner occupied properties located in Texas).

Eligibility must be verified. The loan being paid off must be the same loan indicated on the IRRRL Case Number Assignment printout. In some cases, a copy of the Note may be required to verify the case number.

3B.3 Owelty Liens-Texas Only

The payoff of an owelty lien may be structured as a no cash-out refinance transaction and is not subject to Texas 50(a)(6) requirements. The divorce decree and separation agreement must be recorded.

3B.4 Short Pay Off

A rate and term refinance where the maximum mortgage amount is insufficient to extinguish the existing mortgage debt may be eligible provided the existing note holder write off the amount of the indebtedness that cannot be refinanced into the new VA insured mortgage.

This transaction may not result in a modified loan, restructured loan, or short payoff. The subsequent refinance of a modified/restructured loan is allowed if the borrower has made timely mortgage payments on the modified/restructured loan in accordance with the modification agreement for the time period of modification in determining late housing payments. The loan must meet standard refinance requirements.

3B.5 Cash-out Refinance Mortgage

Cash-out refinance transactions are loans used to remove equity from a property. Funds received from a cash-out refinance loan is not limited to a specific purpose.

- There must be an existing lien on the property from any source such as tax or judgment liens and mortgage;
- Title must be held in the Veteran's name prior to closing; and
- Sufficient entitlement/guarantee must be verified. If the loan being paid off through the refinance is an existing VA loan, this must be the same loan indicated on the COE. In some cases, a copy of the Note may be required to verify the case number.

| | |
|-------------------------------------|---|
| Type I Cash-out (Regular) Refinance | <ul style="list-style-type: none">• A refinance in which the loan amount (including the Funding Fee) does not exceed the payoff amount of the loan being refinanced.• Deferred mortgage payments or late payment under CARES Act may be included in the loan amount. |
|-------------------------------------|---|



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| | |
|----------------------------|---|
| Type II Cash-out Refinance | <p>A refinance in which the loan amount (including the Funding Fee) exceeds the payoff amount of the loan being refinanced.</p> <p>The loan amount may include:</p> <ul style="list-style-type: none">• Unpaid principal balance (including accrued interest and late fees, if applicable);• Allowable fees and charges;• Prepaid expenses;• Cash back to the borrower;• Deferred mortgage payments or late payment under CARES Act;• Satisfaction of junior liens; and• Properties in Texas; the borrower cannot receive any cash back from the transaction. |
|----------------------------|---|

Refer to our Product Summaries for complete requirements.

3B.6 Installment Land Contracts

Installment land contracts may be considered a purchase or a refinance.

| | |
|------------------|---|
| Purchase | The contract must be recorded. |
| Refinance | <p>Refinance the unpaid balance under provided:</p> <ul style="list-style-type: none">• The Veteran will obtain title to the property described in the contract upon closing of the loan, and• The obligation to be guaranteed is in the form of a mortgage note or bond secured by a mortgage or other acceptable form of security instrument other than the existing land sale contract. |
| Option Contracts | Option contracts are not eligible; however, VA may guarantee a loan made for the unpaid purchase price of residential property when the option is exercised. |

The maximum loan amount is calculated by using the lesser of:

- The VA reasonable (appraised) value plus the VA funding fee; or
- The sum of the outstanding balance of the loan to be refinanced plus allowable closing costs (including funding fee) and discount points. Prepaids items may not be included.



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3B.7 Texas Equity Refinance

A first mortgage cash-out refinance or rate and term refinance secured by the borrower's homestead are Texas Equity Loans and must meet the requirements of Article XVI, Section 50 (a)(6) and 50(g) of the Texas Constitution if the borrower receives any amount of cash at closing.

First mortgage Texas Equity Loans are not eligible for purchase by Newrez.

A first mortgage rate and term refinance originated to pay-off an existing Texas 50(a)(6) Home Equity Loan may be refinanced as a Texas 50(f)(24) Non-Home Equity loan if the following conditions are met:

- The loan to be paid must be seasoned for 12 months from the date the loan was closed;
- No additional funds are advanced other than funds advanced to refinance a debt under Texas Constitution Art. XVI, Section 50(a)(1) through (a)(7) or actual costs and reserves required to refinance the debt;
- The principal amount of the refinance, when added to the aggregate total of the outstanding principal balances of all valid encumbrances of record against the homestead, does not exceed 80% of the homestead's fair market value on the date of the refinance; and
- The owner is provided with the written notice prescribed in the Constitution on a separate document within three (3) business days of the application and at least 12 days before the date the refinance is closed.

3B.7(a) Texas Section 50(a)(6) or 50(a)(4) Determination

| New loan amount pays off existing lien and... | Existing lien is non-50(a)(6), the new lien is... | Existing lien is 50(a)(6), the new lien is... |
|---|---|---|
| Provides even \$1 cash to borrower | Texas 50(a)(6) | Texas 50(a)(6) |
| Pays off/down existing 50(a)(6) lien with no cash to borrower | Texas 50(a)(6) | Texas 50(a)(4) |
| Pays off/down existing 50(a)(6) lien with cash to borrower | Texas 50(a)(6) | Texas 50(a)(6) |
| New lien is < existing UPB (no new funds) | Non-Texas 50(a)(6) | Texas 50(a)(4) |
| Funds, prepaids and/or closing costs | Non-Texas 50(a)(6) | Texas 50(a)(4) |
| Pays off/down purchase money second | Non-Texas 50(a)(6) | Texas 50(a)(4) |



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| | | |
|---|--------------------|----------------|
| Pays off/down existing Secured Home Improvement loan (mechanic's lien) | Non-Texas 50(a)(6) | Texas 50(a)(4) |
| Provides funds to satisfy a court-ordered divorce equity buyout (owelty lien) | Non-Texas 50(a)(6) | Texas 50(a)(6) |

All other requirements contained in this Underwriting Guide, including the requirements in the Product Summaries apply to Texas Equity Loans unless limited by the Texas Constitution or the requirements in this Texas Equity Loans section.

3B.8 New Construction

New construction may be used to purchase newly constructed ready-to-move-in spec houses from builders and developers or paying off interim construction loans and other costs for building a custom home on land already owned or separately bought by the Veteran.

Self-built homes and borrower acting as general contractor is not permitted.

3B.8(a) New Construction Classifications

New Construction properties are classified into two (2) categories by the stage of construction; New Construction and Proposed and Under Construction.

| | |
|---|--|
| New Construction (built less than one year and never occupied) | <ul style="list-style-type: none">Properties that have not been previously occupied and are less than one year old based on the certificate of occupancy date, and properties which are complete except for customer preference items (floor coverings, interior finish, appliances, fixtures, or other equipment).Register in VA's WeBLGY system as "new construction and purchase." |
| Proposed and Under Construction | Proposed and under construction properties not yet completed to customer preference item stage include: <ul style="list-style-type: none">Properties appraised from plans and specifications.Properties appraised from a completed model home. |

3B.8(b) Appraisal and Case Number Assignment Procedures

VA Case Numbers for New Construction properties must be ordered as a purchase transaction in WebGLY.



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A fully executed sales contract must be uploaded into WebLGY on the same day that VA Case Number is ordered and assigned. Any subsequent amendments, (e.g., change orders) must be uploaded to WebLGY with notification to the VA Fee Appraiser. If the amendment(s) to the contract is after the effective date of appraisal, the VA appraiser will be responsible for determining the impact of the amended sales contract and compliance with all provisions of USPAP in developing and reporting credible assignment results. Depending on the extent of any changes to the original sales contract, the appraiser may consider the change to constitute a new assignment under USPAP, warranting an additional fee, chargeable to the Veteran, up to the full amount of a new appraisal.

In addition to the sales contract and any change orders, upload the following to WebLGY on the same day the case number is ordered and assigned and maintain in the loan file.

- Survey or plot plan;
- Plans sufficient to allow the appraiser to establish market value;
- Foundation or basement plan;
- Exterior elevations;
- Wall section; and
- Specifications, on either VA Form 26-1852, Description of Materials, HUD Form 92541, or another format that provides essentially the same information in sufficient detail.

3B.8(c) Warranty Requirements

The following applies to all new construction loans depending on the classification.

| | |
|---|---|
| New Construction and Proposed or Under Construction where the local authority performs building inspections (foundation, framing, final) | The Veteran must be provided with: <ul style="list-style-type: none">• A one-year warranty on VA Form 26-1859, <i>Warranty of Completion of Construction</i>; or• A 10-year, insurance backed warranty. |
| | The Veteran must be provided with: <ul style="list-style-type: none">• A one-year warranty on VA Form 26-1859, <i>Warranty of Completion of Construction</i>; or• A 10-year, insurance backed warranty. |
| Proposed or Under Construction where local authority does not perform building inspections (foundation, framing, final) | The Veteran must be provided with: <ul style="list-style-type: none">• A one-year builder's warranty on VA Form 26-1859, <i>Warranty of Completion of Construction</i>; and• A 10-year insurance backed warranty. |



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The Veteran must sign an acknowledgement that VA assistance with construction complaints will be limited to defects in equipment, material, and workmanship reported during the required one-year VA builder's warranty period.

3B.8(d) Construction Inspections

The purpose of the inspections is to ensure that the property:

- Is built according to the building codes adopted by the local authority; and
- Has been satisfactorily completed as evidenced by a final construction inspection or certificate of occupancy.

3B.8(d)(i) Determining Type of Inspection

| Property is Appraised as... | THEN... |
|---|--|
| proposed or under construction with no insured ten year protection plan | <ul style="list-style-type: none">• A full complement of inspections is required, or• A final (third stage) inspection is required, only if local building authority inspections are acceptable in lieu of VA first and second stage inspections. |
| proposed or under construction with an insured ten year protection plan | only a final (third stage) inspection is required. |
| existing construction with major <ul style="list-style-type: none">• alterations• improvements; or• repairs | VA will determine on a case-by-case basis <ul style="list-style-type: none">• what regular or special inspections are required; and• if it is appropriate, based on the nature of the work, to have the lender certify that it has been satisfactorily completed. |

3B.8(d)(ii) Local Building Inspections

Many local building authorities have adopted comprehensive residential building codes and perform mandatory inspections at the foundation, framing, and final stages of construction.

3B.8(d)(iii) Confirming Local Inspections Performed

For New or Proposed construction, confirm whether or not local inspections are performed.



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3B.8(d)(iv) Missed Inspections

If the local authority provides construction inspections, but none were conducted, the property is ineligible to be the security for a VA-guaranteed loan.

3B.8(d)(v) Special Exception for Veteran Purchasing a New Construction Property Without a Builder Warranty

An exception may be made for a Veteran who wishes to purchase a new home from a builder who is not more than occasionally involved with VA financing and will not provide either a one-year VA builder's warranty or a 10-year insured protection plan.

All of the following is required:

- The Veteran's written acknowledgment that, *I am aware that this property does not qualify for VA assistance with construction complaints, since it was not inspected by VA during construction. I am also aware that this new property will not be covered by either a one-year VA builder's warranty or a 10-year insured protection plan, as is normally required in this situation.*
- The builder's written certification that, *This company is not more than occasionally involved with VA financing and is aware that this property is being accepted without any VA-required warranty on an exception basis, and only upon the request of the Veteran. The dwelling was constructed according to standard building practices and is in conformity with all applicable building codes.*
- Obtain documentation issued by the local building authority to verify that construction was acceptably completed, such as a final inspection or certificate of occupancy. Where local authorities do not perform building inspections, the Veteran and builder must certify in writing that *The dwelling was not inspected during construction by any state, county, or local jurisdiction.*
- The builder must have a VA-issued builder ID number as the exception only applies to the warranty requirement.

3B.9 Construction-to-Permanent (CTP) Financing

Construction-to-permanent financing can be set up in one of two ways; One-time (or single-close) construction loans or Two-time close construction loans.

1. Single-close construction loan is a type of loan that includes both the disbursement of loan proceeds during the construction phase and the final modification of loan terms at the end of construction.
2. Two-close construction loan generally involves two separately closed loans, with the initial



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construction loan established prior to construction and a second loan closing where a new loan with permanent terms is used to “take out” or replace the initial short-term construction loan.

Construction to permanent loans must be reported to VA within 60 days of receipt of the final Compliance Inspection Report, HUD 92051.

Self-built homes and Veteran acting as general contractor is not permitted.

3B.10 Single-Close Financing (Delegated Clients only)

A single-close construction loan refers to a loan that is closed prior to the start of construction with proceeds disbursed to cover the cost of, or balance owed on, the land, and the balance into escrow. The escrowed monies are paid out to the builder during construction. The lender must obtain written approval from the borrower before each draw payment is provided to the builder. The loan will not be guaranteed until construction is complete, and all Notice of Value (NOV) conditions are met.

Borrower must have held legal title to the lot prior to receipt of the first advance of the interim construction financing.

The transaction must be processed with the following requirements:

- Order as a purchase transaction in WebLGY (VA case number assignment must reflect purchase transaction);
- Acquisition costs include the following, provided documentation is submitted to support the associated amount:
 - The contract to build
 - Balance owed on the land
 - Interest reserve, if not included in the contract to build
 - Contingency reserve
 - Permits, if not included in the contract to build

If no balance is owed on the land neither the original cost nor current value may be included in the acquisition cost.

3B.10(a) Maximum Loan Amount Calculation

The maximum loan amount for new construction loans is limited to:

- The lesser of the VA appraised value, or the acquisition costs; plus



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- VA Funding Fee.

3B.10(b) Amortization

The Veteran begins making payments on a construction-to-permanent loan only after construction is complete. Therefore, the initial payment on the principal may be postponed up to one (1) year, if necessary. The loan must be amortized to achieve full repayment within its remaining term. Evidence of the loan amortization must be in the loan file.

Example

If it takes six (6) months to complete construction, the payment schedule for the Veteran obtaining a 30-year mortgage must provide for full repayment of the loan in 29 years and six (6) months.

Loans must be amortized with equal payments for remaining term. The lender must establish escrow accounts for the collection and payment of property taxes and hazard insurance. The tax escrow must be based on the projected land and dwelling tax assessment.

3B.10(c) Fees Paid by the Veteran

The Veteran can be charged an additional flat charge on construction, alteration, improvement, or repair loans.

The Veteran can be charged up to 1% of the loan amount in addition to the lender's 1% flat charge.

Example: total charges to the Veteran in these cases would be, at a maximum, itemized fees, and charges plus a 2% flat charge plus discount points.

3B.10(d) Fees and Charges Paid by the Builder

The builder is responsible for:

- Interest payments during the construction period if not included in the interest reserve. The interest reserve account is an account used to fund the interest payments on the interim construction loan during the construction period; and
- All fees normally paid by a builder who obtains an interim construction loan including, but not limited to:
 - Inspection fees
 - Commitment fees



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- Title update fees
- Hazard insurance during construction

3B.10(e) VA Funding Fee

The funding fee is due and payable to VA within 15 days of the interim construction loan closing. It is not tied to the commencement or completion of construction.

3B.10(f) Document Expiration Dates

See Chapter 3A Eligibility, Section 3A.7 Documentation Age for single-close document expiration dates.

3B.10(g) Loan Guaranty

If construction is not fully completed, and loan proceeds are not fully disbursed, guaranty will apply **only** to the proper pro rata part of the loan. The proper pro rata part of the loan, for VA guaranty purposes, is calculated as follows:

If the construction is not fully completed and loan proceeds are not fully disbursed, guaranty will apply only to the proper pro rata part of the loan. To calculate the proper pro rata part of the loan:

- Take loan proceeds disbursed for construction purposes;
- Add any other payments made to the builder by or on behalf of the Veteran;
- Take the lesser of the above total or 80% of the value of that portion of the construction completed; and
- Add any loan disbursements made for the purchase of the land on which the construction is situated.

| Example | |
|--|-----------------|
| Disbursed loan proceeds | \$80,000 |
| Other payments made to builder | \$10,000 |
| Total | \$90,000 |
| | |
| Value of portion of construction completed = \$100,000 | \$100,000 |
| 100,000 x 80% | \$80,000 |
| Lesser of the Two Totals | \$80,000 |



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3B.10(h) Inspections

There are three (3) options allowable to satisfy the inspection requirement for cases ordered as “Proposed Construction.” Construction must be completed according to local building codes.

| Proposed Construction Inspections | |
|--|---|
| Local authority performs the required foundation, framing, and final inspections and issues a CO or equivalent | <ul style="list-style-type: none">• VA will accept the CO for the property as evidence of local authority inspections and satisfactory completion of construction.• The framing inspection is not required on manufactured, or modular homes. |
| Local authority performs the required foundation, framing, and final inspections, but does not issue a CO or equivalent | VA will accept copies of the inspection reports, which verify full compliance with local builder codes, or a written statement from the local authority that states that the required inspections were performed satisfactorily. |
| Local authority does not perform the required inspections | <p>The property must be covered by:</p> <ul style="list-style-type: none">• A 10-year insured protection plan that is acceptable to HUD; and• A one-year builder’s warranty on VA Form 26-1859, <i>Warranty of Completion of Construction</i>. |

3B.11 Two-Close Financing

A two-close construction loan refers to a refinance of a short-term construction loan into a permanent long-term mortgage.

Self-built homes and Veteran acting as general contractor is not permitted.

The transaction must be processed with the following requirements:

- Order as a purchase transaction in WebLGY (VA case number assignment must reflect purchase transaction);
- Acquisition costs include the following, provided documentation is submitted to support the associated amount
 - Balance of the interim construction loan, and
 - Balance owed on the land
 - If no balance is owed on the land neither the original cost nor the current value may be



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included in the acquisition cost.

3B.11(a) Maximum Loan Amount Calculation

The maximum loan amount for new construction loans is limited to:

- The lesser of the VA appraised value, or the acquisition costs; plus
- VA Funding Fee.

3B.11(b) Document Expiration Dates

Standard document expiration dates apply for a two-close mortgage. See Chapter 3A Eligibility section 3A.7 Documentation Age.

3B.11(c) Change Orders

Change orders and/or upgrades made after the appraisal cannot be financed into the new loan. Veterans are permitted to pay for upgrades out of pocket. Change orders must be approved, in advance, by the appraiser, to ensure no loss in value. If a new appraisal is required, contact the Regional Loan Center (RLC) of jurisdiction for assistance. The Veteran is allowed to pay for an additional appraisal if change orders are to be financed into the new loan.

3B.11(d) Inspections

There are three (3) options allowable to satisfy the inspection requirement for cases ordered as “Proposed Construction.” Construction must be completed according to local building codes.

| Proposed Construction Inspections | |
|--|--|
| Local authority performs the required foundation, framing, and final inspections and issues a CO or equivalent | <ul style="list-style-type: none">• VA will accept the CO for the property as evidence of local authority inspections and satisfactory completion of construction.• The framing inspection is not required on manufactured, or modular homes. |
| Local authority performs the required foundation, framing, and final inspections, but does not issue a CO or equivalent | VA will accept copies of the inspection reports, which verify full compliance with local builder codes, or a written statement from the local authority that states that the required inspections were performed satisfactorily. |
| Local authority does not perform the | The property must be covered by: |



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| | |
|-----------------------------|---|
| required inspections | <ul style="list-style-type: none">• A 10-year insured protection plan that is acceptable to HUD; and• A one-year builder's warranty on VA Form 26-1859, <i>Warranty of Completion of Construction</i>. |
|-----------------------------|---|

3B.11(e) Final Inspection

When the property is 100% complete, contact the original VA appraiser to complete the VA final inspection. If the original VA appraiser is not available, contact the RLC of jurisdiction for another VA appraiser to complete the VA final inspection. The VA final inspection is to certify all VA MPRs are met and the house was built to the original plans, specifications, and approved change orders, and that the as-completed value from the appraisal was maintained.

3B.11(f) Cash Back to the Borrower

Where down payment funds came directly from the borrower, or the borrower purchased a lot in cash, or has unencumbered ownership of the lot being used as a down payment, the borrower may receive cash back at closing for the amount paid provided that the final loan amount does not exceed the NOV value, and evidence of the funds provided by the borrower are documented in the loan file. The borrower cannot receive cash from equity in the project, or funds provided by another party.

3B.11(g) VA Funding Fee

The Client must remit the funding fee within 15 days of the VA permanent loan closing.

Construction to permanent loans must be reported to VA within 60 days of receipt of the final Compliance Inspection Report, [HUD 92051](#).

For the purpose of reducing the funding fee, ownership of the land by the borrower(s) prior to construction is eligible to count as a down payment for purposes of reducing the funding fee, provided that the appraisal assigns a value to the unimproved land, and the value will count only to the extent that the loan amount is less than the NOV value. Lots held as contracts for deed are not considered owned by the borrower.



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3B.12 Additional Requirements for all Construction Financing

3B.12(a) Wood Destroying Insect Information

If the property is located in an area on the Termite Infestation Probability Map where the probability of termite infestation is "very heavy" or "moderate to heavy," a wood destroying insect inspection report is required.

| | |
|---------------------------------------|--|
| New Construction | <ul style="list-style-type: none">• The property must be inspected by a qualified pest control operator using <i>Wood Destroying Insect Report</i> (Form NPMA-33), or other VA-approved collection method. Any reported infestation or structural damage affecting the value of the property must be corrected to VA's satisfaction prior to loan settlement.• Veteran must acknowledge receipt of a copy of the inspection report in the space provided on the form. |
| Proposed or Under Construction | Completed <i>Subterranean Termite Protection Builder's Guarantee</i> (Form NPMA-99a) and <i>New Construction Subterranean Termite Service Record</i> (Form NPMA-99b) are required. |

3B.12(b) New Construction Lead and Water Distribution Certification

The builder must certify for subject dwelling that the solders and flux used in construction did not contain more than 0.2% lead and that the pipes and pipe fittings used did not contain more than 8.0% lead.

3B.12(c) New Construction Radon Gas

The builder must certify that radon resistant construction techniques were used, and construction meets local building codes and state regulations for radon control, where applicable. In the absence of any building codes, certification will be based upon IRC requirements. Radon resistant construction techniques are considered to be applicable for properties located in Radon Zone 1 as designated by the EPA at the following website: [EPA Map of Radon Zones](#).

3B.12(d) Additional Required Documentation

All of the following are required:



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- Notice of Value (NOV) with all conditions cleared, based on as completed value
- Final Certificate of Occupancy
- Final Inspection evidencing property is 100% complete with photographs
- Final survey
- Building permit
- Final title policy or final title policy updated through modification recordation (single-close)
- *Warranty of Completion of Construction* ([form HUD-92544](#))
- *Builder's Certification of Plans, Specifications, and Site* ([form HUD-92541](#))
- Reconciliation Statement or Modification Closing Disclosure (single-close)
- Notice of Right to Cancel is not required

3B.13 Manufactured Housing New Construction

There must be evidence in the loan file that the process of surrendering the manufactured home title has begun. Refer to **Chapter 3D.1(f)(iii) Titling the Manufactured Home as Real Property** for information on surrendering the title.

3B.13(a) Minimum Property Requirements (MPR)

- Manufactured homes must meet the VA MPRs.
- The manufactured home and site must be considered real estate in accordance with state law and meet all local zoning requirements for real estate. (Title Policy must contain Title Alta 7.1).
- The manufactured home must be placed on a permanent foundation, constructed to withstand both supporting loads and wind-overturning loads, that meets state and local requirements.
- The manufactured home must be built to [HUD Manufactured Home Construction and Safety Standards](#)

3B.13(b) Allowable Loan Purposes and Calculation of Maximum Loan Amount

| | |
|--|--|
| Purchase Manufactured Home to Be Fixed to a Lot Owned by Veteran | The maximum loan amount is based on: <ul style="list-style-type: none">• The sum of the purchase price plus the cost of all other real property improvements, and the VA funding fee; or• The VA NOV for the property, plus the VA funding fee. |
| Purchase a Manufactured Home and a Lot to which it will be Affixed | The maximum loan amount is based on: <ul style="list-style-type: none">• The total purchase price of the manufactured home unit and the lot, plus the cost of all other real property improvements, plus |



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| | |
|---|---|
| | <p>the VA funding fee; or</p> <ul style="list-style-type: none">• The purchase price of the manufactured home unit, plus the cost of all other real property improvements, plus the balance owed by the Veteran on a deferred purchase money mortgage or contract given for the purchase of the lot, plus the VA funding fee. |
| Regular "Cash-out" Refinance for an Existing Loan on a Manufactured Home and Purchase the Lot to which the Home will be Affixed | <p>The maximum loan amount is based on:</p> <ul style="list-style-type: none">• The sum of the balance of the loan being refinanced; plus• The purchase price of the lot, (not to exceed its reasonable value); plus• The costs of the necessary site preparation as determined by VA; plus• A reasonable discount on that portion of the loan used to refinance the existing loan on the manufactured home; plus• Authorized closing costs plus the VA funding fee <p>OR</p> <ul style="list-style-type: none">• The total reasonable value of the unit, lot, and real property improvements, plus VA funding fee. |

3B.13(c) Manufactured Housing Proposed Construction

If the manufactured home is appraised as Proposed Construction, the following exhibits are required:

- Foundation plan;
- Floor plan showing room layout and exterior dimensions;
- Elevation plans; and
- Specifications for flooring, heating, plumbing, electrical equipment, appliances, and other items included with the manufactured home.

3B.13(d) Required Inspections

VA requires inspections during the construction of the manufactured home. The inspection stages are outlined in the VA Lenders Handbook, Chapter 14: Construction Inspections.

The following inspections are required on manufactured homes classified as real estate, per the VA



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Lenders Handbook.

1. First and Third (final) Inspections

The first and third inspections are required to verify that the manufactured home is properly attached to the permanent foundation as specified in the construction exhibits, and that all onsite and offsite improvements are properly completed.

2. Special Inspection

VA may require special inspections by the VA-assigned fee inspector at any stage of the construction to help monitor cases involving

- Unusual site features;
- Construction methods; or
- Builders with frequent construction complaints;

Note: Second stage inspections are not generally required since manufactured homes are factory fabricated.

3B.13(e) Inspection and Warranty Requirements

The following inspection and warranty requirements are required when the local authority has inspected the foundation and installation of the manufactured home:

- A copy of the Certificate of Occupancy (CO), or equivalent document, issued by the local building authority;
- The warranty on VA Form 26-8599, *Manufactured Home Warranty*; and
- A one-year VA builder's warranty on VA Form 26-1859, *Warranty of Completion of Construction*.

If the local authority does not perform construction inspections, provide all of the following:

- Evidence that the manufactured home is properly attached to the permanent foundation as specified in the construction exhibits;
- All onsite and offsite improvements are properly completed;
- Warranty on VA Form 26-8599, *Manufactured Home Warranty*; and
- A one-year VA builder's warranty on VA Form 26-1859, *Warranty of Completion of Construction*; and
- The Veteran's written acknowledgement that the property was not inspected during the construction of the manufactured home foundation.



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3B.13(f) Qualified Inspectors

While inspectors will perform only those inspections for which they are qualified, licensed manufactured home service personnel will be permitted to perform any of the required inspections.

Lenders must order the inspections and retain the original of the reports in their loan origination file. No loan on a manufactured home with unsatisfactory inspections is eligible for VA guaranty.

3B.13(g) Required Documents

All of the following are required:

- Notice of Value (NOV) with all conditions cleared, based on as completed value;
- *Subterranean Termite Protection Builder's Guarantee* (Form NPMA-99-A);
- *New Construction Subterranean Termite Service Record* (Form NPMA-99-B);
- *Warranty of Completion of Construction* (form HUD-92544);
- *Builder's Certification of Plans, Specifications, and Site* (form HUD-92541);
- Reconciliation Statement or Modification Closing Disclosure (single-close); and
- Original Closing Disclosure showing the final disbursement and escrow collection and interest for construction to permanent loan (single-close).

3B.14 Energy Efficient Mortgages (Delegated Clients Only)

Energy Efficient Mortgages (EEM) enable the borrower to cover the cost of making energy efficiency improvements to an existing property at the time of purchase or refinance.

Energy Efficient Mortgages can be obtained in conjunction with:

- A VA loan for the purchase of an existing dwelling; or
- A VA refinancing loan secured by the dwelling.

Acceptable energy efficiency improvements include, but are not limited to:

- Solar heating systems, including solar systems for heating water for domestic use;
- Solar heating and cooling systems;
- Caulking and weather-stripping;
- Furnace efficiency modifications limited to replacement burners, boilers, or furnaces designed to reduce the firing rate or to achieve a reduction in the amount of fuel consumed as a result of increased combustion efficiency, devices for modifying flue openings which will increase the efficiency



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of the heating system, and electrical or mechanical furnace ignition systems which replace standing gas pilot lights;

- Clock thermostats;
- New or additional ceiling, attic, wall, and floor insulation;
- Water heater insulation,
- Storm windows and/or doors, including thermal windows and/or doors;
- Heat pumps; and
- Vapor barriers.

3B.14(a) Borrower Notice on the NOV

Information on EEMs is provided to a Veteran who applies for a loan which requires an NOV (a loan for a home purchase or regular “cash-out” refinance). The NOV includes the following notice to the Veteran:

“The buyer may wish to contact a qualified person/firm for a home energy audit to identify needed energy efficiency improvements to the property. In some localities, the utility company may perform this service. The mortgage amount may be increased because of making energy efficiency improvements such as: Solar or conventional heating/cooling systems, water heaters, insulation, weather-stripping/caulking, and storm windows/doors. Other energy related improvements may also be considered.”

The mortgage may be increased by:

- Up to \$3,000 based solely on the documented costs;
- Up to \$6,000 provided the increase in monthly mortgage payment does not exceed the likely reduction in monthly utility costs; or
- VA does not permit EEMs more than \$6,000 (38 U.S.C. §3710(d)).

3B.14(b) Underwriting Considerations and Documentation

Energy efficiency improvements up to \$3,000: The resulting increase in loan payments will normally be offset by a reduction in utility costs. Evidence of the cost of improvements such as a copy of the bid(s) or contract itemizing the improvements and their cost must be provided.

Energy efficiency improvements more than \$3,000, up to \$6,000: It must be determined that the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs and must rely on locally available information provided by utility companies, municipalities, state agencies or other



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reliable sources, and document the determination. Evidence of the cost of improvements such as a copy of the bid(s) or contract itemizing the improvements and their cost, and the lender's determination that the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs must be provided.

Energy efficiency improvements in conjunction with an IRRRL: If the monthly payment (PITI) for the new loan exceeds the PITI of the loan being refinanced by 20% or more, the lender must certify to having determined that the Veteran qualified for the higher payment.

3B.14(c) How to Calculate Guaranty and Entitlement Use

Guaranty is calculated on the EEM as described in the following table.

| Step | Action |
|------|--|
| 1 | Calculate guaranty on the loan without the portion attributable to the energy efficiency improvements. |
| 2 | Calculate guaranty on the energy efficiency improvements portion by applying the same percentage used in Step 1. |
| 3 | Add the results of Steps 1 and 2 to arrive at guaranty on the entire loan. |

The Veteran's entitlement will only be charged the amount arrived at in Step 1; based upon the loan amount before adding the cost of the energy efficiency improvements.

Example

If a Veteran has full entitlement and applies for a loan of \$80,000, plus \$6,000 in energy efficiency improvements, VA will guarantee 40% of the full loan amount of \$86,000. The dollar amount of the guaranty will be \$34,400, even though the charge to the Veteran's entitlement is only \$32,000.

Example 2

If a Veteran with full entitlement applies for a \$144,000 loan to purchase a home, and adds \$6,000 in energy efficiency improvements, the 25% guaranty on the loan will only require the use of \$36,000 entitlement, but the dollar amount of guaranty will be \$37,500.

Note: VA will guarantee up to 50% of a home loan up to \$45,000. For loans between \$45,000 and \$144,000, the maximum guaranty is \$22,500, with a maximum guaranty, of up to 40% of the loan up



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to \$36,000.00, subject to the amount of entitlement a Veteran has available.

3B.14(d) How to Calculate the Funding Fee

Calculate the funding fee based on the full loan amount including the cost of the energy efficiency improvements.

3B.14(e) Improvements Not Completed Before Closing

If the energy efficiency improvements are not completed before closing, establish an escrow and close the loan.

- A formal escrow is not required however; the loan file must document the amount and the reason for the escrow funds.
- Only the amount needed to complete the improvements must be withheld.
- Check the appropriate block in item 23, VA Form 26-1820 Report and Certification of Loan Disbursement.
- No additional documentation concerning the escrowed/earmarked funds must be submitted when reporting the closed loan.

Generally, the improvements should be completed within six (6) months from the date of loan closing.

Provide written notification to VA when improvements are completed, and the escrow funds are disbursed. Assure the funds are properly applied to the costs of improvements. See Chapter 8A, Escrow Holdback Policy.

If, after a reasonable time, the lender determines that the improvements will not be completed:

- Apply the balance of the escrowed/earmarked funds to reduce the principal balance on the loan, and
- Provide written notification to VA that this has been done.

3B.14(f) Reimbursement to Veteran out of IRRRL Proceeds

The Veteran generally may not obtain cash proceeds from an IRRRL, with one exception: Up to \$6,000 of IRRRL loan proceeds may be used to reimburse the Veteran for the cost of energy efficiency improvements completed within the 90 days immediately preceding the date of the loan.



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| Revision History | Date |
|--|------------|
| <ul style="list-style-type: none">Updated One -Time Close per VA Handbook 26-7, as of 06.05.2024 for documented acquisition costs to support associated amount:<ol style="list-style-type: none">the contract to buildbalance owed on the landinterest reserve, if not included in the contract to buildcontingency reservepermits, if not included in the contract to build <p>If no balance is owed on the land neither the original cost nor current value may be included in the acquisition cost.</p> <ul style="list-style-type: none">Modified Two Close requirements released 12.2024 per channel feedback received 01.22.2025 | 01.30.2025 |
| <p>Overlays identified for Owner of Record and Chan of Title for:</p> <ul style="list-style-type: none">Transactions involving any sale or assignment of the sales contract are not permitted.Transactions involving a double escrow are not permitted | 02.27.2025 |
| <p>Added new section for Maximum Loan Calculation requirements to Single Close Construction Loan as shown in Two Close Construction Loan</p> | 03.27.2025 |
| <p>VA Circular 26-25-1: Builder ID requirements</p> <ul style="list-style-type: none">VA removed Builder ID requirements for VA-guaranteed loans on new and proposed construction properties and moving Builder ID requirements to overlay matrix for the following eligible veteran loans:<ul style="list-style-type: none">Specially Adapted Housing (SAH) grant ora Native American Direct Loan (NADL) | 04.29.2025 |



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Chapter 3C Financing

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3C.1 itemized Fees and Charges

VA limits the fees that the Veteran can pay to obtain a loan. Strict adherence to the limitations on borrower-paid fees and charges when making VA loans is required.

The Veteran can pay a maximum of:

- Reasonable and customary costs for any or all of the “Itemized Fees and Charges” plus
- A 1% flat charge (origination fee) charged by the lender plus
- Reasonable discount points.

Charges for services performed by a third party may be paid by the Veteran-borrower and are limited to the actual third-party charge. In addition to the above itemized fees and charges, the borrower may not pay a duplicate fee for services that have already been paid for by another party.

3C.1(a) Itemized Fees and Charges

The Veteran may pay any or all of the following itemized fees and charges in amounts that are reasonable and customary.

| | |
|-------------------------------------|---|
| Appraisal and Compliance Inspection | <ul style="list-style-type: none">• The fee of a VA appraiser and VA compliance inspectors.• A second appraisal if borrower is requesting reconsideration of value.<ul style="list-style-type: none">○ The Veteran cannot pay for an appraisal requested by the lender or seller for reconsideration of value○ The Veteran cannot pay for appraisals requested by parties other than the Veteran or lender |
| Buyer-Broker Charges | <p>These charges include commissions and any other broker-related fees, subject to:</p> <ul style="list-style-type: none">• Purchase area:<ul style="list-style-type: none">○ Prohibits listing brokers from setting buyer-broker compensation through multiple listing postings; or○ Buyer-broker compensation can’t be established by or flow through the listing broker.• Buyer-broker charges are not included in the loan amount.• Buyer-broker charges paid or to be paid by the Veteran are to be |



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| | |
|--|--|
| | <p>considered in determining liquid assets for closing.</p> <ul style="list-style-type: none"> Invoices are not required to support the buyer-broker charge; however, <ul style="list-style-type: none"> Closing disclosure must reflect total amount paid by Veteran in Section H ("Other") on lines 1 through 3 on the closing disclosure, and Buyer-broker representation agreement is considered part of the sales contract and must be retained in the loan file and uploaded when requesting the appraisal. <p>Note: The buyer-broker charges may be paid by the veteran or seller. If paid by seller, this is not treated as a seller concession.</p> |
| Certifications | Certifications required on the NOV (excluding termite certification) |
| Credit Report | <ul style="list-style-type: none"> The credit report obtained by the lender AUS Approve: Evaluation fee of \$50 in lieu of the charge for a credit report |
| Flood Zone Determination | <ul style="list-style-type: none"> Required life-of-loan flood determination service purchase at the time of origination A fee may not be charged for a flood zone determination made by the lender or a VA appraiser |
| Property Insurance | Required hazard insurance premium, including flood insurance, if required |
| MERS | MERS fee |
| Prepaid Expenses | That portion of taxes, assessments, and similar items for the current year chargeable to the borrower and the initial deposit for the tax and insurance account |
| Recording Fees | Recording fees and recording taxes or other charges incident to recordation |
| Special Mailing Fees for Refinance Loans | Federal Express, Express Mail |
| Subordination Fees | <ul style="list-style-type: none"> Flat fee for subordination costs may be charged to the Veteran Fee may not be financed into IRRRL loan amount. Veteran must pay from own funds |
| Survey | Survey, if required by the lender or Veteran. Any charge for a survey in connection with a condominium loan must have the prior approval of VA. |
| Title Examination and Title Insurance | Title examination and title insurance, if any. If an environmental protection lien endorsement to a title policy is needed, the cost of the endorsement may be charged to the Veteran. |



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| VA Funding Fee | VA Funding Fee, unless exempt by VA |
|--|--|
| Termite inspection and Other Fees Authorized by VA | <p>Additional fees attributable to local variances if specifically authorized by VA. Submit a written request to the Regional Loan Center for approval if the fee is normally paid by the borrower in a particular jurisdiction and considered reasonable and customary in the jurisdiction.</p> <p>OR</p> <p>This link provides a table detailing the current allowable state and territory fees and charges deviations (exceptions) from fees normally considered allowable.</p> |

3C.1(b) One Percent Flat-Charge (Origination Fee)

In addition to the "itemized fees and charges," the Veteran may be charged an origination fee not to exceed one percent of the loan amount. For IRRRLs, the one percent is based on the calculation shown in VA Form 26-8923. This one percent origination fee (flat charge) is intended to cover all costs and services which are not reimbursable as "itemized fees and charges." The following list of unallowable fees are expected to be included in the 1% flat fee and cannot be charged to the Veteran as "itemized fees and charges."

- Loan closing or settlement fees;
- Lender and third party document preparation fees/conveyance fees;
- Attorney's services other than for title work;
- Photographs;
- Postage and other mailing charges, stationary, telephone calls, e-mail fees and other overhead (see above for Refinance loans);
- Amortization schedules;
- Escrow fees or charges;
- Final inspection fee;
- Notary fees;
- Commitment fees or marketing fees of any secondary purchase of the mortgage and preparation and recording of assignment of mortgage to such purchaser;
- Trustee fees or charges;
- Loan application or processing fees;
- Fees for preparation of the truth-in-lending statement;
- Fees to loan brokers, finders or other third parties whether affiliated with the lender or not;



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- Tax service fee; and
- Any other fees, charges, commission, or exceptions except those listed above in Itemized Fees and Charges above.

If a 1% origination fee is not charged, the above unallowable fees can be charged and itemized, but cannot exceed one percent of the purchase price.

3C.1 (c) Fees and Charges the Veteran-Borrower Cannot Pay

This section provides examples of items that cannot be paid by the Veteran but can be paid out of the lender's flat charge or by some party other than the Veteran.

| Charge | Description |
|--------------------------------------|---|
| Attorney's Fees | <p>The borrower may not be charged for attorney's fees, except for reasonable fees for title examination work and title insurance, which may be paid by the borrower.</p> <p>The Veteran can independently retain an attorney and pay a fee for legal services in connection with the purchase of a home. Closing documents should clearly indicate that the attorney's fee is not being charged by the lender.</p> |
| Auctioneer Fee | The auctioneer's fee may not be added to the accepted bid to determine the total purchase price when a property is purchased at auction or paid by the Veteran. |
| HUD/FHA Inspection Fees for Builders | Proposed construction where the subject property was constructed under HUD supervision, the cost of any inspections or re-inspections are not chargeable to the Veteran. |
| Natural Disaster Inspection Fees | The borrower may not be charged for an inspection fee related to natural disasters. |
| Prepayment Penalty | Loan proceeds cannot be used to pay penalty costs for prepayment of an existing lien. |
| Subordination Prep Fees | Fees such as "subordination prep" charged by closing agents or other third parties to process subordination are never permitted to be charged. |



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3C.2 Calculating Loan-to-Value (LTV) and Combined Loan-to-Value (CLTV) Ratios

3C.2(a) Purchase Mortgage

The LTV ratio is obtained by dividing the base loan amount, excluding the VA Funding Fee, by the lower of the appraised value or sales price.

The CLTV ratio is obtained by dividing the base loan amount, excluding the VA Funding Fee, and the current principal balance of the subordinate closed-end second lien and/or the maximum available credit line of the subordinate open-end second liens by the lower of the appraised value or sales price.

3C.2(b) Interest Rate Reduction Refinance Loans (IRRRL)

The LTV ratio is obtained by dividing the total loan amount, including the financed VA Funding Fee, by the appraised value.

The CLTV ratio is obtained by dividing the total loan amount, including the financed VA Funding Fee, and the current principal balance of the subordinated closed-end second lien and/or the maximum available credit line of the subordinated open-end second lien by the appraised value.

3C.2(c) Cash-out Refinance Mortgage

The LTV ratio is obtained by dividing the total loan amount, including the financed VA Funding Fee, by the appraised value.

The CLTV ratio is obtained by dividing the total loan amount, including the financed VA Funding Fee, and the current principal balance of the subordinate closed-end second lien and/or the maximum available credit line of the subordinated open-end second lien by the appraised value.

3C.2(d) Permanently Modified HELOC

If a HELOC has been permanently modified and the outstanding unpaid principal balance (UPB) is less than the permanently modified HELOC, the modified HELOC amount must be used when calculating the CLTV.



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If the outstanding unpaid principal balance is greater than the permanently modified HELOC, the outstanding unpaid principal balance must be used to calculate the CLTV, if applicable.

The permanently modified HELOC must be documented with the one of the following:

- Modified and recorded Note;
- Recorded subordination agreement stating the credit line was permanently reduced;
- Letter from subordinate lien holder indicating a HELOC has been permanently reduced, in lieu of a recorded modification agreement. The letter must:
 - Be on the lien holder's letterhead;
 - State the permanently reduced HELOC amount; and
 - Include the date of the HELOC reduction.

A comment on the credit report stating that the HELOC is permanently modified is not sufficient.

Refer to our Product Summaries for maximum CLTV requirements.

3C.3 Temporary Interest Rate Buydowns

Interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage. At closing, an escrow account is established. Each month, the servicing lender draws down an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

The borrower must be qualified based on the note rate without consideration of the bought-down rate. If reserves are required, the reserves must be calculated using the Note Rate.

The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event, may the buydown plan change the terms of the mortgage Note.

3C.3(a) Buydown Agreement

The borrower must agree in writing that the buydown funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest to the extent provided under the subsidy buydown agreement.



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The buydown agreement must provide for all of the following:

- Must be a written agreement between the party providing the buydown funds and the borrower;
- Must provide that the borrower is not relieved of their obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available;
- May include an option for the buydown funds to be returned to the borrower or to the Company, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied;
- Must be included in the file and must clearly show the calculations of the total cost of the temporary subsidy buydown, any interested party contribution and the annual percentage increase in the borrower's monthly principal and interest payment; and
- All of the terms of the buydown plan must be disclosed to all parties, including the mortgage insurer, and the property appraiser.

3C.3(b) Terms of the Buydown

No limit is placed on the total dollar amount of an interest rate buydown.

The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.

An interest rate buydown plan must provide for:

- A buydown period not greater than 36 months; and
- Increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.

More frequent changes are permitted as long as the total annual increase does not exceed 1%.

3C.3(c) Buydown Account and Funds

- The buydown funds may come from:
 - The seller;
 - The Client (not Newrez);
 - The borrower (must come from borrower's own funds and assets must be documented); or
 - Any other interested party.
- A split buydown is permitted when the buydown funds are paid by the lender, seller and/or third parties. **A split buydown is not permitted when the borrower pays for any portion of the funds;**
- Buydown accounts must be established and fully funded by closing;



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- Funds for buydown accounts must be deposited into custodial bank accounts. Note: Buydown funds cannot be included in accounts with the Company corporate funds;
- The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the Note;
- Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied;
- Buydown funds cannot be used to pay past-due payments; and
- Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.

3C.4 Secondary Financing

Secondary financing is permitted in accordance with this chapter and VA requirements. Any secondary lien must be subordinate to the Newrez first mortgage and be recorded as such.

Secondary borrowing is acceptable if the Veteran is not placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.

The proceeds of the second mortgage may be used for closing costs and prepaid expenses and may not include the amount, if any, by which the purchase price exceeds the CRV.

The proceeds may not be used to cover any portion of a required down payment to cover the excess of the purchase price over the appraised value.

All of the following must be complied with:

- Documentation disclosing the source, amount, and repayment terms of the second mortgage and agreement to such terms by the Veteran and any co-borrowers;
- The rate on the second mortgage may exceed the rate on the VA-guaranteed first; however, it may not exceed industry standards for second mortgages;
- The second mortgage should not restrict the Veteran's ability to sell the property any more than the VA first mortgage (should be assumable by creditworthy purchaser(s)).
- There should be a reasonable grace period before a late charge comes due, or commencement of foreclosure proceedings in the event of default.

The following is not permitted:



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- Cash back to the Veteran from the second mortgage; and
- Seller provided secondary financing.

3C.5 Seller Concessions

Seller concessions are costs (or anything adding value) that are normally the responsibility of the borrower that are paid directly or indirectly by the seller or builder for which the borrower pays nothing additional. Seller assistance is limited to no more than 4% of the appraised value. The seller may pay the following:

- Payment of the VA Funding Fee;
- Prepayment of property taxes and insurance;
- Gifts typical of what builders offer to entice buyers to purchase (appliance packages, swimming pools, television etc.);
- Funds for a temporary buydown;
- Payment of extra points to provide a permanent interest rate buydown; and
- Payoff of credit balances or judgments on behalf of the borrower.

The following are not included in the 4% limitation:

- Seller assistance for standard closing costs such as title work, recording fees and taxes, appraisal, credit report, and discount points that are typical for the market; etc.
 - Excessive discount points above what is typical to the market are included in the 4% limitation.
- The satisfaction of a PACE lien or obligation against the property by the seller.

All seller concessions must be disclosed on the Closing Disclosure.

The Closing Disclosure and Loan Estimate must itemize all charges being paid on the borrower's behalf. Disclosing a lump sum amount is not acceptable.

If the borrower was not provided with the lowest possible rate while accommodating the customer request, the loan is not eligible to be closed or purchased by Newrez.

If there are remaining funds due the borrower from a premium pricing agreement, those funds must be applied to the principal balance of the loan.



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3C.6 Property Assessed Clean Energy (PACE)

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements to residential properties using financing provided by private enterprises in conjunction with state and local governments. Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax is collected by the local government rather than paid directly by the borrower to the party providing the PACE financing.

Generally, the PACE obligation is also secured in the same manner as a special assessment tax against the property. In the event of a sale, including a foreclosure sale, of the property with outstanding PACE financing, the obligation will continue with the property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished. **As a result, loans encumbered with PACE or PACE-like obligations are not eligible for VA financing.**

If the PACE or PACE-like obligation is secured by the subject property but does not result in or provide for a first lien priority lien over the first mortgage and the lien holder will execute a subordination agreement a loan exception may be requested to allow for subordination of the obligation and comply with the following:

- At the time of purchase, the sales contract must indicate whether the PACE obligation will remain with the property or be satisfied by the seller at, or prior to closing. Where the PACE obligation will remain, all terms and conditions of the PACE obligation must be fully disclosed to the borrower and made part of the sales contract between the seller and the borrower,
- Where improvements have been made to the property through a PACE program, and the PACE obligation will remain outstanding, the appraiser must analyze and report the impact on the value of the property, whether positive or negative, of the improvements and any additional obligation (i.e., increased tax payments). If the lender requires a borrower to escrow funds to ensure the PACE obligation is paid timely, the lender must open and manage the escrow accounts in a manner consistent with federal, state, and local law, and
- If the borrower is required to escrow funds to ensure the PACE obligation is paid timely, the escrow accounts must be opened and managed in a manner consistent with federal, state, and local law.

See Chapter [3J](#) VA Appraisal and Property Requirements, [3J.22](#) Property Assessed Clean Energy (PACE) for appraisal requirements when a PACE or PACE-like loan exists.



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3C.7 Principal Curtailments

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the loan. See Chapter 1304 Principal Curtailment Policy for additional principal curtailment details.

3C.7(a) Non-Delegated Clients

A principal curtailment is permitted up to \$500.

If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment.

3C.8 Escrow Waivers

Escrow waivers are not permitted.

Note: If the Veteran is 100% exempt from real estate taxes, supported by documentation in the loan file, an escrow for real estate taxes is not required.

| Revision History | Date |
|---|------------|
| Overlay identified for: Escrow Waivers are not permitted. | 04.29.2025 |
| Clarified: If the Veteran is 100% exempt from real estate taxes, supported by file evidence, an escrow for real estate taxes is not required. | |



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Chapter 3D Property Types

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3D.1 Eligible Property Types

3D.1(a) Single-Family Residence

A detached, semi-detached, or attached single-family dwelling, including town homes and row homes.

3D.1(b) Modular Home

A modular home is a factory built home constructed to the state, local or regional building codes where the home will be located. A modular home is constructed in two or more three-dimensional sections, including interior and exterior finish, plumbing, wiring and mechanical systems.

Upon completion, the modular home is transported to the property site and then joined together on a permanent foundation. A modular home may be transported on a steel undercarriage, but that is not a permanent structural component of the improvements, and it is usually removed at the time the house is attached to the foundation. The modular home assumes the characteristics of a site-built home.

3D.1(c) Two- to Four-Unit Property

A two- to four-unit property is a residential structure with more than one unit but not more than four units.

3D.1(d) Condominium

A condominium is a real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common elements of the project, and sometimes-exclusive use of certain common elements. The unit owner does not own the land or improvements. A condo project is real estate that includes the separate ownership fee simple.

A condo project is created according to local and state statutes. The structure is two or more units with the interior airspace individual owned. The balance of the property (land and building) is owned in common by the individual unit owners.

All condominium projects must be approved by VA.



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The following link provided access to VA Handbook, Chapter 16, for condominium warranty requirements:

[Section A Requirements for Properties in Common Interest Communities](#)

This section contains the following topics.

| Topic | Page |
|--|---------|
| 16-A.01 Requirements Applicable to All Properties in Common Interest Communities | 16-A-2 |
| 16-A-2 16-A.02 Condominium Approval Procedures | 16-A-5 |
| 16-A-3 16-A.03 Table of Required Documents | 16-A-9 |
| Section B – Use of Attorney's Opinion | 16-B-1 |
| Exhibit A: Other VA Requirements | 16-B-12 |
| Exhibit B: Condominium Regulations | 16-B-28 |

3D.1(d)(i) Site Condos

A Site condo is a condo project consisting of detached, single-family dwellings. All other states are unaffected and should follow Condominium and PUD project review requirements for VA.

Site Condos in the state of Michigan will be processed as a single family detached residence. VA will no longer require legal documentation for site condos.

3D.1(e) Planned Unit Development (PUD)

A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all of the following requirements must be met:

- Each unit owner's membership in the HOA must be automatic and non-severable.
- The payment of assessments related to the unit must be mandatory.
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners; and
- The subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in project or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects. These projects



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- Have no common property and improvements.
- Do not require the establishment of and membership in an HOA; and
- Do not require payment of assessments.

For additional insurance requirements, see the PUD Insurance section, see Chapter 10A, Insurance and Survey Requirements.

3D.1(f) Manufactured Housing

A manufactured home is any dwelling unit built on a permanent chassis and attached to a permanent foundation system.

Refer to Chapter 3B Transactions for new construction requirements.

| Definitions | |
|---|---|
| Anchorage | Connection between superstructure and foundation, by means of welds, bolts, and various high gage metal plates. Anchorage does not refer to any type of soil anchor. |
| Exterior Foundation Wall | Foundation walls placed directly below the exterior perimeter walls of the unit. These walls may or may not be structurally used as: baring walls under gravity loads and/or shear walls under horizontal loads. If these walls are not used structurally, they are called non-bearing walls or skirt walls. |
| HUD Construction Code (Certification Label) | The HUD Certification Label is a metal plate that is affixed to the exterior of each transportable section of the manufactured home. The HUD Certification Number appears on each HUD Certification Label and evidence compliance with the Federal Manufactured Home Construction and Safety Standards. |
| HUD Data Plate/Compliance Certificate (Data Plate) | The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name, and trade/model number. The data plate also includes pertinent information about the unit, including a list of factory-installed equipment. |
| Relocation of Manufactured Home | Moving the manufactured home unit previously installed or occupied to any other site or location. |



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| | |
|----------|---|
| Skirting | A term used to describe a non -structural enclosure of a foundation crawl space. Typically, but not always, it is a lightweight material such as vinyl or metal, attached to the side of the structure, extending to the ground (generally, not installed below frost depth). |
|----------|---|

3D.1(f)(i) Manufactured Housing Eligibility

Manufactured homes must meet all the following eligibility requirements:

- Must be a single-family dwelling;
- Must have an affixed HUD Certification label, located on the outside of the home, or have a letter of label verification issued on behalf of HUD, evidencing the house was constructed on or after June 15, 1976, in compliance with the Federal Manufactured Home Construction and Safety Standards (MHCSS). Manufactured homes built prior to June 15, 1976, are ineligible;
 - If the home is a multi-wide unit, each unit must have a seal;
 - If the HUD tag is missing, a recent "HUD Certification Verification" letter issued by the Institute for Building Technology and Safety (IBTS) must be in the loan file.
- Must be built to HUD Manufactured Home Construction and Safety Standards;
- The manufactured home and site exist together as real estate in accordance with state law;
- The manufactured home must be classified and subject to taxation as real estate;
- Must be built on and remain on a permanent chassis with towing hitch and running gear removed;
- Must be permanently affixed to the foundation;
- Must have a floor area of not less than 400 square feet for a single wide or 700 square feet for a double wide;
- Must have been transported from the factory or dealer directly to the site; and
- Must substantially conform with VA MPRs.

VA fee appraisers are expected to be familiar with State and local code laws or regulations in their locality governing manufactured homes (such as missing HUD labels, alterations, modifications, additions, component replacements), and to make appropriate requirements for compliance.



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Appraisals of manufactured home condominium units must be prepared on the *Manufactured Home Appraisal Report (Form 1004C/70B)*, with the details about the condominium development usually provided in the Project Information Section of the condominium appraisal form.

3D.1(f)(ii) Existing Manufactured Housing

Existing construction is generally defined as when the foundation for a manufactured home has been fully completed and the manufactured home unit has been installed.

The following MPR-related requirements for existing construction manufactured homes must be met:

- The site, manufactured home unit, and other on-site improvements (e.g., private well and septic, utilities, etc.) must meet VA MPRs for existing construction; and
- The manufactured home unit must be properly attached to a permanent foundation system, which is constructed to withstand both supporting loads and wind-overturning loads that meets State or local requirements.

If the VA fee appraiser has reasonable doubts as to the acceptability of the foundation system where there are no local requirements, a statement from a registered professional engineer is required.

The Cost Approach is not required but may be completed to supplement the indicated value in the sales comparison approach. Since VA relies on the sales comparison approach to value, the appraised value should never exceed the value indicated in the Sales Comparison Approach without detailed explanation.

3D.1(f)(iii) Titling the Manufactured Home as Real Property

All manufactured home units and land must be classified as real property and taxes as such by the local authority.

- The property description section (or rider) of the security instrument must include a description of the manufactured home, including the VIN or serial number, and the land; and
- ALTA 7.1 or other state specific equivalent Title Endorsement is required for the final title insurance policy.



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When the land is purchased separately from the unit, there may be two deeds:

- A property deed for the land; and
- A chattel deed or motor vehicle title for the unit.

The land and unit must be deeded as one and the title policy must specifically state and validate that the manufactured home and land are classified as real estate and taxed as one (1) parcel.

Evidence that motor vehicle title has been (or will be) purged or surrendered is required. The Closing agent (or title company) to confirm actions taken to assure that the manufactured home has been permanently affixed to the land and that the lien is recorded

The loan is not eligible if the original chattel deed or motor vehicle title is not purged, and the property does not have clear marketable real estate title.

3D.1(f)(iv) Ineligible Manufactured Housing Property Types

The following are ineligible property types:

- A manufactured home that is not titled as real estate;
- A manufactured home that is not permanently affixed;
- A manufactured home that was installed or occupied previously at any other site or location.
The home may only have moved from the manufacturer's or dealer's lot to the current site of the home;
- A manufactured home with less than 400 square feet of gross living area;
- A manufactured home located in a mobile home park;
- A manufactured home with a manufactured home ADU or storage unit; and
- A manufactured home with deed restrictions.

3D.1(g) Mixed-Use Property

Mixed-use refers to a property suitable for a combination of uses including any of the following: commercial, residential, retail, office, or parking space.

A mixed-use property is a 1- to 4-unit property and may be eligible if:

- The property is primarily for residential use;



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- The non-residential use does not impair the residential character;
- The property contains no more than one business unit; and
- The property is legally permitted and conforms to current zoning, or is a legal, non-conforming use that is accepted by the local authority.

3D.1(h) Lava Flow Hazard Zones

Lava Flow Hazard Zones are designated by the US Geological Survey. Properties located in Lava Zones 1 and 2 are not permitted.

3D.1(i) Deed/Resale Restriction

Restrictions on the purchase or resale of the property are permitted under certain circumstances that must be approved by VA.

The following must be complied with:

- Ensure any restrictions fall within the exceptions provided by VA regulations at 38 CFR 36.4308 and 38 CFR 36.4354;
- Consult VA where doubt exists;
- Obtain VA approval where appropriate; and
- Fully inform the veteran and obtain his or her consent to the restrictions in writing at the time of loan application.

3D.2 Ineligible Property Types

The following property types or characteristics are ineligible:

- 3D printed homes
- Assisted living projects
- Barndominiums
- Bed and breakfast properties
- Boarding houses
- Builder model leaseback (purchase transactions)
- Coastal Barrier Resource System (CBRS) areas



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- Commercial properties
- Condo hotels
- Container homes
- Cooperative units
- Fraternity or sorority houses
- Houseboats
- Industrial properties
- Investment securities
- Land-lease communities
- Lava Zones 1 and 2
- Mobile home
- Multi-family dwelling containing more than four (4) units
- Private clubs
- Properties not suitable for year-round occupancy
- Properties with C5 or C6 Condition rating
- Shouses
- Tax-sheltered syndicate
- Timeshare unit/project
- Tiny homes Unimproved or vacant land
- Working farm, ranch, or orchard

Not all property types listed above are ineligible under all Loan Programs. See our Product Summaries.

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| Revision History | Date |
|---|------------|
| Updated Lava Zone eligibility to reflect: <ul style="list-style-type: none">• Content Removed stating Lava Zones in Hawaii are acceptable with a lava insurance policy.• Lava Zones 1 and 2 added to Ineligible Property Types | 02.28.2024 |
| Added links to VA Handbook: Section A requirements for Properties in common interest Communities with table. VA Handbook requirements are as of 01.01.2001 | 05.30.2024 |



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Chapter 3E Underwriting

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3E.1 Automated Underwriting

VA has approved the following automated underwriting systems:

- Fannie Mae's Desktop Underwriter; and
- Freddie Mac's Loan Product Advisor.

Reduced documentation requirements may be used on cases processed with approved AUS. The level of reduced documentation depends on the risk classification assigned. The systems use different terminology such as Approve or Accept. The tables in this section give a general description of documentation waivers. Please note that the documentation requirements are the same for these AUS loans as for non-AUS cases, except for any differences cited in the tables.

The automated systems do not approve or disapprove loans. They merely determine a risk classification. It is underwriter's decision whether or not to approve the loan.

Although VA has approved the use of these systems, Newrez is not the vendor. The terms and conditions of use must be negotiated directly with the provider of these systems.

3E.1(a) Data Integrity

The data submitted to automated underwriting must reflect the loan as it was closed, including occupancy type, product type, amortization, loan term, property type, loan purpose, sales price, and appraised value.

Verification documents must be reviewed, and the verified values compared to the data submitted to automated underwriting. The terms of the closed loan must match the terms of the final loan submission. The data utilized by the system must be supported by source documentation. Inaccurate or unverified data will result in invalidation of the risk classification. Under certain circumstances, it could also result in a finding of material misrepresentation, which could affect the validity of the guaranty.

Because automated underwriting will be making the determination that the loan satisfies credit and income requirements, cases receiving an "Approve" or "Accept" rating will not require the underwriter's certification on VA Form 26-6393, Loan Analysis (items 49 through 53).



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3E.1(b) AUS Risk Classifications

When a loan is submitted to AUS, one of the following recommendations will be returned on the Findings Report

| Decision | Description |
|--|---|
| Approve or Accept Eligible | <p>An Approve or Accept/Eligible recommendation indicates that the loan may be eligible provided the data entered into the AUS is accurate and complete and the mortgage application complies with all VA requirements.</p> <p>Verify that all supporting documentation and information entered into AUS is consistent with the final underwriting decision.</p> |
| Approve or Accept Ineligible | <p>An Approve or Accept/Ineligible recommendation indicates the borrower's credit and capacity would meet the threshold for approval, but the loan does not fully comply with VA's eligibility requirements. The Findings Report or Feedback Certificate will identify the specific eligibility requirements that the loan does not meet.</p> <p>Analyze the Findings Report or Feedback Certificate and determine if the reason for ineligibility is one that can be resolved in a manner that complies with VA underwriting requirements. If the reason for ineligibility can be corrected, the loan may be rescored in the AUS.</p> |
| Refer/Manual Downgrade to Manual Underwriter | <p>Any loan receiving a Refer recommendation must be manually underwritten.</p> <p>The loan must be downgraded and manually underwritten when an Approve/Accept recommendation is received if:</p> <ul style="list-style-type: none">• The loan file contains information or documentation that cannot be entered into or evaluated by AUS;• Additional information not considered in the AUS recommendation affects the overall eligibility of the loan;• Any mortgage debt with more than 1x30 day delinquency in the past 12 months;• Any mortgage or other significant debt reported on the credit report is currently ≥ 90 days past due; or• Any significant debt not reported on the credit report with a direct |



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| | |
|--|---|
| | <p>verification that reveals more than 1x30 day delinquency in the past 12 months. Significant debt means that the debt has a monthly payment exceeding 2% of the stable monthly income for all borrowers.</p> <p>If the loan is downgraded to manual underwriting, the use of AUS must be ceased and the loan must be manually underwritten.</p> |
|--|---|

3E.2 Maximum Number of Borrower

3E.2(a) Fannie Mae DU

There may be no more than four (4) borrowers on a transaction and submitted to DU. Any loan with more than four (4) borrowers must be manually underwritten. Refer to Section [3E.3](#) Manual Underwriting.

3E.2(b) Freddie Mac LPA

There may be no more than five (5) borrowers on a transaction and submitted to LPA. Any loan with more than five (5) borrowers must be manually underwritten. Refer to Section [3E.3](#) Manual Underwriting.

3E.3 Manual Underwriting

Loans receiving an AUS Approve/Accept requiring a manual downgrade or an AUS refer may be manually underwritten.

If the loan is downgraded to manual underwriting, the AUS may no longer be used and all requirements for manual underwriting must be complied with.

Prior Approval Loans submitted to the VA must be manually underwritten and are eligible. AUS Findings do not apply.

3E.4 Underwriter's Certification

3E.4(a) AUS Accept

Because the AUS will be making the determination that the loan satisfies credit and income requirements, cases receiving an "Accept" or "Approve" rating will not require the underwriter's signature on VA Form 26-6393, Loan Analysis (items 49 through 53).



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3E.4(b) Manual Underwrite

The underwriter will be required to sign and date Items 49 through 53 on the VA Form 26-6393, Loan Analysis.

The underwriter must sign the following Lender's Certification, referenced in [Chapter 4](#) of the VA Lenders Handbook, as part the final approval procedure.

"The undersigned lender certifies that the loan application, all verifications of employment, deposit, and other income and credit verification documents have been processed in compliance with 38 C.F.R. Part 36; that all credit reports obtained in connection with the processing of this borrower's loan application have been provided to VA; that, to the best of the undersigned lender's knowledge and belief, the loan meets the underwriting standards recited in chapter 37 of Title 38 U.S.C. and 38 C.F.R. Part 36; and that all information provided in support of this loan is true, complete and accurate to the best of the undersigned lender's knowledge and belief."

3E.5 Residual Income

Residual income is the amount of net income remaining (after the deduction of debts and obligations, monthly housing expenses, tax withholdings and maintenance of the subject property) to cover family living expenses.

Count all members of the household of the occupying borrower without regard to the nature of their relationship and without regard to whether they are joining on title or the Note to determine family size.

| Table of Residual Incomes by Region for Loan Amounts of \$79,999 and Below | | | | |
|--|---|---------|-------|---------|
| Family Size | Northeast | Midwest | South | West |
| 1 | \$390 | \$382 | \$382 | \$425 |
| 2 | \$654 | \$641 | \$641 | \$713 |
| 3 | \$788 | \$772 | \$772 | \$859 |
| 4 | \$888 | \$868 | \$868 | \$967 |
| 5 | \$921 | \$902 | \$902 | \$1,004 |
| Over 5 | Add \$75 for each additional member up to a family of seven | | | |
| | | | | |
| Table of Residual Incomes by Region for Loan Amounts of \$80,000 and Above | | | | |
| Family Size | Northeast | Midwest | South | West |
| 1 | \$450 | \$441 | \$441 | \$491 |



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| | | | | |
|--------|---|---------|---------|---------|
| 2 | \$755 | \$738 | \$738 | \$823 |
| 3 | \$909 | \$889 | \$889 | \$990 |
| 4 | \$1,025 | \$1,003 | \$1,003 | \$1,117 |
| 5 | \$1,062 | \$1,039 | \$1,039 | \$1,158 |
| Over 5 | Add \$80 for each additional member up to a family of seven | | | |

Key to Geographic Regions Used in Residual Income Tables

| Northeast | Midwest | South | West |
|---------------|--------------|----------------------|------------|
| Connecticut | Illinois | Alabama | Alaska |
| Maine | Indiana | Arkansas | Arizona |
| Massachusetts | Iowa | Delaware | California |
| New Hampshire | Kansas | District of Columbia | Colorado |
| New Jersey | Michigan | Florida | Hawaii |
| New York | Minnesota | Georgia | Idaho |
| Pennsylvania | Missouri | Kentucky | Montana |
| Rhode Island | Nebraska | Louisiana | Nevada |
| Vermont | North Dakota | Maryland | New Mexico |
| | Ohio | Mississippi | Oregon |
| | South Dakota | North Carolina | Utah |
| | Wisconsin | Oklahoma | Washington |
| | | South Carolina | Wyoming |
| | | Tennessee | |
| | | Texas | |
| | | Virginia | |
| | | West Virginia | |



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| Revision History | Date |
|--|------------------|
| AUS decision – Maximum number of borrowers clarified | January 18, 2023 |



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Chapter 3F Credit

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3F.1 Documentation Standards

A credit report must be obtained for each borrower who will be obligated on the Note.

All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference. The current balance, current status, rating, monthly payment amount, and payment history for the most recent 12 months must be provided.

Written verifications of mortgage, rent, or credit must be sent directly to the creditors. The return address on the verification must be the lender's address. The hand carrying of verifications is strictly prohibited.

Obtain direct verification for significant debts not reported on the credit report. Significant debt is one that has a monthly payment exceeding 2% of the monthly income for all borrowers.

3F.2 Credit Report Standards

The loan file must contain one of the following types of credit reports for each borrower:

- A merged in-file report including, credit scores, from three different credit repositories is required; or two repositories, if that is the extent of the information available. If information from only one credit repository is available, it is acceptable if there is a credit score, and information was requested from all three repositories. If a merged in-file report is upgraded to a Residential Mortgage Credit Report (RMCR), the original merged in-file report must remain in the file; or
- Full Residential Mortgage Credit Report (RMCR), which conforms to all applicable Fannie Mae and Freddie Mac requirements.
- IRRRL transactions only: a mortgage only credit report, including FICO score, may be used to verify mortgage history payment requirements.

When a new or retyped credit report is provided, all prior credit reports must be included in the loan file. The retyped credit report/supplement must indicate the reason and authorization for any changes, additions and/or deletions.

When the credit report shows a victim statement under the FACT Act, the originating entity must document in writing the steps taken to validate the loan application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws.



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Credit report alerts must be reasonably resolved with supporting documentation included in the loan file. Although due diligence is required, it does not release the Client from representations and warranties regarding misrepresentation.

3F.2(a) Credit Report Red Flags

When underwriting a credit report, the borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information. The borrower's address history must be examined for consistency with other file documentation. Discrepancies must be adequately explained, and questionable explanations researched. The use of a U.S. address to obtain a credit report for a borrower who resides in another country is not permitted.

3F.2(b) Frozen Credit

Any borrower with one (1) or more repositories with frozen credit on their credit report must have their credit unfrozen and reunderwritten.

If the credit is unfrozen after the date that the original credit report was ordered, a new three-file merged credit report must be obtained to reflect current updated information from all repositories.

Credit Reports for Non-Purchasing Spouses in Community Property States must not contain any frozen credit reporting from a credit repository.

3F.3 Credit Scores

3F.3(a) Credit Scores

A credit score represents a comprehensive view of a borrower's credit history risk factors. The higher the score the lower the risk of default. The score in combination with the dates and severity of late payments should be considered. Refer to individual Product Profiles for credit score requirements.

3F.4 Selection and Validation of Credit Scores

Selecting the credit score for loan qualification is a two-step process.

- Select the credit score for each individual borrower; and
- Select the credit score used for loan qualification.



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3F.4(a) Selection

Select the credit score for each borrower. Use the lowest selected credit score among all borrowers for loan qualification.

| Number of Scores | Score |
|------------------|------------------|
| 3 | Middle Score |
| 2 | Lower of the two |
| 1 | Use score |

3F.5 Nontraditional Credit

For borrowers without a credit score, a Nontraditional Mortgage Credit Report (NTMCR) from a credit reporting company or independently develop the borrower's credit history.

3F.5(a) Nontraditional Mortgage Credit Report (NTMCR)

A NTMCR refers to a type of credit report designed to access the credit history of a borrower who does not have the types of trade references that appear on a traditional credit report.

An NTMCR is used either as:

- A substitute for a TRMCR or an RMCR; or
- A supplement to a traditional credit report that has an insufficient number of trade items reported to generate a credit score.

A NTMCR developed by a credit reporting agency may be used if it verifies the following information for all non-traditional credit references:

- The existence of the credit providers;
- That the credit was actually extended to the borrower; and
- The creditor has a published address or telephone number.

The NTMCR must not include subjective statements such as "satisfactory" or "acceptable," must be formatted in a similar fashion to traditional references and provide the:

- Creditor's name;
- Date of opening;
- High credit;



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- Current status of the account;
- 12-month history of the account;
- Required monthly payment;
- Unpaid balance; and
- Payment history in the delinquency categories (e.g., 0x30 and 0x60).

3F.5(b) Independent Verification of Nontraditional Credit Providers

The borrower's credit references may be independently verified by documenting the existence of the credit provider and that the provider extended credit to the borrower.

1. To verify the existence of each credit provider, review public records from the state, county, or city or other documents providing a similar level of objective information.
2. To verify credit information:
 - Use a published address or telephone number for the credit provider and not rely solely on information provided by the applicant; and
 - Obtain the most recent 12 months of canceled checks, or equivalent proof of payment, demonstrating the timing of payment to the credit provider.
3. To verify the borrower's rental payment history, obtain a rental reference from the appropriate rental management company, provided the borrower is not renting from a family member, demonstrating the timing of payment of the most recent 12 months in lieu of 12 months of canceled checks or equivalent proof of payment.

3F.5(c) Sufficiency of Credit References

The borrower's credit history must include three (3) credit references. At least one (1), if not all credit references should be from Group 1. If all three (3) cannot be obtained from Group 1, the unreported recurring debt may be obtained from Group 2.

| Group Number | Credit Reference |
|--------------|---|
| Group 1 | <ul style="list-style-type: none">• Rental housing payments (subject to independent verification if the borrower is a renter);• Telephone service; or• Utility company reference (if not included in the rental housing payment), including:<ul style="list-style-type: none">○ gas |

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| | |
|---------|--|
| | <ul style="list-style-type: none"> ○ electricity ○ water ○ television service ○ internet service |
| Group 2 | <p>If all three (3) credit references cannot be obtained from the list above, use the following sources of unreported recurring debt:</p> <ul style="list-style-type: none"> • Insurance premiums not payroll deducted (e.g., medical, auto, life, renter's insurance); • Payment to child care providers; • School tuition; • Retail store credit cards (e.g., department, furniture, appliance stores, or specialty stores); • Rent-to-own (e.g., furniture, appliances); • Payment of that part of medical bills not covered by insurance; • A documented 12-month history of savings evidenced by regular deposits resulting in an increased balance to the account that were: <ul style="list-style-type: none"> ○ Made at least quarterly; ○ Not payroll deducted; and ○ Caused no insufficient funds (NSF) checks. • An automobile lease; • A personal loan from an individual with repayment terms in writing and supported by canceled checks to document the payments; or • A documented 12-month history of payment by the borrower on an account for which the borrower is an authorized user. |

3F.6 Inquiries and Undisclosed Liabilities

All debt incurred during the application process and through loan closing of the mortgage must be disclosed on the final application and included in the loan qualification.

Review the credit report for any inquiries to ensure that all debts, including any new debt payments resulting from material inquiries listed on the credit report, are included in the DTI. Determine that any recent debts were not incurred to obtain any part of the borrower's required funds to close. If additional credit was applied



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for and approved or obtained, a verification of that debt must be provided and included in the borrower's monthly obligations.

Material inquiries refer to inquiries which may potentially result in obligations incurred by the borrower for other mortgages, auto loans, leases, or other installment loans. Inquiries from department stores, credit bureaus, and insurance companies are not considered material inquiries.

A letter of explanation for all material inquiries within the past 90 days is required unless AUS specifically indicates an explanation is not required. If additional significant debt has been incurred or if significant debts are not reported on the credit report, comply with the following:

- Verify the monthly payment and balance of the new debt obligation;
- Direct verification of the debt is required;
- Determine and document that any new funds borrowed are not being used for the borrower's cash investment; and
- Resubmit the loan to automated underwriting.

3F.7 Housing Payment History

See below for [TEMPORARY COVID REQUIREMENTS](#)

On the date of the loan application, all existing mortgages must be current, meaning that no more than 30 days may have elapsed since the last paid installment date and the rating covers a 12-month period. If these requirements are not satisfied, the mortgage rating must be updated through with a VOM, cancelled checks, or a payoff statement. Obtain the current balance, current status, monthly payment amount, and payment history for the most recent 12-months.

A mortgage payment is considered current if it is paid within the month due. A letter of explanation and supporting documentation is required when payments are made beyond the month due.

Payment histories on all mortgage trade lines, regardless of occupancy, including first and second mortgage liens, and HELOCs are considered mortgage debt. Mobile homes and manufactured homes reported as an installment loan must be considered as a housing payment and reviewed as such.

A mortgage that has been modified must use the payment history in accordance with the modification



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agreement for the time period of modification in determining late housing payments. Standard payment history requirements apply.

3F.7(a) AUS Refer and Manual Underwrite

3F.7(a)(i) Mortgage Payment History

Direct verification is required when ratings are not available for any outstanding, assumed or recently retired mortgage.

3F.7(a)(ii) Rental Payment History

A 24-month rental payment history is required directly from the landlord, through information shown on the credit report or by cancelled checks.

Refer to our Product Summaries for housing payment history and mortgage payment forbearance requirements.

TEMPORARY COVID REQUIREMENTS

A Veteran who was granted a forbearance and continues to make payments as agreed under the terms of original note is not considered delinquent or late and will be treated as if not in forbearance status, provided that the forbearance plan is terminated prior to closing.

Refinance of mortgages that are in a current forbearance status, where mortgage payments are not being made, including mortgages under the CARES Act forbearance protection program, are not eligible. The forbearance plan must be completed and all mortgages that are to be refinanced must be current at the time of loan application.

Missed mortgage payments under the protection of a forbearance plan (such as the CARES Act) are not considered delinquent for the purpose of credit underwriting and evaluating compliance with mortgage payment history requirements.

For IRRRL and Cash-out Refinances, a minimum of six (6) consecutive monthly mortgage payments paid in the month due and a passing of 210 days after first payment date of the loan being refinanced must have occurred as of the closing of the new loan.



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Any interruption in the monthly payments before the initial six months of seasoning will require the Veteran to reset the minimum loan seasoning time frame. Six (6) consecutive monthly mortgage payments paid within the month due is required after the last missed payment to meet the statutory seasoning requirement. For example, if the Veteran, under a forbearance plan, missed making the sixth payment of the mortgage that was due in August 2020, but was then able to exit from the forbearance and resume regularly scheduled payment in September 2020, the Veteran would have to wait until March 2021 to refinance after making six (6) consecutive mortgage payments post forbearance. If the mortgage seasoning requirement had already been met prior to the forbearance, a reset would not be needed.

Always apply due diligence when reviewing the credit report, servicer payment histories, CAIVRS and payoff statements for evidence of prior forbearance or modification events in the Veteran's mortgage payment history.

3F.8 Significant Derogatory Credit

The presence of significant derogatory credit dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit include bankruptcies, deeds-in-lieu, foreclosures, pre-foreclosure sales, and short sales.

Derogatory credit information is not significant when it consists only of isolated late payments, even if several accounts show sporadic late payments.

Compensating factors cannot be used to compensate for derogatory credit.

3F.8(a) Waiting Period Requirements

The following table outlines the requirements for borrowers who have filed for bankruptcy, pre-foreclosure, foreclosure, or deed-in-lieu of foreclosure.

Pre-foreclosure sales, also known as short sales, refer to the sales of real estate that generate proceeds that are less than the amount owed on the property and the lien holders agree to release their liens and forgive the deficiency balance on real estate.



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Borrowers who have experienced a significant derogatory event must meet the below requirements.

| Derogatory Event | Waiting Period |
|--|--|
| Foreclosure | <ul style="list-style-type: none">• ≥ 2 years from completion date<ul style="list-style-type: none">○ Documentation evidencing the date of completion. The credit report verification is not acceptable• If the foreclosure was finalized within the last 1 to 2 years from the date of closing, it is probably not possible to determine that the borrower(s) is a satisfactory credit risk unless both of the following requirements are met:<ul style="list-style-type: none">○ The borrower(s) has obtained consumer items on credit subsequent to the foreclosure and has satisfactorily made the payments over a continued period, and○ The foreclosure was caused by circumstances beyond the control of the borrower(s) such as unemployment, prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified. <p>If the foreclosure process is in conjunction with a bankruptcy, use the latest date of either the discharge of the bankruptcy or transfer of title for the home to establish the beginning date of re-established credit. If there is a significant delay in the transfer of title, the client/lender should contact the RLC of jurisdiction for guidance. Note: When the RLC provides additional guidance, the loan file must contain evidence of the discussion (including contact information), the provided guidance and the supporting documents</p> |
| Deed-in-Lieu of (DIL) Foreclosure or Short Sale | <ul style="list-style-type: none">• For a short sale or DIL, document the facts and circumstances in which the borrower(s) voluntarily surrendered the property.• If the borrower's payment history was not affected before the short sale or deed in lieu and was voluntarily communicating with the servicer or holder, then a waiting period from the date transfer of the property may not be necessary.• If short sale or DIL was on a VA-guaranteed loan, then a borrower may not have full entitlement available for the new VA loan. Ensure |

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|-----------------------|---|
| | <p>that the borrower's COE reflects sufficient entitlement.</p> <ul style="list-style-type: none"> • If the short sale or DIL process is in conjunction with a bankruptcy, use the latest date of either the discharge of the bankruptcy or transfer of title for the home to establish the beginning date of re-established credit. |
| Chapter 7 Bankruptcy | <ul style="list-style-type: none"> • ≥ 2 years from discharge date • Documentation evidencing the date of discharge of the bankruptcy • The borrower must have acceptable reestablished credit or chosen not to incur new credit obligations. • If the bankruptcy was > 1 year and < 2 years from discharge date, both of the following must be met: <ul style="list-style-type: none"> ○ The bankruptcy was caused by <u>extenuating circumstances</u>; and ○ The borrower must have acceptable <u>re-established credit</u>. |
| Chapter 13 Bankruptcy | <ul style="list-style-type: none"> • The payout performance has been satisfactory with all required payments made on time in the past 12 months, and • The borrower(s) must receive written permission from the bankruptcy court to enter into the mortgage transaction. <p>If the borrower has finished making all payments satisfactorily, you may conclude the borrower has re-established satisfactory credit.</p> |

3F.8(b) Extenuating Circumstances

Extenuating Circumstances are nonrecurring events beyond the control of the borrower or spouse such as unemployment, prolonged strikes, extended illness, death of a wage earner, medical bills not covered by insurance, and so on, and the circumstances are verified. Divorce is not generally viewed as beyond the control of the borrower and/or spouse.

3F.8(c) Re-established Credit

In order to conclude that the borrower's credit profile is acceptable despite previous financial mismanagement, the rationale supporting the determination that the financial mismanagement is unlikely to recur, and the borrower's credit profile is acceptable, must be explained.

The loan file must contain all of the following documentation:



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- Evidence that the borrower has re-established an acceptable credit profile, and
- Evidence on the credit report and other credit documentation on the length of time since completion of the significant derogatory event to the note date, and of completion of the recovery time period requirements as identified in the Table above.

3F.8(d) Delinquent Credit

Loans that are manually underwritten require a letter of explanation for derogatory credit.

| | |
|--|--|
| Delinquent Federal Debt | See Chapter 3A Eligibility |
| Judgments, Tax Liens, and Garnishments | <ul style="list-style-type: none">• Regardless of the automated underwriting recommendation, all tax liens and court ordered judgments must be satisfied at or prior to closing and a letter of explanation provided.• If the borrower has been making a minimum 12-months regular and timely payments on the judgment or non-federal tax lien as of the note date and the creditor is willing to subordinate to our loan, the judgment or non-federal tax lien may remain open. A subordination agreement must be provided. The monthly payment must be included in the DTI ratio.• When a judgment or tax lien has been in place for fewer than 12 months, justification for shorter seasoning may be considered with documentation evidencing that the borrower immediately addressed and began a repayment plan, after the judgment or non-federal tax lien was filed. |
| Past Due Accounts | <ul style="list-style-type: none">• Accounts that are past due (and not yet reported as a collection account) must be brought current. Verification of sufficient funds to satisfy these obligations must be documented.• If a mortgage or other significant debt is past due and was last updated 90 or more days, verify current status of past due debt. Loan must be manually downgraded. |
| Collection Accounts | <ul style="list-style-type: none">• Collection accounts including medical collections do not have to be paid off. However, non-medical collection accounts must be considered part of the borrower's overall credit history and unpaid collection accounts should be considered open, recent credit. |

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|----------------------------|---|
| | <ul style="list-style-type: none"> Borrowers with a history of collection accounts should have re-established satisfactory credit in order to be considered a satisfactory credit risk. If there is a minimum payment on the credit report for the non-medical collection account, it must be included in the DTI ratio. If credit report does not show a minimum payment, and there isn't an established payment arrangement, 5% of the outstanding balance should be included in the DTI. |
| Charged-off Accounts | Charged-off accounts including medical charged off accounts are typically collections in which the creditor is no longer pursuing collection of the account. The underwriter must address the circumstances regarding the negative credit history when reviewing the borrower's overall credit. |
| Consumer Credit Counseling | <ul style="list-style-type: none"> A borrower who is either participating in or who has completed Consumer Credit Counseling must meet all traditional credit requirements, regardless of the automated underwriting recommendation. A 12-month satisfactory payment history must be demonstrated, and the counseling agency must approve the new credit. |
| Disputed Accounts | <ul style="list-style-type: none"> Consider a Veteran's claim of bona fide or legal defenses regarding unpaid debts except when the debt has been reduced to judgment. Document the reason(s) for not considering an account on <i>VA Form 26-6393, Loan Analysis</i>. |



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| Revision History | Date |
|---|------------|
| Updated Credit report Standards to show for IRRRL transactions only: A mortgage only credit report, including FICO score, may be used to verify mortgage history payment requirements. | 01.30.2024 |
| Modified mortgage pay history to identify is considered current without reference to any late changes assessed for payments made beyond the 15-day grace period. <ul style="list-style-type: none">Clarified VA Pamphlet 26-7 updates:<ul style="list-style-type: none">Medical collection and/or charged off medical accounts do not need to be considered in qualifying ratios.Non-medical collections without a payment listed on the credit report, 5% of the outstanding balance should be included in the DTI. | |
| Added guidance for Foreclosures, deed in lieu or short sale, if there is a significant delay in the transfer of title, the lender should contact the RLC of jurisdiction for guidance. Channel must document the discussion along with contact information, the provided guidance and the supporting documents. | 06.27.2024 |
| Removed section for Maryland State Requirements to consider school or work attendance as a compensating factor for thin credit upon request of the borrower | 11.24.2024 |



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3G.1 Assets and Closing Requirements

The borrower must have sufficient cash assets to cover:

- any closing costs, prepaids, or discount points that are the borrower's responsibility and are not financed into the loan; and
- the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA (i.e., negative equity).

VA does not require the borrower(s) to have additional cash to cover a certain number of mortgage payments, unplanned expenses or other contingencies on the residence, or refinance of the Veteran's residence.

However, the borrower's ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the overall credit analysis.

Reserves are required for borrowers using rental income to qualify. A rental offset does not require additional assets to cover PITI.

The assets securing a loan(s) against deposited funds (signature loans, cash value life insurance policies, 401(k) loans, other) may not be included as an asset.

3G.1(a) Foreign Assets

The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions. See Chapter 2 Compliance of the Client Guide for additional information.

3G.2 Reserve Requirements

Reserves are eligible assets remaining after closing. Reserves are measured by the number of months of the qualifying payment for the subject mortgage that the borrower could pay using his or her financial assets.

When required, reserves must be met with the borrower's own funds and must be in the borrower's account before closing, unless otherwise stated in this section or our Product Profiles.

The monthly housing expense includes:

- Principal and interest



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- Property and flood insurance
- Real estate taxes
- Ground rent
- Special assessments
- Homeowners' association dues (excluding any utility charges that apply to the individual unit)
- Subordinate financing payments on mortgages secured by the subject property

Liquid reserves are those liquid assets that are readily available to a borrower after the mortgage closes. Liquid reserves include cash and other assets that are easily converted to cash by the borrower.

Refer to our Product Summaries for reserve requirements.

3G.3 Asset Sources

Acceptable asset sources for down payment, cash reserves and cash to close are listed below. Not all asset sources are acceptable for down payment, cash to close and reserves. See each section for asset source acceptability.

- [Financial Institution Accounts](#)
- [Business Assets](#)
- [Cryptocurrency](#)
- [Employer Assistance Programs](#)
- [Equity from Other Assets](#)
- [Gifts](#)
- [Loans Secured by Financial Assets](#)
- [Notes Receivable/Repayment of Loans](#)
- [Retirement Accounts](#)
- [Savings Bonds](#)
- [Source of Funds from Outside the United States](#)
- [Stocks, Bonds, and Mutual Funds](#)

3G.3(a) Financial Institution Accounts

Financial institution accounts include funds on deposit in savings accounts, checking accounts, certificate



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of deposits, and money market accounts.

These funds may be used for the down payment, closing costs, and reserves.

- a) Individual Accounts: Funds in the borrower's individual account
- b) Joint Accounts: Funds held in a joint checking or joint savings account
- c) Trust Accounts: Funds disbursed from a trust account where the borrower is the beneficiary are acceptable if the borrower has immediate access to them. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the borrower has access to the funds.

Accounts that do not allow the borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the borrower is not the beneficiary, such as custodial accounts.

Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits income levels and sources are necessary to validate the documents.

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| Account Statements | <p>Account statements may be obtained to document the borrower's assets.</p> <ul style="list-style-type: none">• For AUS Approve decision, provide the most recent one (1) month account statement or the most recent quarterly account statement, in lieu of a VOD.• For AUS Refer and Manual Underwrite, provide the most recent two (2) months account statements or the most recent quarterly account statement, in lieu of a VOD.• Account statements must be dated within 45 days of application. Quarterly account statements dated more than 45 days and less than 90 days are acceptable with verification that the funds are still available.• Account statements must clearly identify:<ul style="list-style-type: none">○ The financial institution;○ Borrower as the account holder;○ At least the last four digits of the account number;○ Time period covered; and○ Ending balance. |
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| | <p>If a supplemental statement is necessary, any financial institution-generated printout or alternative verification of the asset (such as deposit or withdrawal slips) is acceptable if all of the required data above is supplied and documented. Supplemental information must be on an institution form with the name of the financial institution or on letterhead signed by a representative. ATM receipts are not permitted.</p> <p>Account statements may be online account statements obtained by the borrower. Documents that are faxed or downloaded from the Internet must clearly identify the name of the institution and the source.</p> |
| Verification of Deposit | <p>A Verification of Deposit (VOD) issued by the financial institution may be obtained. Each VOD must clearly identify:</p> <ul style="list-style-type: none"> • The financial institution; • Borrower as the account holder; • At least the last four digits of the account number; • Type of account; • Open date; • Account balance as of the date of the VOD; and • Average balance for the previous two (2) months. When an average balance is not provided, obtain the most recent two months (2) account statements. <p>The VOD must be remitted directly to the depository. A VOD should never be mailed to a Post Office Box or to an individual's attention. If the borrower indicates this is necessary, the file must contain verification that the depository was independently contacted and verified this requirement. The return address on the verification must be the originator's address. The hand carrying of verifications is strictly prohibited.</p> |
| Third Party Asset Verifications | <p>Direct verification by a third-party asset verification is acceptable as long as:</p> <ul style="list-style-type: none"> • The borrower provided authorization to use third-party verification; • The verified information provided conforms with the information that would be on a VOD or account statement, including a transaction history; and • The completion date complies with the allowable age of documentation. |

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| Closing Disclosures | <p>Closing Disclosures must:</p> <ul style="list-style-type: none"> • Be computer-generated or typed; • Identify the borrower as the seller of the property; • Identify the property sold; • Show the proceeds to the property seller; • Show the disposition of all liens against the property; and • Be signed by the buyer and the seller, or their authorized agents. |
| Review of Account Statements/VOD | <p>An explanation and documentation for the source of funds is required for any recently opened accounts and recent large deposits. In addition, verify that any recent debts were not incurred to obtain part or all of the required borrower cash investment.</p> <p>If a large deposit is from another account that is verified, that account must be verified after the withdrawal to ensure that the assets are not counted twice.</p> <p>Unverified funds are not acceptable sources for the down payment, closing costs, reserves, and debt payoff.</p> <p>Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits against income levels and sources are necessary to validate the documents.</p> |

3G.3(b) Business Assets

Business assets may be used to meet the borrower's MRI. All of the following is required:

- A letter from the accountant on letterhead confirming the borrower's authority to remove funds from the business for personal use;
- Any impact the withdrawal will have on the business cash flow and financial position;
- Copy of business check and deposit into borrower's personal account; and
- Business tax returns must be in the loan file.

The above is required for Non-Delegated Clients and recommended for Delegated Clients.

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3G.3(c) Cryptocurrency

Cryptocurrency is not an eligible asset; however, **proceeds** from the liquidation of cryptocurrency may be eligible for down payment, closing costs or reserves when all of the following requirements are met:

- Verify that the cryptocurrency purchases were made using eligible assets (such as funds from a bank, brokerage, or retirement account, proceeds from a sale of home or other tangible asset, etc.) and otherwise comply to existing policy on large deposits.
- Document the trail of the cryptocurrency converted into U.S. dollars and transferred to the borrower's U.S. bank account; and
- Provide statement that shows:
 - The original purchase of the cryptocurrency (dollar value and when purchased).
 - Bank or investment fund statements, bill of sale receipts or other proof to identify source of funds used to purchase the cryptocurrency.
 - Statements showing the sale, liquidation or transfer of the cryptocurrency converted into U.S. dollars and transferred to the borrower's bank or brokerage account.

3G.3(d) Employer Assistance Programs

Employer assistance provided by the borrower's employer to pay part of the closing costs or down payment is considered a homeowner assistance program (HPA) and requires Newrez approval.

If the employer provides this benefit after closing, the borrower must provide evidence of sufficient funds for closing.

A salary advance cannot be considered as assets to close since it represents an unsecured loan.

3G.3(e) Equity from Other Assets

3G.3(e)(i) Sale of Personal Property

Funds derived from the sale of assets (personal property) other than real estate may be used for cash for closing.

The asset must be verified by all of the following based on the lesser of the sales price or value:

- Proof of ownership;
- Support for the value of the asset (published value estimates, appraisal);



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- Evidence of transfer of ownership (e.g., a copy of the bill of sale);
- Evidence of receipt of the purchase proceeds (e.g., deposit slip or account statement); and
- Evidence that a party to the property sale or the mortgage financing transaction did not purchase the asset.

3G.3(e)(ii) Sale of Real Estate

The net proceeds that will be generated from the sale of an existing property must be established. Both the actual sale price and net proceeds must be documented with either a copy of the final Closing Disclosure, Fully executed final Seller's ALTA Settlement Statement or a fully executed buy-out agreement accompanying a Closing Disclosure that is part of an employer's relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage verifying required net proceeds.

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| Net proceeds based on sales contract |
| Obtain a copy of the executed contract of sale and use the following calculation: $\text{Sales Price} \text{ minus } (\text{Sales Costs} + \text{All Liens}) = \text{Estimated sales proceeds}$ |
| Net proceeds based on listing price |
| 90% of Listing Price minus All Liens = Estimated Sales Proceeds The 10% adjustment factor must be adjusted depending on market conditions in the area. |

3G.3(f) Gift Funds

The borrower may use funds received as a gift from an acceptable donor to satisfy any borrower's required investment. Gift funds may not be used for reserves.

The loan must comply with all of the following guidelines for gift documentation.

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| Gift Letter | <p>A gift letter signed by the donor must:</p> <ul style="list-style-type: none">• Specify the dollar amount of the gift or gift of equity;• Specify the date the funds were or will be transferred;• Include the donor's statement that no repayment is expected; |
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| | <ul style="list-style-type: none"> Indicate the donor's name, address, telephone number, and relationship to the borrower; and Signature of all parties. |
| Donor | A gift can be provided by a donor that does not have any affiliation with the builder, developer, real estate agent, or any other interested party to the transaction. |
| Transfer of Gift Funds | <p>Verification and documentation that sufficient funds to cover the gift are available in the donor's account or have been transferred to the borrower's account is required.</p> <p>Evidence of transfer of gift funds includes one of the following:</p> <ul style="list-style-type: none"> Evidence of the borrower's deposit and a copy of the donor's funds by check; and Evidence of an electronic transfer to the closing agent and the Closing Disclosure showing receipt of the donor's funds. <p>The transfer and deposit of the gift funds must coincide with information on gift letter.</p> <p>Cash gifts and ATM receipts are not an acceptable source of donor gift funds.</p> |
| Gift of Equity | Must be reflected on the Final Closing Disclosure. |
| Wedding Gifts | <p>When funds are received as a wedding gift all of the following must be provided:</p> <ul style="list-style-type: none"> Recent marriage certificate not more than six months old; and Verification of receipt of the funds via account statement/deposit slip(s). The date of the deposit slip and the date on the marriage certificate must be within a reasonable time frame. |

3G.3(g) Homebuyer Assistance Programs

Homebuyer assistance programs (HAP) may provide grants for closing costs and prepaid items from federal, state, local government agencies and VA approved non-profit agencies considered by VA to be an instrumentality of the government.

- VA approval is not required before closing the loan. Homebuyer assistance programs that are administered by a state, county, or municipal government entity have blanket approval for use with VA loans. These state and local programs are not the same as those with the Department of Defense HAP.



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- HAPs that do not fall under the blanket approval, should forward the documentation to the VA RLC with jurisdiction over property state.

If the sale price of the property exceeds the appraised value, HAP assistance in the form of a grant to pay the difference is allowed. Otherwise the Veteran must pay the difference of price over value from their own funds without borrowing.

HAPs often require buyers to occupy the property for a specified period of time. At closing, the borrower must acknowledge this requirement, and provide a copy of the signed acknowledgement.

3G.3(h) Loans Secured by Financial Assets

Loans secured against deposited funds (signature loans, cash value of life insurance policies, 401(k) accounts, etc.) where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the borrower's assets, do not require consideration of repayment for qualifying purposes.

If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

3G.3(i) Notes Receivable/Repayment of Loans

When funds are obtained from repayment of a previous loan made by the borrower, all of the following information must be provided:

- Written agreement between the borrower and the recipient of the loan;
- Verification the borrower had the ability to lend the funds;
- Evidence that the funds were withdrawn from the borrower's account;
- Verification that repayment has been made; and
- Provide statements verifying the funds were withdrawn from the recipient's account and deposited into the borrower's account.

3G.3(j) Retirement Accounts

Vested funds from individual retirement accounts (IRA, SEP, and Keogh) and tax -favored retirement savings accounts (e.g., 401(k), 403(b)) may be used as a source of funds for down payment, closing costs

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and cash reserves.

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| Down Payment and Closing Costs | When funds from these sources are used for the down payment or closing costs, the funds must be withdrawn, and proof of withdrawal must be provided. |
| Cash Reserves | <p>When retirement accounts are used to meet reserve requirements, account for any applicable withdrawal penalties or income tax, to determine the "net" withdrawal. Deduct 40% from the vested amount less any outstanding loans.</p> <p>When retirement accounts only allow for withdrawal in connection with the borrower's employment termination, retirement or death, the vested funds must not be considered as reserves (e.g., PERS or like accounts).</p> |

3G.3(k) Savings Bonds

United States Savings Bonds may be used as a source of funds for down payment, closing costs or cash reserves. When funds from savings bonds are used for down payment and closing costs, proof of ownership and liquidation of the bonds is required.

3G.3(l) Source of Funds from Outside the United States

When the source of funds needed for closing is located outside of the United States and its territories, the funds must be transferred into a United States or State regulated financial institution prior to closing;

- The funds must be available to the borrower;
- All documents of foreign origin must be completed in English. If not in English, a written translation, attached to each document must be provided;
- Translations must be completed by a disinterested third party; artificial intelligence translations are not acceptable. If the state requires the document to be notarized, the translation will need to be completed in a live environment in order to complete the notarization; and
- All foreign currency amounts must be converted to U.S. dollars.

3G.3(m) Stocks, Stock Options, Bonds, Mutual Funds

The value of stocks, bonds or mutual funds must be documented by one of the following:

- Verification of Deposit and most recent statement,



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- Most recent three month's statements or quarterly statement; or
- Copy of bond or stock certificate accompanied by a current, dated newspaper or internet stock list if not held in a brokerage account.

Stock options and non-vested restricted stocks are not an eligible asset source for reserves.

Verification of liquidation and receipt is required when the funds from the sale of stocks/bonds are used for the down payment or the closing costs when manually underwriting or if the AUS requires.

3G.4 Unacceptable Asset Sources

Sources of funds considered ineligible include, but is not limited to:

- Assets derived from business activity that may be permitted by State law but is prohibited by Federal law, including but not limited to marijuana related business assets
- Cash advance on a revolving charge account
- Cash for which the source cannot be verified (e.g., garage sales)
- Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing
- Funds in a Custodial (Uniform Transfers to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA) or "In Trust For" account
- Gift that must be repaid in full or in part
- Labor performed by the borrower, also referred to as "sweat equity"
- Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
- Restricted stock
- Personal unsecured line of credit or loan
- Proceeds from an IRS Tax Code 1031 Exchange
- Salary advance

| Revision History | Date |
|---|------------|
| Clarified Gift of Equity must be reflected on the Final Closing Disclosure. | 01.30.2025 |



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Chapter 3H Liabilities and Debt Ratios

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3H.1 Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITIA.

- Principal and interest on the first mortgage loan
- Interest payments for Interest Only loans
- Subordinate financing payments on mortgages secured by the subject property
- Hazard insurance premiums
- Flood insurance premiums
- Real estate taxes
- Homeowners' association dues
- Leasehold payments
- Ground rent
- Special assessments with more than ten months remaining
- Any other escrow payments

3H.1(a) Real Estate Taxes

For real estate taxes, an accurate estimate of monthly property tax must be used when qualifying borrowers. For new construction, property tax estimates must be based on the land and completed improvements, not just on the land value.

3H.1(b) Tax Abatements

Tax abatements are a temporary reduction in the actual amount of taxes that the owners of a property must pay. The abated amount may be used provided that:

- The abated amount can be documented with the taxing authority; and
- The abatement will remain in place for at least the first three (3) years of the loan.

3H.1(c) Condominium Utility Expense

The portion of a condominium fees that is clearly attributable to utilities may be subtracted from the HOA fees before calculating qualifying ratios, provided the borrower provides proper documentation, such as statements from the utility company.

3H.2 Debt-to-Income Ratio

Debt-to-income ratios compare the monthly housing expense and all debt payments, including childcare, to total monthly qualifying income.



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In some instances, the maximum DTI limitation may be exceeded when residual income exceeds 120% or significant documented compensating factors exist such as:

- Excellent credit history;
- Conservative use of consumer credit;
- Minimal consumer debt;
- Long-term employment;
- Significant liquid assets;
- Sizable down payment;
- The existence of equity in refinancing loans;
- Little or no increase in shelter expense;
- Military benefits;
- Satisfactory homeownership experience;
- High residual income;
- Low DTI ratio;
- Tax credits for childcare; and
- Tax benefits of home ownership.

If the loan is approved with a DTI is greater than 41%, include a statement justifying the reasons for approval, signed by the underwriter's supervisor, unless the residual income exceeds the guideline by at least 20%. The statement must include the reasons for approving the loan and list the compensating factors justifying approval of the loan.

Refer to our Product Summaries for specific requirements on qualifying ratios.

3H.3 Residual Income

Residual income is the resulting net income after subtracting payroll taxes, housing expenses (PITIA and combined maintenance and utility expenses), all installment debts, child support and/or childcare expenses, from gross income.

Combined maintenance and utility costs is calculated by using 14 cents per square foot for the gross living area per the appraisal.



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3H.4 Monthly Obligations

The total monthly debt obligations considered is the sum of the monthly housing expense of the borrower's primary residence plus all other monthly expenses incurred by the borrower. Any additional debt obtained as a result of a recent inquiry on the credit report must be included in the monthly debt obligation.

Monthly expenses include:

- [Alimony and Child Support Payments](#)
- [Authorized User Accounts](#)
- [Business Debt](#)
- [Childcare Expense](#)
- [Co-Signed Loans](#)
- [Court-Ordered Assignment of Debt](#)
- [Installment Debt](#)
- [Loans Secured by Financial Assets](#)
- [Non-borrowing Spouse Debt in Community Property States](#)
- [Other Real Estate Owned](#)
- [Revolving Charges/Lines of Credit](#)

3H.4(a) Alimony and Child Support Payments

3H.4(a)(i) Alimony

When the borrower is required to pay alimony payments and those payments will continue for more than ten (10) months, the payments may be deducted from income.

3H.4(a)(ii) Child Support

Child support and other maintenance payments must be included in the DTI ratio calculation.

Voluntary payments do not need to be taken into consideration.

One (1) of the following is required to document the payment and number of remaining payments:



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- A copy of the divorce decree, separation agreement, maintenance agreement or other legal order is required to document the payment and the number of remaining payments; and
- Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made.

Review of the application and loan file documentation may require additional validation to determine child support obligations.

3H.4(b) Authorized User Accounts

Authorized user accounts are not considered in the credit evaluation and should not be included in the DTI calculation unless there is evidence that the borrower is making the monthly payment.

3H.4(c) Business Debt

When business debt is reported on the borrower's personal credit report, the debt must be included in the DTI ratio unless all of the following are considered:

- Documentation is provided to verify that the debt is paid by the business; and
- The debt was considered in the cash flow analysis of the business.

The debt is considered in the cash flow analysis where the borrower's business income tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the business income tax returns show an interest, expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.

3H.4(d) Childcare Expense

Childcare expense is considered a debt. Obtain a letter from the borrower(s) documenting the childcare expense for any dependent child under the age of 12. The day care provisions must make sense based on the location of the subject property. If applicable, the name and address of the childcare provider should be obtained.

Note: Childcare must be considered a debt for any dependent children 12 years or older who require custodial care.



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3H.4(e) Co-signed Loans

When a borrower co-signs for a loan to enable another party to obtain credit, but is not actually repaying the debt, the borrower has a contingent liability.

The contingent liability must be included in the debt-to-income ratio, unless there is documentation to evidence the loan payments are being made by someone other than the borrower and the obligation is current.

Evidence such as cancelled checks or automated savings withdrawals will be accepted.

3H.4(f) Court-ordered Assignment of Debt

When the borrower has an outstanding debt that was assigned to another party by a court order (e.g., divorce decree or separation agreement), and the creditor does not release the borrower from liability, it may be excluded from the DTI ratio with a copy of the court order to document assigning the debt..

The payment history of the debt need not be taken into consideration after the transfer date occurred, after the assignment to another party.

3H.4(g) Installment Debt

Installment debt not secured by a financial asset, including student loans, automobile loans, and timeshares, etc., must be included in the borrower's monthly debt obligations.

On a case-by-case basis, an installment debt may be excluded from the DTI when:

- There are fewer than ten (10) months remaining; and
- The exclusion does not significantly affect the borrower's ability to meet his or her monthly obligations.

An installment debt with fewer than ten (10) monthly payments remaining should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her monthly obligations.

3H.4(g)(i) Deferred Installment Debt

Installment debt, such as student loans or balloon notes, which will be deferred at least 12 months



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beyond from the date of closing, do not need to be considered in the qualification of the borrower. Written evidence of the deferment must be provided.

If the loan is in repayment or scheduled to begin within 12 months from the date of closing, a monthly payment must be used in the loan analysis.

A monthly threshold payment must be calculated using 5% of the current outstanding balance divided by 12.

- If the payment reported on the credit report is greater than the monthly threshold payment, the payment reported on the credit report must be used;
- If the payment reported on the credit report is less than the monthly threshold payment (including \$0 payment and no payment available) the higher calculated monthly threshold payment must be used; or
- If the borrower does not qualify using the higher monthly threshold payment, provide a statement from the student loan servicer dated within 60 days of closing that reflects the actual loan terms and payment obligations for the student loan.

3H.4(g)(ii) Pay Off or Pay Down Debt

Pay off or pay down of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

Paying off installment debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing. Source of funds must also be documented.

Paying down installment debt for loan qualification is permitted if the account is paid down prior to closing. The source of funds must be documented. Significant installment debt (those with high balances or large monthly payments) may be included in the DTI ratio at the discretion of the underwriter.

3H.4(g)(iii) Lease Payments

Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease.

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3H.4(h) Loans Secured by Financial Assets

Loans secured against deposited funds (signature loans, cash value of life insurance policies, 401(k) accounts, etc.) where repayment may be obtained through extinguishing the asset and these funds are not included in calculating the borrower's assets, do not require consideration of repayment for qualifying purposes.

If the borrower intends to use the same asset to satisfy reserve requirements, reduce the value of the asset by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

Refer to Chapter [3G](#) Assets for documentation requirements.

3H.4(i) Non-borrowing Spouse Debt in Community Property States

Non-borrowing spouse debt refers to debt owed by a spouse that are not owed by, or in the name of the borrower.

A non-borrowing spouse may be required to sign either the security instrument or documentation evidencing that he or she is relinquishing all rights to the property if required by state law to perfect a valid and enforceable first lien, as is the case in some community property states. If the non-borrowing spouse executes the security instrument, he or she is not considered a borrower for underwriting purposes and need not sign the loan application or Note.

In all other cases, the non-borrowing spouse must not be on the security instrument or take title to the subject property.

If the property is located in a community property state, or the borrower resides in a community property state, the following requirements must be complied with:

- A credit report for the non-borrowing spouse is required to determine any joint or individual debts and to determine the DTI ratio. The credit report for the non-borrowing spouse should not be a joint report, it should be obtained separately.
- Obtain and document authorization from the non-borrowing spouse to pull a separate credit report. If the non-borrowing spouse refuses to provide authorization for the credit report, the loan must be rejected.



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- Even if the non-borrowing spouse does not have a social security number, the credit reporting company should verify that the non-borrowing spouse has no credit history and no public records against him or her.
- Include the actual monthly payment obligation of the non-borrowing spouse in the DTI ratio calculation. If the actual monthly payment is not available, calculate the monthly obligation by using the terms of the debt or 5% of outstanding balance.
- All open judgments and liens, including those of the non-borrowing spouse, must be resolved prior to closing.
- Disputed debts of the non-borrowing spouse need not be counted with acceptable documentation of the dispute.
- Credit history of the non-borrowing spouse should not be the sole basis for declining the loan.
- The credit report is for the purpose of establishing debt only and is not submitted to AUS for the purpose of credit evaluation.
- The credit for the non-borrowing spouse may be traditional or non-traditional.
- Exclude the monthly payments on the debt of the non-borrowing spouse who voluntarily provides reliable income sources, analyzed, and verified as a separate debt.
- The loan file must reference the specific state law that justifies the exclusion of any debt from consideration.

| Known Community Property States | Community Property State Laws are Effective When | Include Debts in DTI | Exclude Debts from DTI if Acquired Prior to Marriage | Statutory Authority |
|---------------------------------|--|----------------------|--|--|
| Arizona | Married and domicile in same state | Yes | No | ARIZ. REV. STAT. ANN §25-13(A) |
| California | Married and domicile in same state | Yes | No | CAL FAM. CODE DIV. 4 Pt. 3 Ch. 2 §913(b)(1) and CAL FAM. CODE DIV. 4 Pt. 3 Ch. 2 §1612(a)(1) |
| Idaho | Married and domicile in same state | Yes | No | IDAHO CODE ANN. §§ 32-903 and 32-923(h) |
| Louisiana | Married and domicile | Yes | No | LA CIV. CODE ANN. Arts. 2523 and |



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| | | | | |
|------------|------------------------------------|-----|-----|---|
| | in same state | | | 3526(2) |
| Nevada | Married and domicile in same state | Yes | Yes | NEV. REV. STAT. §123.130 |
| New Mexico | Married and domicile in same state | Yes | No | N.M. STAT. 40-3-9 |
| Texas | Married and domicile in same state | Yes | Yes | TEX. FAM. CODE ANN. §§ 3.001 and 4.003(1) |
| Washington | Married and domicile in same state | Yes | Yes | WASH. REV. CODE §26.16.010 |
| Wisconsin | Married and domicile in same state | Yes | Yes | WIS. STAT. §766.31(8) |

3H.4(j) Other Real Estate Owned

Mortgage payments and related expenses on any non-income producing real estate must be included in the borrower's recurring debt obligations. This includes mortgage payments and related expenses on any property that is currently pending sale (not closing prior to subject transaction).

Determine the aggregate net negative rental income from all rental properties for qualification.

When the loan application reflects that the borrower owns other real estate free and clear of mortgage liens or encumbrances, documentation must be provided to evidence free and clear status of the property. The borrower must qualify with taxes, property insurance, homeowners' association dues/fees (if applicable), and any other related expenses, which must be documented.

3H.4(j)(i) Conversion of Primary Residence

If the Veteran's current primary residence is being converted to a non-owner occupied property, an



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explanation may be required when the property being purchased is of lesser value or in the same geographic location.

All of the following apply:

- Rental income may only be used to offset the mortgage payment.
- Rental income may not be used for qualification.
- The current and proposed monthly housing expenses must be included in the DTI ratio.

Refer to Chapter 3I Employment and Income for Rental Income requirements.

3H.4(k) Revolving Charges/Lines of Credit

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.

If the credit report does not show a required minimum payment amount and the current account statement is not provided, use 5% of the outstanding balance as the recurring monthly debt obligation.

3H.4(k)(i) Payoff Revolving Debt for Qualification

Payoff of debt to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification.

- For purchase transactions, the account must be paid in full (paying down to zero balance) prior to closing or at closing.
 - If paid prior to closing, provide documentation from the creditor and/or updated credit supplement prior to closing showing the account paid in full.
 - If paid at closing, the Closing Disclosure must reflect the payoff of the revolving debt being paid off. The borrower must have sufficient funds, sourced, and documented, to pay off the debt.
- For cash-out refinance transactions, paying off revolving debt prior to or at closing is permitted. The Closing Disclosure must reflect pay off of the outstanding balance, when paid off at closing.
- Document funds came from an acceptable source and no new debt was incurred.



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- The account does not have to be closed.

3H.5 Open 30 – Day Charge Accounts

An open 30-day charge account is defined as an account in which the borrower(s) must pay off the outstanding balance on the account every month.

For open 30 day charge accounts, determine if the borrower(s) pays the balance in full each month, and has verified funds to cover the account balance in addition to any funds required for closing costs.

- If there are sufficient funds, the payment does not need to be included in Section D of the VA Form [26-6393 Loan Analysis](#), but the obligation should continue to be listed.
- If there are not sufficient funds, a minimum payment of 5 percent of the balance should be considered and included in Section D of the VA Form [26-6393 Loan Analysis](#).

| Revisions | Date |
|---|------------|
| Updated Childcare Expenses to remove requirement for expense: or detailing why no expense is incurred, as this is not shown in VA Lender's Handbook | 04.29.2025 |



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Chapter 3I Employment and Income

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3I.1 Income Documentation

3I.1(a) IRS Form 4506-C

The below requirements do not apply to Non-Credit Qualifying IRRRLs.

3I.1(a)(i) General Requirements (Non-Delegated Clients)

- For loans underwritten by Newrez, borrower(s) are required to complete, sign, and date IRS Form 4506-C, authorizing the Newrez or its assigns, to validate income information.
- IRS Form 4506-C can be used to obtain tax transcripts for multiple years or tax periods, but only one (1) tax form number can be requested per IRS Form 4506-C.
- IRS Form 4506-C must not expire before a reasonable time to allow for execution.
- The signed IRS Form 4506-C must include authorization for transcripts to coincide with the years reflected on the income documentation provided and used for qualification.
- Signature Requirements:
 - If filing jointly, each borrower (taxpayer) must sign the same IRS Form.
 - If separate filings, each borrower (taxpayer) must sign on separate forms.
 - The form must be signed exactly as the borrowers' name appears on the original return.
 - If a borrower's name changed, the borrower must sign with both the current name and changed name.

3I.1(a)(ii) At Closing Requirements (Delegated and Non-Delegated Clients)

- Form 4506-C for each borrower whose income is used to qualify, regardless of income type must be signed at closing, including business tax returns, if applicable.
- Form 4506-C must be an original signature and cannot be e-signed.

It is necessary to complete three (3) IRS Form 4506-Cs for a self-employed borrower whose income documentation consists of two (2) years individual income tax returns and two (2) years business tax returns for two (2) separate businesses. One (1) Form 4506-C will be required for the individual return and a separate Form 4506-C for each business return.

3I.1(a)(iii) Completing IRS Form 4506-C



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| Line # | | Individual Tax Returns | Business Tax Returns |
|--|---|--|--|
| 1-4. | Complete with appropriate borrower information. The address completed on the form must be the same as the address on the tax return even if not the borrower's current address. | | |
| 5. | a. IVES Participant name, address and SOR mailbox ID b. Customer File Number | | |
| 6. | Transcript Requested | Enter Form 1040 | Enter Form 1120, 1065, etc., as applicable |
| | a. Return Transcript | Check Box and/or 6c | |
| | b. Account Transcript | Leave Blank | |
| | c. Record of Account | Check Box and/or 6a | |
| 7. | Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript | Check Box 7 | Leave Blank |
| 8. | Year or period requested | Complete for the number of year(s) required to document income | |
| <p>The IRS will process the request if the IRS Form 4506-C for the business includes the following:</p> <ul style="list-style-type: none"> 1120: Borrower must sign name with title and only the following titles are acceptable <ul style="list-style-type: none"> ○ President ○ Vice President ○ Secretary ○ Treasurer ○ Assistant Treasurer ○ Chief Accounting Officer 1120S: Borrower must sign name with title and only the following titles are acceptable <ul style="list-style-type: none"> ○ President ○ Vice President ○ Secretary ○ Treasurer ○ Managing Member 1065: Borrower must sign name with title and only the following titles are acceptable <ul style="list-style-type: none"> ○ Partner ○ Limited Partner | | | |



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3I.1(b) Tax Transcripts

For Non-Delegated Clients, Wage and Income Transcripts or Tax Return Transcripts, as applicable, must be obtained when:

- Handwritten paystubs are used as verification of income;
- There is a non-arm's length transaction; or
- At the underwriter's discretion.

Information from the tax transcript and borrower-provided document must be compared and discrepancies explained and resolved with detailed comments provided.

If the IRS rejects tax transcripts requested (for reasons of possible identity fraud/theft, other identity related issues, or misuse of tax transcripts), the messaging for these reasons received from the IRS may state the following: "Due to limitations, the IRS is unable to process this request. The IRS will mail a notification to the borrower to explain the reason; please contact your borrower."

- The rejection of the IRS not fulfilling the online request must be in the loan file.
- The borrower may order their own tax transcripts and provide them to Client. All schedules must be required by the borrower for the past two (2) years tax returns were filed.

If a borrower is not required to file last years' tax return and the source of income cannot be validated through the IRS Form 4506-C process, documentation supporting the lack of filing tax returns must be provided. See IRS [Table 1-1.2011 Filing Requirements for Most Taxpayers](#) and Chapter [6A](#) Fraud for guidance when related to identify theft.

3I.1(c) Paystubs

- The paystub must clearly identify the:
 - Borrower as the employee;
 - Gross earnings for the current pay period and year-to-date earnings;
 - Pay period;
 - Employer name; and
 - Date issued.
- If the borrower is paid hourly, the number of hours must be noted on the paystub;
- Paystubs must be computer -generated or typed by the employer. If the employer does not provide a computer-generated or typed paystub, the most recent years' income tax returns or tax transcripts are required with a written verification of employment completed in its entirety;



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- Paystubs must not have any alterations;
- The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor;
- Paystubs that are issued electronically, via e-mail or downloaded from the Internet are acceptable. Documents must clearly identify the employer's name and source of information - for example, by including the information in the Internet banner;
- Paystubs that are issued electronically, via e-mail, or downloaded from the Internet are acceptable and must include the following:
 - Internet Uniform Resource Locator (URL Internet address) identifying the source of the information;
 - Date and time printed;
 - Verbal verification of employment;
 - The documentation must also contain information identifying the place of origin and/or the author of the documentation, all of which must be confirmed on the verbal verification, and
 - Documents downloaded directly from the Internet to a Word document or Excel spreadsheet are not acceptable.
- A military Leave and Earnings Statement (LES) is required for borrowers who are active military personnel and must furnish the same information as a VOE. The LES must be a complete, legible copy of the original;
- The Department of Defense provides service members with access to a computer-generated LES through myPay, which is acceptable.
 - Ending Date of Obligated Service (ETS): Zeroes or "Indefinite" in this field typically means the person is an officer, and not necessarily subject to a specific term of service (i.e., two (2) years, four (4) years, etc.);
 - Entitlements: Base pay, BAS/BAH, etc.;
 - Deductions: Be aware of deductions that may not appear on a credit report (e.g., child support);
 - Years of Service will show how long the Veteran has been employed by the military; and
 - Allotments: Determine if any amount is going towards debts owed by the Veteran. This section can be compared with bank statements and credit report. The borrower may need to provide additional documentation.



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3I.1(d) W-2 Form

- The W-2 must:
 - Clearly identify the borrower as the employee and the employer's name;
 - Be the employee copy provided by the employer;
 - Be computer-generated or type by the employer;
 - Not have any alterations; and
 - Be the original source of the information from a third-party, such as the borrower's human resources department, personnel, office, payroll department, company's payroll vendor, or supervisor.
- The following may be used in lieu of the W-2 form provided the documentation reflects the complete income earned in the previous calendar year
 - Year-end paystub(s) or military Leave and Earnings Statement; and
 - W-2 transcript(s).

3I.1(e) Written Verification of Employment (WVOE)

A written verification of employment must contain:

- Dates of employment;
- Position;
- Prospect of continued employment, when available;
- Probability of continued employment must be verified as good or better and evaluated based on the following:
 - Past employment record;
 - Qualifications for the position;
 - Previous training and education; and
 - Employer's confirmation of continued employment.
- Base pay amount and frequency. For employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week. and
- Additional salary information, which includes itemized bonus, overtime, or tip, if applicable.

The borrower may not request completion of the written verification of employment directly from his or her employer.

If using a third-party service to verify employment (e.g., The Work Number, Quick Confirm, LexisNexis, etc.), the following applies:



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- The borrower provided authorization to use third-party verification;
- The verified information provided conforms with the information that would be on a VOE or paystub; and
- The completion date follows the allowable age of documentation.

3I.1(f) Verbal Confirmation of Employment

Verbal confirmation of the borrower's current employment status is required for each borrower when using alternative documentation in lieu of a written VOE.

If a verbal confirmation cannot be obtained, a written verification of employment must be utilized to confirm employment and must be completed within the same time frame as a verbal confirmation.

To comply with a verbal confirmation of employment requirement, independently obtain the phone number and address for the borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, etc., or by contacting the applicable licensing bureau. In addition, the following must be met:

| Verbal Confirmation of Employment | |
|-----------------------------------|--|
| Wage Earner | Not required, unless using alternative documentation in lieu of a written VOE. |
| Self-Employed Borrower | <p>Verification of the existence of a self-employed borrower's business within 30 calendar days from the Note date is required.</p> <p>Verification of the existence of the business from a third party is required. A borrower's website is not acceptable as third-party verification.</p> <ul style="list-style-type: none">• Acceptable third-party sources include, but are not limited to:<ul style="list-style-type: none">○ CPA (must be arm's length), regulatory agency, or the applicable licensing agency; or○ By verifying a phone directory listing and address for the borrower's business using a telephone book, the Intranet, directory assistance, Better Business Bureau. <p>Internet source. If using an internet source, such as</p> |



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| | <p>Whitepages.com, Yellowpages.com, the phone number must be called to ensure the business is still in existence.</p> <p>Verification of current existence of the business obtained verbally from an acceptable third-party source must be documented and include all of the following:</p> <ul style="list-style-type: none">• Name and address of business;• Name of individual and entity contacted;• Date of verification; and• Name and title of associate who completed the verification. <p>Alternative documentation: Current and active business insurance policy or Errors and Omissions policy, documentation showing registration for remitting sales tax, supplier invoices, etc.</p> |
|--|---|

3I.1(g) Tax Returns

The following standards apply with using Income Tax Returns to verify income.

| Form | Requirements |
|---|---|
| <i>Individual Income Tax Returns</i> (Form 1040) | <ul style="list-style-type: none">• Complete with all schedules and W-2s, 1099s, K-1s, etc.• Borrower's copy filed with the IRS |
| <i>Business Income Tax Returns</i> (Form 1120, 1120S, 1065) | <ul style="list-style-type: none">• Complete with all schedules and W-2s, 1099s, K-1s, etc.• Borrower's copy filed with the IRS |
| Amended Income Tax Returns Filed Prior to the Application Date | Amended tax returns filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the tax return was amended 60 days or less prior to the application, evidence of payment must also be provided. |
| Amended Income Tax Returns Filed After the Application Date | When amended tax returns are filed after the application date, due diligence must be exercised to determine the validity of the amended tax return. Examine the original tax return and the amended tax return for consistency with the previous filings to determine whether the use of the amended return is warranted. |

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| | <p>The following documentation should be reviewed when income from the amended return is required:</p> <ul style="list-style-type: none"> • A letter of explanation regarding the reason for the re-file, • Evidence of filing; and • Payment and the ability to pay the tax if the check has not been cancelled. <p>The underwriter must provide justification and commentary regarding its use.</p> |
| <i>IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns</i> | If <i>IRS Form 4868 Application for Automatic Extension of Time to File U.S. Individual Income Tax Return</i> is filed, the total tax liability reported on IRS Form 4868 must be reviewed and compared with the borrower's tax liability from the previous two (2) years as a measure of income source, stability, and continuance. If the estimated tax liability that is inconsistent with previous years, the current year tax return may be necessary. |
| Use of IRS Forms to Obtain Individual Income Tax Information | <p>Tax Returns Transcripts or Wage and Income Tax Transcripts may be used in lieu of obtaining the income tax returns, as long as they contain all of the information that would be included on the tax return:</p> <ul style="list-style-type: none"> • Form 8821 (or an alternate form acceptable to the IRS that collects comparable information); or • Form 4506-C (or an alternate form acceptable to the IRS that collects comparable information). |

3I.1(h) Allowable Age of Individual Income Tax Returns

| IF Today's Date is... | THEN the Most Recent Years' Tax Return would be... |
|---|--|
| February 18, 2025 | 2023 |
| May 18, 2025 | 2024 |
| December 15, 2025 | 2024 |
| The below table provides the allowable age of individual income tax returns depending on the application and Note date. | |
| Allowable age of Individual Tax Returns based on application date for borrowers whose income must be documented with tax returns (borrowers self-employed and non-self-employed). | |



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| <ul style="list-style-type: none"> • Self-employed income; • Employment by a family member or an interested party to the purchase transaction; • Rental income from an investment property; and • Other income sources ad identified in the chapter. | | |
|--|--|---|
| Reminder: The Note date is based on all documentation in the file (paystub, bank statements, appraisal, etc.) | | |
| Application Date | Note Date | Documentation |
| Before May 17, 2025 | Before May 31, 2025 | 2024 Tax Return Filed Most recent filed tax return(s) per AUS <ul style="list-style-type: none"> • 2024; or • 2024 and 2023 2024 Tax Return Not Filed Most recent filed tax return(s) per AUS <ul style="list-style-type: none"> • 2023; or • 2023 and 2022 |
| On or After May 17, 2025 | Before May 31, 2025 | 2024 Tax Return Filed Most recent year(s) tax returns per AUS <ul style="list-style-type: none"> • 2024; or • 2024 and 2023 2024 Tax Return Not Filed Most recent year(s) tax returns per AUS <ul style="list-style-type: none"> • 2023; or • 2023 and 2022 <i>And all of the following</i> <ul style="list-style-type: none"> • Copy of Application for Automatic Extension of Time to File 2024 U.S. Individual Income Tax Return (IRS Form 4868) • Tax transcripts confirming “No Transcripts Available” for 2024 |
| All | May 31, 2025 through October 31, 2025 | |
| All | On or After November 1, 2025 | Most recent year(s) tax returns per AUS <ul style="list-style-type: none"> • 2024; or • 2024 and 2023 |



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|---|--|---|
| | | <ul style="list-style-type: none">• Use of a Tax Extension is not permitted |
| See the applicable section of this chapter for complete income documentation requirements for all borrowers (self-employed and non-self-employed) whose income must be documented with tax returns. | | |

3I.2 Stable Monthly Income

The continuity of stable and predictable income must be demonstrated. Consider the length of the borrower's employment with any single employer. Borrowers with frequent job changes who earn a consistent and predictable income and are able to pay debt obligations are considered to have a reliable flow of income for loan qualification. Examples of less predictable income sources include commissions, bonuses, substantial amounts of overtime pay, or employment that is subject to time limits, such as contract employees or tradesmen.

Income that is legally derived under Federal law and properly reported as income on the borrower's tax returns (when required) may be considered an acceptable source of qualifying income. Income that is legally derived under State law, but not Federal law, may not be considered an acceptable source of qualifying income.

Known economic conditions, such as plant closings, company bankruptcies, etc. that may affect the borrower's income, must be taken into consideration.

3I.2(a) Continuity of Income

The continuity of receipt of qualifying income plays a critical role in determining a reliable flow of income. Unless there is knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented, it may be concluded that the income is stable and likely to continue. No additional information need be requested from the borrower.

If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, document the likelihood of continued receipt of the income for at least three (3) years.

3I.2(b) Variable Income

For employees who are paid hourly and whose hours do not vary, the borrower's current hourly rate must be used to calculate effective income.



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For employees who are paid hourly and whose hours vary, the income must be averaged over the past two (2) years.

| | |
|----------------------|--|
| Frequency of Payment | <p>Determine the frequency of the payment (weekly, biweekly, etc.) to arrive at an accurate calculation of the monthly income to be used in the trending analysis.</p> <p>Example 1</p> <p>If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three (3) months produces a much higher and inaccurate monthly average.</p> <p>Example 2</p> <p>If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, are there legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical, such as landscapers, snowplow operators, etc. The difference between current period overtime and year-to-date earnings must be investigated. Document the analysis before using the income amount in the trending analysis.</p> |
| Income Trending | <p>After the monthly year-to-date income amount is calculated, it must be compared to the prior years' earnings using the borrower's W-2s or signed individual income tax returns to determine if the income trend is stable, increasing, declining but stabilized or declining.</p> <ul style="list-style-type: none">• If the trend of the amount of income is stable or increasing, the income should be averaged.• If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used. |



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| | <ul style="list-style-type: none">If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the decline occurred. <p>Example</p> <p>A borrower who has variable income that has declined year over year for two (2) or more years will be difficult to predict next years' income. Because the future income is unpredictable, the variable income may not be used to qualify.</p> <p>Income Received \$5000 two years prior \$1500 prior year</p> <p>If the year-to-date income is supportive of at least \$1500, then it may be acceptable to use the variable income.</p> |
|--|--|

31.2(c) History of Receipt

A minimum history of two (2) years of receipt of income is recommended. Income that has been received for 12 to 24 months may be considered acceptable income, as long as there are demonstrated positive factors that reasonably justify the use of the shorter income history. There must be documented justification with a written analysis to mitigate the use of the shorter history. Gaps of employment must be considered in the history of receipt of income and stability of the employment and income.

Positive factors will vary greatly from loan to loan and are therefore impossible to define. Each loan must be reviewed individually to determine the acceptability of the use of the shorter income history.

A characteristic considered positive for one (1) loan does not necessarily make it a positive factor for another loan. For example, a significant down payment made from the borrower's own funds may be considered a positive factor, while a significant down payment made from gift funds may not be considered a positive factor.

If a borrower does not meet the employment history recommendation for the two (2) years prior to the



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date of the loan application, the following are examples that may support an employment history of less than two (2) years.

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|-----------------------------------|---|
| Frequent Job Changes | <p>If the borrower has changed employers more than three (3) times in the previous 12 month period, or has changed lines of work, the stability of the borrower's income must be verified and documented with one (1) of the following:</p> <ul style="list-style-type: none"> • Transcripts of training and education demonstrating qualification for the new position; and • Employment documentation evidencing continual increases in income and/or benefits. <p>Additional analysis is not required for fields of employment that regularly require a borrower to work for various employers (such as technology companies or union trades).</p> |
| Employment Gaps | <ul style="list-style-type: none"> • The stability of employment and income and its likelihood of continuance should be factored into the underwriting decision when there are gaps of employment. • For AUS Approve/Accept, a written letter of explanation for employment gaps over 60 days in the last two (2) years must be provided. • For manually underwritten loans, written letter of explanation for gaps over 30 days in the last two (2) years must be provided. |
| Furloughed Borrower | <ul style="list-style-type: none"> • Borrowers in a state with an active furlough policy must qualify with the reduced income. Payments from a third party (credit union or other source) to supplement unfunded budgets are not permitted, even if the source is approved by the employer. • Full pay may be used if there is evidence from the employer or third party documentation that the furlough will end within the next 60 days and there is no discussion to extend the furlough. |
| Part-time to Full-time Employment | <p>All of the following must be provided for a borrower who has historically been employed on a part-time basis and indicates that he or she will now be working full-time:</p> <ul style="list-style-type: none"> • Written confirmation from the employer that the borrower is working |



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| | <p>full-time;</p> <ul style="list-style-type: none">• Paystub evidencing the borrower's full-time pay; and• Written explanation from the borrower explaining the reason for switching from part-time employment. <p>Likelihood of continuance must be considered.</p> |
|--|--|

31.3 Base Pay, Bonus, Overtime, and Commission

31.3(a) Base Pay (Salary or Hourly)

Borrowers who receive a base pay receive a consistent wage or salary from an employer in return for a service rendered and have less than 25% ownership interest in the business. Compensation may be based on an hourly, weekly, biweekly, monthly, or semi-monthly basis.

Follow TOTAL or obtain one (1) of the following:

- Most recent paystub and a completed Written Verification of Employment;
- Direct, Third-Party Verification (TPV); or
- Most recent year-to-date paystub(s) and two (2) years' W-2s.

31.3(b) Second-Job or Multiple-Job Employment

Second-job or multiple-job employment refers to employment that is not the borrower's primary employment and is generally less than 40 hours per week. The second job is in addition to the borrower's primary employment.

A borrower must have at least two (2) years, uninterrupted history on all second or multiple jobs and have a strong likelihood of continuance in order to use for qualification purposes.

A borrower may have a history that includes different employers as long as the income has been consistently received.

Income from second-job or multiple jobs received for at least 12 months and less than two (2) consecutive years, may be used to offset debts with six (6) to 24 months left to repay. The income may not be included in the income for qualification. Document the Loan Analysis form to support use of this income to offset



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debt.

31.3(c) Bonus or Overtime Income

Bonus or overtime income is variable compensation in addition to any employee's straight salary or hourly wage. Bonus or overtime income will be accepted if it has been received for at least two (2) consecutive years.

Bonus or overtime income received for at least 12 months and less than two (2) consecutive years may be used to offset debts with six (6) to 24 months left to repay. The income may not be included in the income for qualification. Document the Loan Analysis form to support use of this income to offset debt.

Follow automated underwriting documentation requirements. Automated underwriting must recognize bonus or overtime income. In addition, a written verification of employment may be required to itemize bonus and overtime income.

31.3(d) Commission Income

Commission income is variable income defined as a fee or percentage paid to an employee for performing a service and may be accepted as stable income if the income has been received for at least two (2) consecutive years prior to the date of the application.

Commission income that has been received for 12 to 24 months may be acceptable as long as the borrower has had previous related employment and/or specialized training. There must be documented justification with a written analysis to mitigate the use of the shorter history.

A borrower may also qualify when the portion of a borrower's earnings not attributed to commission is sufficient to qualify the borrower for the mortgage.

An automobile lease or loan payments are not subtracted from the borrower's income; they are considered part of the borrower's recurring monthly debts and obligations.

31.3(e) Military Income

Identify if military personnel are within 12 months of release from active duty for a service member or at the end of a contract term for National Guard or Reserve member. The date of release or contract expiration will be on:



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- The LES for an enlisted service member; or
- The current contract for a National Guard or Reserve member.

For active duty service members and National Guard or Reserve members, if the date is within 12 months of the loan closing, at least one (1) of the following must be met:

- Documentation that the service member has already re-enlisted or extended his or her period of active duty to a date beyond the 12-month period following the projected closing of the loan;
- Verification of a valid offer of local civilian employment which are similar to the Veteran's former responsibilities in the military and/or verification of military retirement income, following the release from active duty;
- A statement from the service member that he or she intends to re-enlist or extend his or her period of active duty to a date beyond the 12-month period plus a statement from the service member's commanding officer confirming that:
 - The service member is eligible to re-enlist or extend his or her active duty as indicated; and
 - The commanding officer has no reason to believe that reenlistment or extension of active duty will not be granted.
- Documentation of other unusually strong positive underwriting factors, such as:
 - A down payment of at least 10% from the borrower's own funds;
 - Minimum of six (6) months PITI cash reserves (no gifts); and
 - Clear evidence of strong ties to the community coupled with a nonmilitary spouse's income such that only minimal income from the active-duty service member is needed to qualify.

If an Officer has an ETS date listed as 888888 or 000000 on his or her LES, the above documentation is not required unless there is evidence that the Officer resigned his or her commission.

Military personnel are entitled to other types of pay in addition to their base pay. The following may be included:

- Living Allowance
 - Basic Allowance for Housing (BAH): If using BAH and the borrower is relocating to a new area, the rate of pay based on the new location must be used; and
 - Basic Allowance for Subsistence (BAS).
- Clothing Allowances (uniforms and issued items). Clothing allowances are often paid annually. Use a monthly amount based on the annual payout.

Other types of pay may be considered if documentation the income is expected to continue due to the



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nature of the Veteran's assigned duties.

Example: Flight pay verified for a pilot. If duration of allowance cannot be determined income may still be used to offset obligations of 10-24 months.

- Cost of Living Allowances ((while living overseas) (COLA));
- Overseas Housing Allowances;
- Family Allowances;
- Family Separation Pay (paid when separate for official duties);
- Combat Pay;
- Flight Pay; and
- Hazard Pay.

| Reserves and National Guard | |
|-----------------------------|--|
| Not Called to Active Duty | Income derived from service in the Reserves or National Guard may be included in effective income if the length of the borrower's total active Reserve/Guard service indicates a strong probability that the Reserve/Guard income will continue. |
| Called to Active Duty | <p>A borrower may have a change in income due to participation in the Reserves/National Guard subject to activation. The Veteran must present orders indicating their current active-duty tour is not to exceed 12 months. Determine what the borrower's income may be if activated:</p> <ul style="list-style-type: none">• If the income is reduced, carefully evaluate the impact the reduction may have on the borrower's ability to repay the loan.• If the income is increased, consider the likelihood the income will continue beyond a 12-month period. <p>Example: The borrower's full-time civilian employment is \$3000 per month. The borrower's current income from the Reserves due to activation is \$3,500 per month and orders are for 12 months. Since the borrower's full-time civilian employment is \$3,000 per month, the \$3,000 should be used to qualify.</p> |



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| | <p>Evaluate all aspects of each individual case, including credit history, accumulation of assets, overall employment history, etc., in order to determine the income to be used for qualification purposes.</p> <p>The loan file must be documented, including any reasons for using or not using guard or reservist income in these situations.</p> |
|--|---|

31.4 Self-Employed Income

A self-employed borrower is an individual who has 25% or greater ownership interest in a business or receives 1099s to document income. Some examples of self-employed individuals include contract workers, real estate agents, etc., or individuals relying on investments as their primary source of income.

Generally, income from self-employment may be considered effective income if the borrower has been self-employed operating the same business in the same location for at least two (2) years.

Self-employment income received for 12 to 24 months may be considered as long as the borrower's most recent individual income tax returns reflect the receipt of such income at the same or greater level in a similar field at the current business or in an occupation in which the borrower had similar responsibilities to those undertaken in connection with the current business. Careful consideration must be given to the nature of the borrower's level of experience, and the amount of business debt. In order to use the income for qualification, the borrower must demonstrate:

- At least two (2) years of previous experience in the same occupation or related field and a two-year history of receipt of income at the same or greater level in the same or similar occupation,
- A combination of one (1) year of experience and one (1) year of professional training or education in an area related to the occupation may be considered on a case-by case-basis. Consider the acceptance of the company's service or products in the marketplace before considering the income for qualifying purposes; and
- In all cases, individual income tax returns must reflect at least one (1) year of self-employment income. Self-employment of less than one (1) year will not be considered for qualifying purposes.

If the borrower is relocating to a different geographic area, the income analysis must consider the acceptance of the company's service or products in the marketplace. Additional information, such as market studies or relevant industry research, may support this evaluation. Provide a written analysis justifying the borrower's



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income will continue at the same level in the new location.

31.4(a) Income Documentation

| Application Date | Documentation |
|--|--|
| The underwriter may request additional information such as business license, if necessary, to further support the determination of the stability of the borrower's income. | |
| January through June 30 | <ul style="list-style-type: none"> • Most recent two (2) years' individual income tax returns • Most recent two (2) years' business tax returns (except sole proprietorships), if applicable • Year-to-date profit and loss statement • Year-end profit and loss statement most recent year's tax return has not been filed • W-2s for corporations • 1099s for commission • Self-employed income analysis |
| June 30 through October 15 | <ul style="list-style-type: none"> • Copy of filing extension with any tax payments made • Most recent two (2) years' individual income tax returns • Most recent two (2) years' business tax returns (except sole proprietorships), if applicable • W-2s for corporations • 1099s for commission • Self-employed income analysis • Year-to-date profit and loss (not required for AUS Approve/Accept) • Balance sheet (not required for AUS Approve/Accept) |
| After October 15 | <ul style="list-style-type: none"> • Most recent two (2) years' individual income tax returns (year-end profit and loss statement will not be accepted) • Most recent two (2) years' business tax returns • Self-employed income analysis • Year-to-date profit and loss (not required for AUS Approve/Accept) • Balance sheet (not required for AUS Approve/Accept) |
| For AUS Approve/Accept, business income tax returns are not required when: <ul style="list-style-type: none"> • The borrower has been self-employed in the same business for the past five (5) years; | |



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- Individual income tax returns reflect consistent income for the past two (2) years; and
- The borrower is using his or her own funds for the down payment and closing costs.

31.4(b) Analysis of Borrower's Business Income

When using self-employment income for loan qualification and business income tax returns are provided, a written evaluation of the borrower's business income must be completed. The borrower's business must be evaluated through knowledge of other businesses in the same industry to confirm the stability of the borrower's business income and estimate the potential for long-term earnings.

The purpose of this analysis is to:

- Consider the recurring nature of the business income, including identification of pass-through income that may require additional evaluation. Measure year-to-year trends for gross income attributed to expenses and taxable income.
- Determine (on a yearly or interim basis) the percentage of gross income attributed to expenses and taxable income. Determine a trend for the business based on the change in these percentages over time.

A level or upward trend in earnings should be established. Significant increases could affect the stability of the borrower's income and would require a satisfactory explanation and documentation that the increase is stable and likely to continue at the level. Significant decreases in income cannot be included in the average using a previous higher income level unless there is:

- A one-time occurrence prevented the borrower from working or earning full income for a period of time; and
- Proof that the borrower is back to the income amount that they previously earned.

31.4(c) Use of Business Assets

Business assets may be used for down payment, closing costs and reserves. Business tax returns must be in the loan file. A cash flow analysis must be performed to determine that the withdrawal of funds will not have a negative impact on the business. If there is a negative impact, the use of the funds will not be permitted. In order to assess the level of impact, additional documentation may be required, such as several months of recent business bank statements in order to see cash flow needs and trends over time, or a current balance sheet. This may be due to the amount of time that has elapsed since the most current tax return filing, or the need for additional information to perform the analysis.



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31.4(d) Income Calculation

The income must be averaged based on the number of years tax returns required. Depreciation claimed as a deduction on the tax returns of the business may be included in effective income. No other deductions (casualty loss, business mileage (excluding depreciation), depletion, amortization, etc.) may be added back to income.

Business or roll over losses must be considered from all tax returns.

On a joint individual income tax return, any loss must be deducted from the borrower's income in both community and non-community property states.

31.4(e) Non-Purchasing Self-Employed Spouse

If a non-purchasing spouse is self-employed and tax return/transcripts show a loss, that loss must be deducted from the income before the income is calculated.

31.5 Rental Income

Stable monthly rental income must be generated from acceptable and verifiable sources and must be reasonably expected to continue for at least the next three (3) years. When reserves are required, reserves must be from the borrower's own funds and cannot be from:

- Cash proceeds from cash-out refinance;
- Equity in the property; and
- A gift.

31.5(a) Rental Income from the Subject Two- to Four-Unit Property

Rental income from the Veteran's subject two- to four-unit property may be used as income for qualification if:

- The Veteran occupies one (1) unit as their primary residence;
- A reasonable likelihood of success as a landlord, and
- Six (6) months cash reserves. If each unit is separate and not under one mortgage, six (6) months reserves must be verified for each unit.

31.5(b) Rental Income from Other Real Estate Owned

Each rental property must have a two-year rental history reflected on the borrower's individual income



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tax returns to use rental income.

Rental income from other real estate owned may be used for loan qualification with all of the following:

- Most recent two (2) years' individual income tax returns, including Schedule E; and
- Three (3) months reserves required for each property owned.
 - If there is not a lien on a property, three (3) months are required to cover taxes, insurance, HOA fees and any other recurring fees associate with the property.

31.5(c) Temporary Boarder Rental Income from a Single Family Residence

Verification of temporary boarder rental income requires the following:

- Most recent two (2) years' individual income tax returns that show boarder income; and
- The rental cannot impair the residential character of the property and cannot exceed 25% of the total floor area.

Income may be considered effective income only if the borrower has a reasonable likelihood of continued success due to the strength of the local market. Justification must be noted on VA Form 26-6393, Loan Analysis.

31.5(d) Income Calculation

Use the following to calculate net rental income (or loss).

| | |
|------------------------------|---|
| Individual Income Tax Return | <ul style="list-style-type: none">• When using individual income tax returns to calculate net rental income (loss), the Schedule E does not account for the full amount of the mortgage payment for the rental property.• Any depreciation, interest, taxes, and insurance must be added back in the cash flow analysis before subtracting the PITIA payment, to avoid double counting the expenses. |
| Lease Agreements | When using the lease agreement, net rental income is 75% of the gross rent from the lease agreement(s), with the remaining 25% being absorbed by vacancy losses and ongoing maintenance expenses. |



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31.5(e) Treatment of Income and Loss

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|---|---|
| Rental Income from Primary Residence | <ul style="list-style-type: none">• Monthly rental income must be added to the borrower's total monthly income.• The full amount of the mortgage payment (PITIA) must be included in the total monthly obligations. |
| Rental Income from Other Property Owned | <ul style="list-style-type: none">• If the monthly rental income less the full PITIA is positive, it must be added to the total monthly income.• If the monthly rental income less the full PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.• If after adding depreciation to the negative rental income, the borrower still has rental loss, the negative income should be deducted from the overall income as it reduces the borrower's income.• The full PITIA for the rental property is factored into the amount of the net rental income (or loss), therefore it should not be counted as a monthly obligation. It must be reported on the loan application.• The full monthly payment for the borrower's primary residence must be counted as a monthly obligation. |

31.5(f) Converting Existing Primary Residence to an Investment Property

Rental income may be used to offset the mortgage payment on the rental property. There may not be any indication that the property will be difficult to rent. Rental income may not be included in effective income.

If there is not a lease but the local market is very strong, the rental income may be used to offset the mortgage payment.

Obtain a copy of the rental agreement for the property, if any.

Use the prospective rental income only to offset the mortgage payment on the rental property, and only if there is no indication that the property will be difficult to rent. This rental income may not be included in effective income.

Obtain a working knowledge of the local rental market. If there is not a lease on the property, but the



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local market is very strong, the lender may still consider the prospective rental income for offset purposes. Provide a justification on VA Form 26-6393, Loan Analysis.

Reserves are not needed to offset the mortgage payment on the property the Veteran occupies prior to the new loan.

31.6 Other Income Sources

- [Alimony and Child Support Payments](#)
- [Auto Allowances and Expense Account Payments](#)
- [Boarder Income](#)
- [Cannabis Business](#)
- [Disability – Long-term](#)
- [Employer Differential](#)
- [Employment by a Relative, Property Seller or Real Estate Broker](#)
- [Foreign Income](#)
- [Foster Care Income](#)
- [Future Income](#)
- [Hemp Income](#)
- [Interest and Dividend Income](#)
- [Mortgage Credit Certificates](#)
- [Non-taxable Income](#)
- [Notes Receivable Income](#)
- [Public Assistance](#)
- [Retirement Income, Pension, and IRA Distribution](#)
- [Seasonal Income](#)
- [Social Security Income](#)
- [Temporary Leave](#)
- [Tip Income](#)
- [Trust Income](#)
- [Unemployment Income](#)
- [Union Members](#)
- [VA Benefits](#)



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31.6(a) Alimony and Child Support Payments

Alimony and child support payments will be considered provided the payment terms confirm that the income will continue for at least three (3) years from the date of the closing.

The borrower's regular receipt of the full payment due and any limitations on the continuance of the income must be determined:

- If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child and income continuance.
- The duration of the alimony payments must be determined for continuance.

Income may not be considered stable when a borrower:

- Has been receiving full, regular, and timely payments for less than the required time or has been receiving full or partial payments on an inconsistent or sporadic basis;
- Does not have a court order that specifies alimony or child support; and
- Will receive proposed or receives voluntary payments.

One (1) of the following must be provided in addition to the documentation requirements below for court-ordered or voluntary payments:

- A copy of a written legal agreement or court decree describing the payment terms for the alimony or child support, the amount of the award and the period of time over which it will be received.
- Any applicable state law document that mandates alimony or child support, which must specify the conditions under which payments must be made.
- In addition, one (1) of the following is required to document regular receipt for most recent three (3) months:
 - Bank statements or deposits slips showing regular deposit of funds;
 - Cancelled checks;
 - Documentation from child support agency;
 - Court records; or
 - Most recent individual income tax returns with all schedules.

31.6(b) Automobile Allowance/Expense Account Payments

Automobile allowance paid to cover specific expenses related to a borrower's employment may be an acceptable source of income. Determine if the automobile expenses should be deducted from income or



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treated as a liability:

- If the associated business expenses exceed the allowance, include as a debt obligation.
- If the expenses are less than the allowance, add to qualifying income.

31.6(c) Boarder Income

Boarder income is income received from an individual renting space inside the borrower's dwelling unit.

Boarder income may be used to qualify provided that all of the following are met:

- Most recent two (2) years' Individual income tax returns evidencing boarder income generated by the property; and
- The rental cannot impair the residential character of the property and cannot exceed 25% of the total floor area.

Boarder income may only be used to qualify if the borrower has a reasonable likelihood of continued success due to the strength of the local market.

PITI reserves are not necessary to consider the income, and all the income may be used in the analysis.

31.6(d) Cannabis Business

Employment or ownership in a Cannabis business is not permitted.

31.6(e) Disability – Long-term

Long-term VA disability payments may be treated as acceptable, stable income, unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date. Under no circumstances may documentation concerning the nature of the disability be requested or the medical condition of the borrower be questioned.

Document the amount of disability income with one (1) of the following:

- Certificate of Eligibility;
- Award Letter; or
- Bank statements.



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31.6(f) Employer Differential

If the employer subsidizes a borrower's mortgage payment through direct payments, the amount of the payments is considered gross income.

- The payments cannot be used to offset the mortgage payment directly; and
- Mortgage differential payments are only allowed if the employer sends the funds to the borrower. The employer may not pay the mortgage lender directly.

31.6(g) Employment by a Relative, Property Seller, or Real Estate Broker

A borrower employed by a family member or employed by a family held business, property seller or real estate broker is eligible. If employed by a relative, the business accountant must verify that the borrower is not self-employed by indicating his or her percentage of interest in the business. The accountant must be a disinterested third party.

Provide all of the following documentation:

- Most recent computer-generated paystub. If the paystub is not computer-generated, the accountant must provide a signed payroll ledger;
- Most recent two (2) years' individual income tax returns with all schedules; and
- Most recent two (2) years' W-2s.

The above is required for Non-Delegated Clients and recommended for Delegated Clients.

31.6(h) Foreign Income

Income from a foreign source is acceptable if all of the following are provided:

- Current paystub(s); and
- Most recent two (2) years' U.S. individual income tax returns that include the foreign income with all schedules.

All income must be converted into U.S. currency.

Foreign income that is not reported on U.S. individual income tax returns is not eligible for use as qualifying income.



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31.6(i) Foster Care Income

Verified income received specifically for the care of any foster children may only be used to balance the expenses of caring for the foster children against any increased residual income requirements.

31.6(j) Future Income

If the borrower is scheduled to begin employment under the terms of an employment offer or contract after the loan closes, the employment offer, or contract must be provided. For loans underwritten by Newrez, employment must begin within 90 days after the Note date.

The underwriter may request additional documentation to support the use of the including but not limited to liquid assets sufficient to cover the mortgage payment between the Note date and the start date of the new employment.

31.6(k) Hemp Income

Income derived from hemp may be eligible in states where Hemp is legal. The borrower must:

- Provide a written attestation by the hemp grower that they are validly licensed; or
- Obtain a copy of such license.

Hemp income and/or assets are eligible in all states except the following:

- Washington, D.C.
- Idaho
- Mississippi

31.6(l) Interest and Dividend Income

Interest and dividend income is variable income that may be used to qualify if the income has been received for the past two (2) years. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.

Evidence of sufficient assets after closing to support continuance of the interest and/or dividend for the next three (3) years from the date of the closing, based on a recent bank statement, and one (1) of the following:

- Most recent two (2) years' individual income tax returns with all schedules;



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- Most recent two (2) years' bank statements; or
- Most recent two (2) years' 1099s and a recent bank statement.

Income Calculation

- If the trend of the amount of income is stable or increasing, the income should be averaged.
- If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.

31.6(m) Mortgage Credit Certificates (Delegated Clients only)

Mortgage Credit Certificates (MCC) issued by state and local governments may qualify a borrower for a federal tax credit. The federal tax credit is based on a certain percentage of the borrower's mortgage interest payment. A copy of the MCC must be provided to the VA with the loan package that indicates:

- Documentation verifying any expenses charged by the local government entity for the program which is listed on the Closing Disclosure Statement; and
- The percentage used to calculate the tax credit, and if applicable, the amount of the indebtedness. The certified indebtedness can be comprised of a loan incurred by the borrower to acquire a primary residence or a qualified home improvement rehabilitation loan.

There is an IRS annual limit on the tax credit is equal to the lesser of the borrower's maximum tax liability or \$2,000. Calculate the tax credit by applying the specified percentage to the interest paid on the certified indebtedness. Then apply the annual limit.

| Example | |
|--|---|
| The MCC shows: | |
| <ul style="list-style-type: none">• 30% rate• \$100,000 certified indebtedness• \$8,000 in annual mortgage interest• The borrower's estimated total federal income tax liability is \$9,000 | |
| Calculation | $\$8,000 \times 30\% = \$2,400$ Lesser of \$2,000 or \$2,400 |



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| | |
|--|---|
| | <p>Tax credit = \$2,000</p> <p>$\\$2,000 \div 12 = \\$167$</p> <p>Monthly amount added to qualifying income = \$167</p> |
| Qualifying Income | <ul style="list-style-type: none">• The amount used as qualifying income cannot exceed the maximum mortgage interest credit permitted by the IRS.• A history of receipt of the MCC tax credit is not required. |
| <p>The VA loan file must contain a copy of the MCC and documented calculation of the adjustment to the borrower's income as well as documentation verifying any expenses charged by the local government entity for the program listed on the Closing Disclosure.</p> <p>Mortgage credit certificate payments are only allowed if the employer sends the funds to the borrower. The employer may not pay the mortgage lender directly.</p> <p>For refinance transactions, an MCC may remain in place as long as there is confirmation from the MCC provider that the MCC remains in effect for the new mortgage. Copies of the MCC documents, including reissue certification, must be in the loan file.</p> <p>As the originating/participating lender, you must comply with all IRS reporting requirements for mortgage loans originated and closed with Mortgage Credit Certificates.</p> <p>Since these programs are offered by state and local government(s), preapproval by VA is not required for the borrower to participate in the program. Newrez is responsible to determine all eligibility requirements are met by the borrower to participate in the program.</p> | |

31.6(n) Nontaxable Income

Nontaxable income may be shown on the borrower's tax return but is not taxed. Verify and document that the source of income is nontaxable using any of the following:

- Individual income tax return; or
- Equivalent documentation evidencing the income is nontaxable; or
- Obtaining IRS tax transcripts that evidence that the income is nontaxable.

If the income is verified as nontaxable, and the income and its tax-exempt status is likely to continue, the income must be grossed-up only if needed to qualify the borrowers. Develop an "adjusted gross income"



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for the borrower.

The percentage of nontaxable income that may be added cannot exceed the greater of 25% or the same tax rate used to calculate the borrower's income from the previous year. If the borrower is not required to file an individual income tax return, the nontaxable income may be grossed up by 25%.

Filing requirements for most taxpayers can be found on the [IRS](#) website in addition to the attached [Social Security Benefits Worksheet](#) to determine amount of benefits that are nontaxable.

The following income types are generally nontaxable, or a portion of the income is nontaxable. This list is not all-inclusive:

- Child Support Income
- Disability Income
- Government Assistance Programs
- Housing Choice Voucher program (HCV)
- Military Allowances
- Retirement, Pension, Annuity Income, or IRA Distributions
- Social Security Disability Income
- Social Security Retirement Income
- Supplemental Social Security Income
- Unemployment Compensation
- VA Benefits

31.6(o) Notes Receivable

Ongoing revenue received from Note income may be considered effective income. Verification that the income can be expected to continue for a minimum of three (3) years from the date of the closing is required.

Obtain a copy of the Note documenting the amount, frequency, and duration of payments. In addition, one (1) of the following must be provided to evidence receipt for most recent 12 months:

- Most recent individual income tax returns with all schedules;
- Bank statements or deposit slips showing regular deposit of funds; and
- Cancelled checks.



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If the amount of note receivable income fluctuates, an average over the last 12 months must be calculated to determine effective income.

31.6(p) Public Assistance

Public assistance (e.g., Temporary Assistance for Needy Families (TANF), etc.) may be considered effective income provided the income is expected to continue for the next three (3) years from the date of the mortgage application. See Seasonal Unemployment section for details regarding the use of unemployment benefits.

All of the following must be provided:

- Letters or exhibits from the paying agency establishing the amount, frequency, and duration of these payments; and
- Evidence of continuance for the next three (3) years.

31.6(p)(i) Housing Choice Voucher Homeownership Program (Section 8)

The Housing Choice Homeownership Voucher program refers to housing subsidies received under the Housing Choice Voucher homeownership option from a Public Housing Agency (PHA).

The following documentation is required:

- Verify and document receipt of the Housing Choice Voucher homeownership subsidies. This income may be considered reasonably likely to continue for three (3) years.
- The income used may be considered effective monthly income if it is not used as an offset to the monthly mortgage payment. Use the current subsidy rate to calculate the income. This income cannot be grossed-up.

31.6(q) Retirement, Pension, Annuity Income, and IRA Distributions

Monthly annuity payments, 401(k) or IRA and pension monthly distributions require evidence of continuance for three (3) years from the date of closing. Evidence of continuance of corporate, government, or military retirement/pension need not be documented. The borrower must have unrestricted access without penalty to the accounts.

One (1) of the following is required:

- Copy of most recently received retirement, pension, and/or Social Security check;
- Copy of bank statements showing the deposit;



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- Most recent individual income tax return with all schedules; or
- Most recent W-2 or 1099.

31.6(r) Seasonal Income

Seasonal part-time or seasonal second job employment refers to employment that is not year-round, regardless of the number of hours per week the borrower works on the job.

Seasonal employment income may be considered effective income if the borrower has worked in the same job or same line of seasonal work for the past two (2) years and is likely to be rehired for the next season.

All of the following must be provided:

- Written Verification of Employment;
- Paystub(s) for the most recent 30-day period worked;
- Most recent two (2) years' W-2s;
- Most recent two (2) years' individual income tax returns with all schedules; and
- Letter from employer confirming that the borrower will be rehired for the next season.

Seasonal income must be averaged over the past two (2) years. If income received cannot meet these requirements, it should only be considered a compensating factor.

31.6(s) Social Security Retirement Income

Social Security income for retirement or long-term disability will not have a defined expiration date and therefore is expected to continue. However, if the Social Security benefits are not for retirement or long-term disability, confirm that the remaining term is expected to continue for the next three (3) years from the date of the closing. Under no circumstances may documentation concerning the nature of the disability be requested or the medical condition of the borrower be questioned.

One (1) of the following is required:

- Social Security Award letter;
- Most recent 1099-R; or
- Most recent individual income tax return.

31.6(t) Temporary Leave

Temporary leave from work is generally short term in duration and for reasons of maternity or parental



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leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer.

If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three (3) years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income.

During a temporary leave, a borrower's income may be reduced and/or completely interrupted. It must be determined that during and after temporary leave, the borrower has the capacity to repay the mortgage and all other monthly obligations.

All of the following is required:

- Verification of pre-leave employment and income history in accordance with standard guidelines;
- No evidence or information from employer indicating borrower does not have the right to return to work after leave period;
- Borrower's written confirmation of intent to return to work;
- Agreed-upon date of return evidenced by documentation generated by the employer and provided by the borrower or employer (or third-party service designated by employer);
- Age of documentation compliance requirements not required;
- Verbal Verification of Employment; the borrower is considered employed if the employer confirms the borrower is currently on temporary leave;
- Amount and duration of borrower's temporary leave income; and
- All available liquid assets used to supplement the reduced income for the duration of leave must be verified.

| | |
|---|--|
| Borrower Returning to Work Prior to First Mortgage Payment | Use the monthly pre-leave income. |
| Return to Work After First Mortgage Payment | Use the lesser of the monthly leave income or pre-leave income. If the monthly leave income is less than the pre-leave income: <ul style="list-style-type: none">• Supplement with available liquid reserves;• Total qualifying income may not exceed the gross monthly income received upon return to work; and• Assets required to support the payment may not be counted |



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| | |
|----------------------------|---|
| | towards available reserves. |
| Supplemental Income Amount | <p>Supplemental Income Amount = Available liquid reserves divided by the number of months of supplemental income:</p> <ul style="list-style-type: none">• Available liquid reserves: subtract funds need to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount• Number of months supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income |
| Qualifying Income | Total qualifying income = supplemental income plus the temporary leave income. |

31.6(u) Tip Income

Tip income is variable compensation in addition to any employee's straight salary or hourly wage and is considered effective income if the borrower has received this income for the past two (2) years.

All of the following must be provided:

- Current paystub(s);
- Most recent two (2) years' W-2s; and
- Employer indication that the tip income is likely to continue.

Income Calculation

- Develop an average for the most recent two (2) years.
- If the trend of the amount of income is stable or increasing, the income should be averaged.
- If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.



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31.6(v) Trust Income

A copy of the Trust Agreement or Trustee Statement is required and must confirm the continuance of receipt of the trust income for at least three (3) years from the Note date. The Trust Agreement must document the following:

- Total amount of designated trust funds;
- Terms of payment;
- Duration of trust; and
- What portion, if any, of income to borrower is not taxable.

If the Trust Agreement or trustee's statement does not provide the historical level of distributions, one (1) of the following must be provided:

- Most recent two (2) years' individual income tax returns with all schedules; or
- Most recent two (2) years' 1041 fiduciary tax returns with all schedules.

A borrower's trust income may be taxed at a lower rate, or it may be part of a partnership that writes off losses, which may result in no tax liability. Trust income is reported on the 1041 fiduciary income tax return, which includes a K-1 schedule. All beneficiaries of trust income receive IRS Form K-1 from the trust.

31.6(w) Unemployment Income

Unemployment income, such as those received by seasonal workers, must have been received for the past two (2) years and must be likely to continue for the next three (3) years.

All of the following must be provided:

- Most recent two (2) years' individual income tax returns with all schedules; and
- Income must be clearly associated with seasonal layoffs and expected to recur and likely to continue.

See [Seasonal Income](#) for additional information on seasonal employees.

31.6(x) Union Members

Union members may hold several jobs during a year. Union members must be employed at the time of closing. Verification of income for a union member requires the following documentation:

- Current paystub from present employer. If there has been more than one (1) employer in the



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current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings;

- Most recent two (2) years' W-2s from all employers; and
- Most recent two (2) years' individual income tax returns with all schedules, if necessary, to document temporary or sporadic employment and unemployment income.

The loan application should reflect the borrower's current employer in the Employment Information and the Union information as the prior employer. All employers in the past two (2) years do not need to be reflected on the loan application.

Income Calculation

- Develop an average for the most recent two (2) years.
- If the trend of the amount of income is stable or increasing, the income should be averaged.
- If the trend was declining but has since stabilized and there is no reason to believe that the borrower's income will not remain stable, the current, lower amount of the variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any of the variable income may be used, but it may not be averaged over the period when the declination occurred.

3I.6(y) VA Benefits

VA Benefits income (other than disability) may be used to qualify with verification that the income can be expected to continue for a minimum of three (3) years from the date of the loan application. A letter or distribution form from the Veteran's Administration is required to document VA benefits income.

VA education benefits are not an eligible source of income.

3I.7 Unacceptable Sources of Income

Income from sources considered ineligible include, but is not limited to:

- Income derived from business activity that may be permitted by State law but is prohibited by Federal law
- Income derived from the subject property with land being leased to another party
- Income determined to be temporary or one-time in nature
- **Income or employment from Cannabis business**



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- Income paid in the form of cryptocurrency is not permitted
- Incremental income derived from gambling
- Lump sum payments of lottery earnings that are not on-going
- Lump sum payment such as inheritances or lawsuit settlements
- **Mortgage credit certificates (Non-Delegated Clients)**
- Non-incidental income received from farming/agricultural use of a property
- Rental income received from the borrower's second home
- Retained earnings in a company
- Stock options
- Taxable forms of income not declared on individual income tax returns
- Trailing co-borrower income
- Unverifiable income
- Use of assets as income
- VA education benefits

| Revision History | Date |
|--|------------|
| Updated Ch 3I.5 Treatment of Income loss to identify guidance per VA handbook Ch 4(n): <ul style="list-style-type: none">• If after adding depreciation to the negative rental income, the borrower still has rental loss, the negative income should be deducted from the overall income as it reduces the borrower's income. | 01.30.2025 |
| Cannibus Business added to both income sections to identify overlay for employment ownership is not permitted: <ul style="list-style-type: none">• (1) Other Sources of Income and• (2) Unacceptable Sources of income | 02.27.2025 |
| <ul style="list-style-type: none">• Updated Military Income to include when active duty service member is within 12 months of release from active duty, evidence of verification of military retirement income is an option• Removed Marijuana Business or Income link and from Ineligible Income sources• Updated Allowable Age of Individual Tax Returns for 2024 tax filing | 03.27.2025 |
| Overlay identified for Employment by a Relative, Property Seller or Real Estate Broker requirements (as shown on Overlay Matrix) . Note: This is required for Non- | 04.29.2025 |



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| Odelegated Clients and recommended for Delegated Clients | |
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3J.1 VA Appraisal and Property Conditions Assessment

The appraisal and property condition assessment is used to determine the market value and acceptability of the property for a VA mortgage. The value serves as a basis for determining the maximum VA mortgage loan. An appraisal is required to help ensure that any property has a value of at least as much as the loan amount and is in a condition that is acceptable to VA.

3J.2 WebLGY

WebLGY is a web-based VA application that provides a variety of functions related to VA appraisals and valuations. WebLGY is accessed through the VA Veteran Information Portal. VA appraisals must be ordered through VA webLGY. WebLGY allows appraisal requesters immediate access to obtain VA assignment of a fee appraiser.

3J.3 Appraiser Requirements

The appraiser assigned by VA must prepare the appraisal report in accordance with Uniform Standards of Professional Appraisal Practice (USPAP), the specific VA requirement outlined in this Underwriting Guide and the VA Lenders Handbook and circulars periodically issued.

Appraisers who have been appointed to VA's fee appraiser panel have been trained on VA appraisal requirements. VA fee panel appraisers may be relied upon to have performed the appraisal in accordance with VA guidelines without the need for additional statements or certifications.

The VA assigned fee appraiser must:

- View the interior and exterior of the subject property (except on proposed construction cases) and the exterior of each comparable sale;
- Select and analyze the comparable sales;
- Make the final value estimate; and
- Sign the appraisal report as the appraiser of record (left hand column).

The VA appraisal must:

- Conform to Uniform Standards of Professional Appraisal Practice (USPAP);
- Meet the additional requirements (as outlined in this chapter) that VA considers to be supplemental to USPAP; and
- Be uploaded into WebLGY by the appraiser as a Portable Document Format (PDF) document.



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3J.4 Staff Appraisal Reviewer (SAR)

The Staff Appraisal Reviewer is responsible for reviewing the appraisal report for compliance with VA property and appraisal requirements. General requirements of the SAR include, but are not limited to:

- Verify the appraisal report is completed in full and factual data is correct;
- Determine that the appraisers methodology is appropriate;
- Sales comparison approach should be used in all cases;
- 2- to 4-unit properties use the income approach as well as the sales comparison approach;
- Use reasonably available information to determine if the appraisers conclusions are similar to recent cases;
- Verify compliance with current VA appraisal instructions, directives, and guidelines; and
- The lender or sponsoring lender and Department of Veteran's Affairs" is the Client name on the appraisal report.
- Use the VEROS Appraisal Management Service VeroSCORE to assist in evaluation of property eligibility and valuation risk. SARs must follow the Low Risk (cursory review) and High Risk (comprehensive review) protocols for reviewing appraisal report as described in [VA Circular 26-20-14](#).

The Notice of Value must be issued by the SAR at the appraised value reflected in the appraisal report. The SAR may contact the VA fee appraiser regarding appraisal errors, omissions, or discrepancies that arise during their initial review. The SAR should attempt to work with the fee appraiser to resolve any differences in value estimates or appraisal methodology. If the SAR and fee appraiser are unable to agree on a value, the SAR should contact the VA Regional Loan Center.

3J.5 Appraisal Report Forms and Exhibits

The appraisal report must be prepared and signed by the VA approved appraiser.

3J.5(a) List of Appraisal Report Forms

VA will accept appraisals prepared any of the following forms. The Lender's name and "Department of Veterans Affairs" must be provided in the Lender/Client field on the appraisal report form. The VA assigned fee appraiser's signature must be provided in the signature block with the fee appraiser's VA ID in the "other" block.

| Form | Use |
|---|---|
| <i>Uniform Residential Appraisal Report</i> | Use for appraisals of one-unit properties and units in PUDs. An |



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| | |
|--|--|
| (Fannie Mae Form 1004/Freddie Mac Form 70) | interior and exterior inspection of the subject property is required. |
| <i>Individual Condominium Unit Appraisal Report</i> (Fannie Mae Form 1073/Freddie Mac Form 465) | Use for appraisals of one-unit properties in condominium projects. An interior and exterior property inspection is required. |
| <i>Manufactured Home Appraisal Report</i> (Fannie Mae Form 1004C/Freddie Mac Form 70B) | Use for appraisals of one-unit manufactured homes. An interior and exterior property inspection is required. |
| <i>Small Residential Income Property Appraisal Report</i> (Fannie Mae Form 1025/Freddie Mac Form 72) | Use for appraisals of two- to four-unit properties. An interior and exterior property inspection is required |

3J.5(b) Conditions and Certifications

Additional certifications required by State law or related to continuing education or membership in appraisal organizations, etc., can be made on a separate form or page, provided they do not conflict with the language on the Statement of Assumptions and Limiting Conditions or with any VA policy.

3J.5(c) Appraisal Attachments

All completed appraisals should include, but are not limited to the following attachments:

- Electronic images of the subject property—front and rear scene and street view;
- Electronic images of each comparable sale—front scene;
- Electronic photographs or electronic images, of the interior, including the kitchen, all bathrooms, main living area, examples of any physical deterioration, if present and examples of recent property updates, if present;
- Electronic photographs of any improvement, site feature or view affecting value;
- Location map showing the subject property and the comparable sales;
- Diagram of the floor plan detailing room layout;
- Exterior building sketch;
- Statement of Assumptions and Limiting Conditions and Appraiser's Certification;
- An itemized list of any observed repairs to be completed, customer preference items to be installed, inspections to be performed or conditions to be corrected, for the property to meet VA minimum property requirements;
- Any additional exhibits required by the jurisdictional Regional Loan Center; and



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- Itemized list of any observed MRP repairs or customer preference items to be installed new construction (may be included on the appraisal form).

3J.6 Appraisal Transfer

VA appraisals may be transferred from another lender; however, the SAR must determine acceptability of the appraisal and re-issue the Notice of Value (NOV) under their LAPP lender authority (or have the jurisdictional RLC issue the NOV for non-LAPP lenders).

Appraisal transfers completed for one Veteran on a property cannot be used for a different Veteran on the same property. VA appraisals are specific to the individual Veteran and the property.

NOTE: Appraisal and case number transfers are processed in WebLGY by the jurisdictional RLC. A transferred appraisal does not need to reflect the new lender-client, Veteran name, or transactions terms; however, the reissued NOV (by the new lender) must reflect any changes (Veteran name, transaction terms) from the initial appraisal report.

3J.7 Notice of Value NOV

The Notice of Value must be issued in WebLGY by the SAR within five business days of receipt of notification. A Notice of Value will not be issued unless all appraisal review guidelines have been adhered to and consideration given to all VA requirements. The SAR should review the VA Local Construction and Valuation (C&V) Requirements page that lists state-specific requirements in addition to the nationwide MPR requirements prior to issuing the Notice of Value.

3J.7(a) Reconsideration of Value

After the appraisal has been completed and a Notice of Value (NOV) has been issued to the Veteran, the Veteran may request a reconsideration of value. Within five (5) business days, VA staff will review the appraisal report, any additional data submitted with the request, as well as the market data available through WebLGY. If VA staff concludes that an increase in the estimated reasonable value is supported by the market, VA will issue an amended NOV.

3J.8 Appraisal Review

Establishing the adequacy of the collateral for an investment quality loan requires an accurate assessment of the current fair market value and condition of the property. The appraiser must estimate the market value as "the most probable price that the property should bring in a competitive and open market under all conditions



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requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

The appraiser must address any factors likely to affect the property's future value and provide a visual picture of the neighborhood, site, and improvements. The appraiser must use the comments section of the report to achieve this goal and attach additional documentation if necessary.

3J.8(a) Sales Contract

All appraisers must review full sales contract on purchase transactions as part of appraisal report.

A copy of the agreement of sale and all addenda must be provided to the VA Fee appraiser at time of the initial appraisal assignment order. The fee appraiser must also be notified and provided with any amended copies of the agreement of sale under the following conditions.

| Terms of Sale Change | Responsibility |
|---|--|
| If the agreement of sale is amended during the appraisal process, prior to the effective date of the appraisal report. | The updated contract must be provided to the appraiser to ensure the appraiser has the opportunity to consider the changes and their potential impact on value. Due diligence must be used in determining whether the amendment(s) could reasonably be thought of affecting the estimated value of the property. If yes, forward the amended agreement of sale to the VA fee appraiser for consideration. |
| If the agreement of sale is amended after the effective date of the appraisal report, but prior to loan closing. | The VA Fee appraiser will determine the impact of the amended sales agreement and how to comply with USPAP provisions for updating the appraisal report. |
| Depending on the amount of time and the extent of any change to the originally considered agreement of sale, the circumstances may warrant the appraiser considering such change to constitute a new assignment under USPAP, and an additional fee may be warranted up to the full amount of a new appraisal report fee. If the appraiser charges an additional fee for a new assignment, the fee may be paid the by Veteran. | |



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Renegotiated purchase contracts that increase the sales price after the appraisal has been completed should be closely scrutinized, reviewing the appraisal and contract for the following:

- The appraised value is higher than the contracted sales price provided to the appraiser;
- The new purchase contract and/or addendum used to modify the sales price is dated after the appraisal is received; and
- The only change to the purchase contract is an increase in sales price.

Assignment of sales contract are not permitted.

3J.8(b) Sales Comparison Approach

VA relies exclusively on the sales comparison approach to value. This approach recognizes that a well-informed purchaser will generally pay no more for a property than the price of acquiring a similar property of equal desirability and utility without an undue delay.

The appraiser must select the three best closed comparable sales available and properly adjust the sales price of each comparable sale for market recognized differences between it and the subject property. Comparable sales should be selected based on similar locational and physical characteristics, not sales price. Recent sales in the same established subdivision, condominium or PUD are typically the best indicators of value. The sales should be similar to the subject property to the extent that the sales would be competing properties if they were on the market at the same time as the subject property.

The appraiser should provide comments when adjustments are made for points of comparison that are not self-explanatory or when large adjustments are made. Providing detailed commentary about the market and comparable selection may reduce the number of requests for revisions of appraisals.

Sales listings, contract offers, and unsettled sales may not substitute closed sales however they may be used to further support value.

3J.8(b)(i) Recent Sales

Comparable sales should reflect the most recent activity in the market, typically within six months or less and generally not more than 12 months old. If any comparable sales over 12 months old, the appraiser must comment on the reason for using aged comparable sales.



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3J.8(b)(ii) Sales Price Range

Comparable sales should exhibit a narrow price range. The appraiser must adequately explain a wide range in the sale prices of comparable sales before or after adjustment. The final estimate of value should fall within the bracketed adjusted sales used.

3J.8(b)(iii) Data and Verification

A single data source is adequate if it provides quality sales data verified by closed transactions. Sales data provided by a party to the sale or financing of the subject property must be verified by a secondary data source or a party without an interest in the transaction. If the subject property is in a new subdivision, the analysis should include builder's closed sales, sale of other builders, sales from competing subdivisions, and sales of similar existing properties.

3J.8(b)(iv) Time Adjustments

Market condition (time) adjustments are made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal. The appraiser must provide comments about current market trends to support any time adjustments.

In an increasing market, positive market condition adjustments should be made if there is evidence, based on a thorough analysis of specific market trends, of increasing prices, a shortage of homes for sale, or decreasing marketing times.

In a declining market, negative market condition adjustments should be made if there is evidence of a decline in prices, an oversupply, or extended marketing times.

3J.8(b)(v) Sales Listings and Contract Offers

The appraiser must:

- Analyze sales listings, contract offers, and unsettled sales to determine if market conditions changed between the date of the comparable sales sold and the effective date of the subject property appraisal;
- Make the following statement: "I have considered relevant competitive listing/contract offerings in performing this appraisal, and any trend indicated by that data is supported by the listing/offering information included in this report"; and



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- Provide listings/offers addendum if a significant market transition is indicated due to changes in employment opportunity, housing supply/demand, average marketing time, seller concessions, etc.

3J.8(b)(vi) Location

Comparable sales should be located in the same neighborhood and/or market. The description of the comparable sales' proximity to the subject property must be specific (e.g., two (2) blocks south). Generally, blocks should be used in cities and miles in rural areas to locate properties.

The appraiser must adequately explain any reliance on sales located either:

- Further from the subject than similar recent comparable sales readily available in the subject neighborhood; or
- Outside of the subject's market area.

Because rural properties often have large lot sizes and rural neighborhoods can be relatively undeveloped, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. This means that the appraiser will often need to select comparable sales that are located a considerable distance from the subject property and still be within the subject's market area.

3J.8(b)(vii) Sales from Competing Developments

If the property is in a new subdivision or condominium, the appraiser should include, if available for comparison, properties constructed by a competing builder in the subject market area as well as properties within the subject subdivision or condominium.

3J.8(b)(viii) Value Adjustments

Generally, good comparable sales require minimal adjustment for individual feature differences and a minimal total net adjustment. The appraiser must adequately explain large adjustments.

The property must meet VA Minimum Property Requirements (MPR). Since MPR repairs identified in the appraisal report must be completed as a condition of the report therefore, value adjustments to the comparable sales are to be made as if the repairs to the subject have been accomplished.

Adjustments based on some factor other than market reaction, such as builder costs for materials,



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project development, etc., are not generally acceptable.

All adjustments on the market data grid should be market-derived, based on the amount the appraiser estimates a typical buyer would pay for the item in the market. Adjustments reflect contributory value in the market, which does not necessarily equal the cost of an item.

3J.8(b)(ix) Sales Concessions

The appraiser is required to make market-based adjustment to comparable sales for any sales or financing concessions that may affect sales prices. The effect of sales concessions on sales prices of the comparable sales should be noted in the appraisal report. The appraiser should consider:

- Any effect sales concession had on the sales price of the comparable sales, if applicable; and
- The amount of any adjustment should generally be based upon the real estate market reaction to the concession, and not on the dollar-for-dollar cost of the concession(s) to the seller.

3J.8(b)(x) Upgrades

All adjustments made for upgrades must be market based. If the market supports a difference in quality and the amount can be determined from the market, then an adjustment should be made. The amount of the adjustment could be higher, lower, or the same as the cost of the item. If the market does not recognize the difference, an adjustment should not be made.

3J.8(b)(xi) Removable Equipment

Items such as ranges and refrigerators, considered necessary by the typical family and contributes to the family's livability, are acceptable for valuation. Items such as furniture, small kitchen appliances, rugs, window treatments, are considered personal property and cannot be considered in the value.

3J.8(b)(xii) Nuisances

While nuisances do not make a property ineligible or require repair, the appraiser must describe any nuisances and consider any effect on value. If available, comparable sales influenced by the same nuisance, should be used by the appraiser.

Examples of nuisances include heavy traffic, noise from a nearby highway, or odors from a factory in the vicinity.



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3J.8(b)(xiii) Remaining Economic Life

Remaining economic life is the estimated period of time until the improvements are expected to no longer serve their intended purpose as a home. In estimating the remaining economic life, the appraiser must consider:

- The relationship between the property and the economic stability of the block, neighborhood, and community;
- Comparisons with homes in the same or similar areas;
- The need for a home of the particular type being appraised;
- The architectural design, style, and functional utility of the property;
- The condition and durability of the property;
- Maintenance levels of other properties in the area; and
- In areas where municipalities have established code enforcement areas, their expected results in improving the neighborhood for residential use.

The appraiser must estimate the remaining economic life as a single number and include specific comments if the estimated remaining economic life is less than 30 years.

The estimated remaining economic life must be provided in the cost approach section of the appraisal report. For condominium units, the estimated remaining economic life must be provided in the “Reconciliation” section of the appraisal report.

3J.8(b)(xiv) Effective Age

While the actual age is the number of years since the home was constructed, the effective age reflects the condition and functional utility of the property. For example, remodeling will likely decrease the effective age of a home while a lack of maintenance can increase the effective age, possibly to a number greater than the actual age.

The appraiser must state the effective age as a single number and include comments if the effective age differs significantly from the actual age.

Since recommended repairs are included in value on origination appraisals, the effective age should reflect the condition of the property as repaired.



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3J.8(b)(xv) Gross Living Area

Gross living area (GLA) refers to the square footage of the area that is finished, habitable, contiguous, above-grade, residential space calculated by measuring the outside walls of the structure.

The functional utility and contributory value of any non-contiguous areas should be considered by the appraiser and listed separately from the GLA on the market data grid.

Basements, whether or not finished, must not be included in the GLA. Finished attics may be included in the GLA.

If any part of a finished level is below grade, the appraiser must determine whether it should be considered GLA or valued separately.

If the appraiser determines that a partially below-grade habitable space is similar to the GLA in design, quality of construction, and appeal, has full utility and is accepted in the market, the appraiser may include the area in the GLA.

If the partially below-grade space is inferior to the rest of the property and not accepted in the market, the appraiser may determine that the area is not part of the GLA. In cases such as these, the contributory value of partially below-grade space should be considered separately on the market data grid.

3J.8(b)(xvi) Room Additions and Car Storage Conversions

Room additions and enclosures of garages and carports into the living area should be included in the GLA if the added space is:

- Accessible from the interior of the main dwelling in a functional manner;
- Has a permanent and sufficient heat source; and
- Is similar in design, quality of construction and appeal to the main dwelling.

Added space that does not meet the criteria listed above must be valued separately from the GLA on the market data grid. The appraiser must consider the effect on marketability of an inferior addition or conversion when arriving at the line item adjustment for the added space. When selecting and analyzing comparable sales, the appraiser should consider the differences in quality and utility of room additions and converted spaces when compared with originally constructed space.



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3J.8(b)(xvii) Accessory Dwelling Unit

An Accessory Dwelling Unit (ADU) is a living unit including kitchen, sleeping, and bathroom facilities added to or created within a single-family dwelling, or detached on the same site. A manufactured home on the site could be an ADU. The dwelling and the ADU together constitute a single real estate entity.

An ADU is usually subordinate in size, location, and appearance to the primary dwelling unit and may or may not have separately metered utilities and separate means of ingress and egress. The appraiser must not include the living area of the ADU in the calculation of the GLA of the primary dwelling. The ADU must be valued separately as a line item on the market data grid.

As part of the highest and best use analysis, the appraiser must determine if the property is a single-family dwelling with an ADU, or a two-family dwelling. The highest and best use must be a legal use. A two-family dwelling must be appraised on the *Small Residential Income Property Appraisal Report* ([Form 1025/72](#)).

A manufactured home, shed, or other detached building on the property which does not have kitchen, sleeping, and bathroom facilities or cannot be legally used as a dwelling, may be valued as storage space if it does not present any health or safety issues.

3J.8(b)(xviii) Unique Property Types

Non-standard house styles which may be unique in a market area, including but not limited to, log houses, earth sheltered houses, dome houses, and houses with lower than normal ceiling heights, must meet any local building codes. The appraiser must consider the marketability of the home in the appraisal.

3J.8(b)(xix) Alternative Energy Systems

Alternative energy systems use wind, geothermal, or solar energy to produce energy to support the habitability of the structure.

The appraiser must analyze the market acceptance of special energy-related building components and equipment, including solar energy components, high-energy efficiency housing features and components, geothermal systems, and wind powered components.



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Leased equipment must not be given value.

3J.8(b)(xx) Leased Mechanical Systems and Equipment

The appraiser must not include the value of any leased mechanical systems or any other released equipment in the estimated market value. This includes but are not limited to fuel or propane storage tanks, solar or wind system (including power purchase agreements) and other alternative energy equipment.

The appraiser must identify leased items in the appraisal report. Some leases may encumber the title making the property less than fee simple. The appraiser must consider any detrimental effect on the value of the property if the leased items are removed by the lessor.

3J.9 Two- to Four-Unit Properties

Attached housing and multiple units add another level of complexity when analyzing the collateral securing the loan. The following must be addressed when appraising two- to four-unit properties:

- The appraisal should be prepared on the *Small Residential Income Property Appraisal Report* ([Form 1025/72](#)) Income property appraisals are eligible for processing under LAPP;
- Do not include illegal units in value. Grandfathered units may be valued; however, the fact that a unit is grandfathered must be reported;
- If a property has a guest house which cannot be legally rented, the appraisal should be done on the URAR with no value given to any rental income. The guest house should be valued as it contributes to the residential nature of the property;
- Property owners will sometimes add living units without obtaining approval from the local authorities. Local regulations vary greatly. In some areas, city code enforcement departments are quite vigilant in requiring the removal of illegal units; and
- Living units in a two- to-four-unit property may share water, sewer, gas, and electricity as long as there are separate service shut-offs for each living unit. Laundry, storage, and heating may also be shared.

SARs are responsible for staying informed about local VA requirements unique to the VA jurisdiction in which a property is located. Local requirements for all states are available online at

https://www.benefits.va.gov/HOMELOANS/appraiser_cv_local_req.asp



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3J.10 Selection of Condition, Quality and Other Characteristic Ratings

The Uniform Appraisal Dataset (UAD) improves the quality and consistency of appraisal data by defining all fields required on specific appraisal forms and standardizes definitions and responses for a key subset of fields. Regardless of the geographic location of the property or any localized reporting conventions, the UAD standardization includes:

- Formats for fields that include dates, values, and other data;
- Allowable values from a list of choices provided for certain fields;
- Abbreviations to allow more information to fit on printed appraisal forms; and
- Ratings and definitions for the “Condition” and “Quality” of the property and “Updated/Remodeled” status.

UAD standardization does not change existing VA policy on Minimum Property Requirements (MPR), property eligibility or appraisal inspection requirements.

While the UAD may allow for the use of pending sales in the sales comparison grid, VA requires that only closed sales be used.

UAD requires appraisers to provide specific information regarding remodeling in the past 15 years. VA expects fee appraisers to recognize and describe remodeling or updating and to make appropriate adjustments. Fee appraisers should also report UAD information concerning the remodeling if it is available in the “normal course of business” within VA timeliness requirements for completion of the appraisal.

3J.10(a) Condition

The appraiser must consider and describe the overall condition of the property improvements. The appraiser should be specific about needed repairs, additional features, modernization, etc., and should provide a supporting addenda, if necessary.

The property must receive a condition rating. The condition rating must reflect a holistic view of the condition of the property improvements. If a property has deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements, then the property's condition must be rated C6. The appraisal report must contain additional commentary, descriptions, and explanations as required, to understand the property condition.

Since appraisals are prepared “subject to” any repairs needed for the property to meet MPRs, UAD



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condition ratings of C5 and C6 are not appropriate.

The VA appraiser must provide a statement on their letterhead that the Minimum Property Requirement (MPR) repairs have been complete per the Notice of Value (NOV) prior to closing or loan purchase.

| Rating | Description |
|--------|--|
| C1 | <p>The improvements have been very recently constructed and have not previously been occupied. The entire structure and all components are new, and the dwelling has no physical depreciation.</p> <p>Note: Newly constructed improvements that feature recycled materials and/or components can be considered a new dwelling provided that the dwelling is placed on a 100% new foundation and the recycled materials, and the recycled components have been rehabilitated/re-manufactured into like-new condition. Recently constructed improvements that have not been previously occupied are not considered "new" if they have any significant physical depreciation (newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).</p> |
| C2 | <p>The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction.</p> |
| C3 | <p>The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well-maintained.</p> |
| C4 | <p>The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building component have been adequately maintained and are functionally adequate.</p> |
| C5 | <p>Improvement features show obvious deferred maintenance and are in need of some significant repairs.</p> <p>Some building components need repairs, rehabilitation, or updating. The functional utility</p> |



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| | and overall livability are somewhat diminished due to condition, but the dwelling remains usable and functional as a residence. |
| C6 | The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components. |

3J.10(b) Quality

There are no minimum specifications for materials and construction. The appraiser must consider and describe the overall quality of the property improvements.

The selected quality rating must reflect a holistic view of the quality of construction.

- Modifying the property to make it habitable for year-round occupancy;
- Upgrading electrical, plumbing, and other mechanical systems to community standards;
- Correcting substandard or non-conforming additions to the original structure; and
- Curing any other quality related items needed to make the subject property acceptable to typical buyers in the market area.

The VA appraiser must provide a statement on their letterhead that the Minimum Property Requirements (MPR) were completed per the Notice of Value (NOV) prior to closing or loan purchase.

| Rating | Description |
|--------|--|
| Q1 | Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exception high-quality exterior refinement and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality. |
| Q2 | Dwellings with this quality rating are often custom designed for construction on an individual property owner's site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior |



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| | ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality. |
| Q3 | Dwellings with this quality rating are residences of higher quality build from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner's site. The design includes significant exterior ornamentation and interior that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from "stock" standards. |
| Q4 | Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades. |
| Q5 | <p>Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwellings feature a plain design using readily available or basic floor plans featuring minimal fenestration* and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive stock materials with limited refinements and upgrades.</p> <p>*Fenestration—the design and disposition of windows and other exterior openings of a building.</p> |
| Q6 | Dwellings with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans, often utilizing the lowest quality building materials. Such dwellings are often built or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or nonexistent. Older dwellings may feature one or more substandard or nonconforming additions to the original structure. |

3J.11 Cost Approach to Value

The cost approach to value is not required for VA loans. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible results. For example, when appraising proposed or newly constructed properties, if the appraiser believes the cost approach is necessary, then the cost approach must be provided. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.



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The cost approach assumes that a potential purchaser will consider building a substitute residence that has the same use as the property being appraised. This approach, then, measures value as a cost of production. It may be appropriate to use the cost approach when appraising new or proposed construction, a property that is undergoing renovation, a unique property or a property that features functional depreciation, to support the sales comparison approach analysis. The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values.

If the cost approach was completed, thoroughly review the information provided to confirm that the appraiser's analysis and comments for the cost approach to value are consistent with the comments and adjustment mentioned elsewhere in the appraisal report.

3J.12 Income Approach to Value

The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn.

If appraising a residential income property with two to four units, the appraiser must prepare the appraisal on the *Small Residential Income Property Appraisal Report* ([Form 1025/72](#)), which includes an income approach. The income approach is not used for any other property types.

When the income approach is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. Thoroughly review the information provided to confirm that the appraiser's analysis and comments for the income approach are consistent with the comments mentioned elsewhere in the report.

3J.13 Minimum Property Requirements

Minimum Property Requirements (MPRs) provide general acceptability criteria for properties. VA appraisers will not perform operational checks of mechanical systems or appliances.

MPRs help ensure that the property is safe, structurally sound, and sanitary. The scope of the MPRs also includes issues related to the subject property's location and legal considerations.

The property must be free of hazards which may:

- Adversely affect the health and safety of the occupants;



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- Adversely affect the structural soundness of the dwelling and other improvements to the property; and
- Impair the customary use and enjoyment of the property by the occupants.

Any condition impairing the safety, sanitation, or structural soundness of the property will cause the subject property to be unacceptable until the defects or conditions are corrected so that the probability of further damage is eliminated.

Examples of defective conditions include:

- Defective construction;
- Poor workmanship;
- Evidence of continuing settlement;
- Excessive dampness;
- Leakage;
- Decay; and
- Termites.

The appraiser should not recommend repairs of cosmetic items, items involving minor deferred maintenance or normal wear and tear or items that are inconsequential in relation to the overall condition of the property.

The appraiser will make the appraisal "subject to" the completion of any MPR repairs that appear to be needed and include the contributory value of the completed repairs in the estimated market value. The appraiser must not require appraisals subject to inspections. The appraiser must recommend repairs, not inspections, for any conditions that do not appear to meet MPRs.

3J.14 Site Requirements

3J.14(a) Access to the Site

Each property must be provided with a safe and adequate access from a public or private street.

Private roads must be:

- Protected by a recorded permanent easement; or
- Recorded right of way from the property to a public road.

If private street maintenance is covered in the organizational documents for a planned unit development



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(PUD) or condominium, or by state law, the NOV may be issued without a requirement for further documentation.

Copies of these documents must be included in the loan file.

3J.14(b) Exterior Wall Access

There must be adequate space between buildings to permit maintenance of the exterior walls.

3J.14(c) Backyard Access

Access to the backyard must be provided without passing through any other living unit. For a row-type dwelling, the access may be by means of:

- An alley;
- Easement; or
- Passing through the subject dwelling.

3J.14(d) Easements

Each living unit must be accessible without passing through any other living unit or trespassing on adjoining properties. Any easements required must run with the land.

3J.14(e) Encroachments

The appraiser must report any apparent encroachments of the subject's dwelling, garage, or other improvements onto an adjacent property, right-of-way, utility easement, or building restriction line and any apparent encroachments of a neighboring dwelling, garage, or other improvements onto the subject property.

The appraiser must notify the lender of the encroachment promptly to provide as much time as possible to resolve the issue .

3J.14(f) Highest and Best Use

The highest and best use of a property is the most probable use, which is physically possible, appropriately supported, legally permissible, financially feasible, and results in the highest value.

While the appraiser must determine the highest and best use, the appraiser must also complete the



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appraisal in accordance with VA guidelines. For example, since VA-guaranteed loans are made for residential purposes, no value may be given to commercial uses, crops, livestock, land for future development, or any other non-residential use.

3J.14(g) Zoning

The property must comply with all applicable zoning ordinances.

If the property does not comply with current zoning ordinances, but is accepted by the local authority, the appraiser must describe the property as legal non-conforming and comment on the property's marketability and any adverse effect this classification may have on value.

The appraiser must state whether the dwelling may be legally rebuilt if destroyed.

3J.14(h) Local Housing/Planning Authority Code Enforcement

If the property is located in an area where specific local housing/planning authority code requirements are enforced in conjunction with the sale of homes, the appraiser must describe the requirements in the appraisal report.

If the appraiser is aware of any repairs that will be required due to local code enforcement, for example, the removal of unpermitted improvements, the appraiser must prepare the appraisal subject to these repairs.

3J.14(i) Multiple Parcels

More than one parcel or lot may be included as long as all of the property is contiguous and legally marketable. VA does not set a limit on the number of acres that the property may have. If the property being appraised includes more than one parcel, the appraisal must be prepared subject to placing all of the parcels on one deed.

3J.14(j) Road or Waterway Dividing the Property

If a property is divided by a road or waterway, the appraiser must determine the effect on the utility of the property to ensure that the property is a readily marketable, real estate entity.

3J.14(k) Drainage and Topography

The site must be graded so that it:



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- Provides positive, rapid drainage away from the perimeter walls of the dwelling; and
- Prevents ponding of water on the site.

The appraiser must report any danger due to topographic conditions, such as mudslides from adjoining properties, falling rocks, or avalanches.

3J.14(l) Stationary Storage Tanks

If the property is located within 300 feet of an above-ground or subsurface stationary storage tank with a capacity of 1,000 gallons or more containing flammable or explosive material, the appraiser must report this information in the appraisal. This includes storage tanks for domestic and commercial uses as well as automotive service station tanks.

The appraiser should use comparable sales in similar locations, if available.

The SAR must include the information on the NOV, requiring the Veteran's signed acknowledgment to ensure the Veteran is fully informed of the situation.

3J.14(m) High-Pressure Gas and Liquid Petroleum Lines

No part of any residential structure may be located within a high-pressure gas or liquid petroleum pipeline easement. Any detached improvements even partially in the pipeline easement will not be included in the value.

If the property is within 100 feet from the nearest boundary of a high-pressure gas or liquid petroleum pipeline easement, the appraiser must comment in the appraisal.

3J.14(n) Overhead High-Voltage Transmission Lines

No part of any residential structure may be located within a high voltage electric transmission line easement. Any detached improvements (such as a garage) even partially in a transmission line easement must not be included in the value.

If the property is within 100 feet from the nearest boundary of a high voltage electric transmission line easement, the appraiser must comment in the appraisal.



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3J.14(o) Lead Based Paint

Lead-based paint constitutes an immediate hazard that must be corrected, unless testing shows that lead is not present in the paint at a level above that permitted by law.

If the subject property was built in 1978 or later, the appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the surface to the elements.

Appraisers must:

- Assume that a defective paint condition (involving cracking, scaling, chipping, peeling, or loose paint) on any interior or exterior surface of properties built prior to 1978 involves lead-based paint;
- Clearly identify the location of such conditions; and
- Recommend correction.

Any defective paint condition identified must receive adequate treatment to prevent the ingestion of contaminated paint. Comply with one of the following:

- The surface requiring treatment must be thoroughly washed, scraped, wire brushed or otherwise cleaned to remove all cracking, scaling, peeling, chipping, and loose paint and then repainted with two coats of a suitable nonleaded paint; and
- The paint shall be completely removed, or the surface covered with a suitable material such as gypsum wallboard, plywood or plaster before any painting is undertaken if the paint film integrity of the surface needing treatment cannot be maintained.

All repairs involving defective paint must be certified by the VA appraiser.

3J.14(p) Radon Gas

On proposed and new construction cases, the builder must certify that radon resistant construction techniques were used, and that construction meets any local or state building codes for radon control. Radon resistant construction techniques are considered to be applicable for properties located in Radon Zone 1 as designated by the EPA at the following website: [EPA Map of Radon Zone](#) and [Construction Standards for Radon-mitigation](#).



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3J.14(q) Geological or Soil Instability, Subsidence and Sinkholes

3J.14(q)(i) Soil Conditions

The appraiser must report any readily observable soil conditions of the site, and other physical features that affect the value of the site. The appraiser should also consider any published reports regarding the instability of the soil and surface support of the land concerning the subject and nearby properties. The appraiser must consider any effect on the estimated market value of the property.

3J.14(q)(ii) Subsidence

Subsidence may be encountered where homes are constructed on uncontrolled fill or unsuitable soil, in locations near mining activity or extraction of subsurface minerals (to include fracking), or where the subsoil or subsurface is unstable and subject to slippage or expansion. Signs of subsidence may include cracks in the terrain, sinkholes, foundation damage or settlement problems.

The appraiser must report any probable or imminent danger of subsidence or sinkholes. Depending on the extent of the problem, it could be considered a hazard which would make the property ineligible. The appraiser must notify the lender promptly when a hazardous condition is found.

3J.14(q)(iii) Dangerous Subsidence or Sinkholes

The appraiser must report any probable or imminent danger of subsidence or sinkholes. Depending on the extent of the problem, it could be considered a hazard, which would make the property ineligible.

3J.14(q)(iv) Repairs by Contractor

If a settlement problem that does not have the severity of a hazard is apparent, the appraisal must be prepared "subject to repair" by a licensed contractor (for example, step-cracks in an exterior wall, or cracked flooring with significant vertical displacement).

Hairline cracks due to expansion or normal settlement do not typically require repair.

3J.14(q)(v) New or Proposed Construction

For new or proposed construction properties, in areas that have a history of geological or soil instability, the builder must submit either:



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- A certification that to the best of the builder's knowledge and belief, any geological or soil-related hazard has been compensated for in the engineering design of the improvements and no portion of the construction will rest on fill; or
- Evidence from a qualified geologist or engineer that the subject site either does not present unusual geological soils -related hazards or such hazards have been compensated for in the engineering design of the improvements. (Qualified geologists are state licensed or are a member of a national or state organization which requires responsibility, experience, education and demonstrated ability in the field of engineering geology).

3J.14(r) Properties Near Airports

Whenever a property is located near an airport, appraisers must consider the effect on value of any airport noise and select comparable sales, if available, with the same airport influence.

Proposed construction located in a Clear Zone (also known as a Runway Protection Zone) is not eligible. The appraiser must stop working on the appraisal and notify the lender immediately.

For existing or new construction located in a Clear Zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran: "I am aware that the property being purchased is located near the end of an airport runway and this may have an effect upon livability, safety, value and marketability of the property."

For all properties located in an accident potential zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran: "I am aware that the property being purchased is located in an accident potential zone and this may have an effect upon the livability, safety, value, and marketability of the property."

Airport noise zone maps may be found at Federal Aviation Administration [Airport Noise and Land Use Information](#).

3J.14(s) Mineral, Oil, and Gas Reservations and Leases

The appraiser must analyze and report the degree to which residential benefits may be impaired or the property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

The appraiser should consider the following:



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- The infringement on the property rights of the fee owner caused by the rights granted by the reservation or lease; and
- The hazards, nuisances, or damages to the subject property from exercise of reservation or lease privileges on neighboring properties.

3J.14(t) Flood Zones

Properties located in a FEMA Special Flood Hazard Area (SFHA) must be covered by a flood insurance policy. Properties in areas that are subject to regular flooding are not eligible, whether or not the area has been designated an SFHA.

While appraisers must provide flood zone information on the appraisal report, flood zone maps do not typically indicate the location of specific properties.

The appraiser must notify VA and the lender if it appears that the property may not be eligible for a VA appraisal for one of the following reasons:

- The property is proposed or new construction and there is an indication that the elevation of the lowest floor is below the base flood level (100-year flood level). See 24 CFR 200.926d(c)(4); or
- The property is subject to regular flooding.

SFHAs are usually designated Zones A, AO, AH, A1-A30, AE, A99, AR, AR/AE, AR/AO, AR/A1-A30, AR/A, V, VE, and V1- V30. Flood insurance is not required in Zones B, C, X, and D.

At the Veteran's request, non-residential improvements such as detached garages and small sheds may be excluded from the flood insurance policy if they are also excluded from the appraised value. The cost of flood insurance with and without coverage for the detached building should be compared as excluding a detached building may not be worthwhile.

3J.15 Property Characteristics

3J.15(a) Attic

The appraiser must view the interior of readily accessible attic spaces. The appraiser is not required to climb into the attic.

The appraiser is not required to move insulation or personal items that may hinder visibility. If there is no



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scuttle or other access to the attic, there is no requirement to provide access.

3J.15(b) Basement

The appraiser must report any dampness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the structure.

If a sump pump is present, the appraiser must recommend repair if it is not hard -wired by an acceptable wiring method or equipped with a factory electrical cord that is connected to a suitable receptacle.

3J.15(c) Crawl Space

The crawl space must have adequate access, be properly vented and clear of all debris. Excessive dampness or ponding of water must be corrected. Floor joists must be high enough to allow access for maintenance and repairs of duct work and plumbing.

Not all houses with a vacant area beneath the flooring are considered to have a crawl space particularly if no mechanical systems are present, and there is no reason for access. If the area is properly vented and free of moisture, this condition is acceptable.

3J.15(d) Party Walls

A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the roof ridge.

3J.15(e) Roof

The roof must prevent entrance of moisture and provide reasonable future utility, durability, and economy of maintenance. When a defective roof with three or more layers of shingles must be replaced, all old shingles must first be removed.

When the appraiser is unable to view the roof, the appraiser must explain why the roof is unobservable and report how the condition of the roof was determined. For example, a roof may be covered with snow, yet the appraiser observed no evidence of leaks and documentation was provided to the appraiser verifying the age of the roof. If available, other methods such as drones could be utilized to show the area.

3J.15(f) Swimming Pools

If the pool water contains algae or if the pool has been winterized, and the appraiser cannot determine if



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the pool equipment is in good working order, the appraiser may complete the appraisal under the extraordinary assumption that the pool and its equipment can be repaired at minimal cost without recommending any repairs.

The appraiser must report readily observable defects including unstable sides and structural issues that would render the pool inoperable or unusable. Depending on the extent of the damage, the appraiser must prepare the appraisal report “subject to” the repair of the pool, and include the pool in value, or prepare the appraisal “subject to” permanently filling in the pool, in accordance with local guidelines, and re-grading the yard, if necessary.

Above-ground pools which include water filtering equipment and decking may be included in value if the appraiser determines that above-ground pools are customary and accepted in the market area.

Swimming pools must be secured in accordance with any local requirements. On a liquidation appraisal, if the pool is unsecured, securing the pool must be included on the repair list and reported as a safety hazard on the liquidation addendum.

Empty or non-functioning swimming pools/spas may be acceptable if one of the following requirements is met:

- The swimming pool/spa is secured by a cover that would be sufficiently sturdy to prevent a person from falling in the pool or through the cover;
- The swimming pool/spa has been filled with dirt;
- A fence surrounds the swimming pool/spa; and
- In addition, the appraiser must comment on the effect on the property's marketability and must not present a health or safety issue.

If the appraiser reports that the swimming pool does not meet acceptable requirements, the underwriter must confirm that any swimming pools on the property comply with all local ordinances.

3J.15(g) Burglar Bars

If a property has burglar bars, at least one window per bedroom must have a quick-release mechanism, unless there is an exterior door from the bedroom providing rapid egress.

If the appraiser is not able to confirm that quick release mechanisms are in good working order the appraiser should prepare the appraisal subject to removal of the burglar bars as a safety consideration.



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3J.15(h) Mechanical Systems

Mechanical systems must be safe to operate and be protected from destructive elements.

3J.15(i) Utilities

Utility services must be independent for each unit except:

- Living units under a single mortgage or ownership may share water, sewer, gas, or electricity as long as there are separate service shut-offs for each unit; and
- Living units under separate ownership may share connections from the main to the building line when those connections are protected by easement or covenant, and an acceptable maintenance agreement.

Any visible frayed or exposed electrical wires must be repaired.

Individual utilities serving one living unit shall not pass over, under, or through another living unit unless there is a legal provision for a permanent right of access for maintenance and repair of the utilities without trespass on adjoining properties.

Each unit must have adequate electric for lighting and necessary equipment.

3J.15(j) Heating

All properties must have a permanently installed and maintain a temperature of at least 50 degrees in areas with plumbing.

If the property has a permanently installed, non-electric, non-vented fireplace or other non-vented space heater, the SAR will condition the Notice of Value as follows:

- The Veteran purchaser's written acknowledgement that the dwelling contains an unvented fireplace or space heater which has not been inspected by VA; and
- A written statement from a heating/air conditioning contractor that identifies the property and states that the unvented appliance is equipped with an approved Oxygen Depletion Sensor and meets the local building authority requirements (if there are no local requirements, the installation must meet the manufacturer's recommendations).

Areas with mild climate may not require heating.



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Air conditioning is not required, but if installed, must be operational. If any needed repairs to the air conditioning equipment are apparent, the appraiser must require repairs of the air conditioning system by a licensed heating/air conditioning contractor.

3J.15(k) Ventilation

Ventilation of structural spaces such as attics and crawl spaces must be provided to reduce the effect of excess heat and moisture, which could cause decay, and deterioration of the structure.

3J.16 Repairs

3J.16(a) Certification of Completion of Repairs

The individual issuing the Notice of Value (Lender Staff Appraisal Reviewer or VA Staff) determines if a lender certification or fee appraiser certification is required.

The appraiser should obtain a copy of the NOV before doing a repair certification. The following is required to certify completion of the repairs:

- The appraiser must certify the repairs as stated on the NOV (not as stated on the appraisal);
- All MPR repair waivers must be approved by VA as described below;
- The appraiser should complete the repair certification within 48 hours; and
- Repair certifications should be done on the appraiser's letterhead or on the *Appraisal Update/Completion Report* ([Form 1004D/442](#)).

3J.16(b) Waivers on MPR Repair Items

All repair waivers must be approved by VA.

A required repair may be waived by VA if all of the following conditions are met:

- A Veteran is under contract to purchase the property;
- The Veteran and lender request the waiver in writing;
- The property is habitable from the standpoint of safety, structural soundness, and sanitation; and
- VA is satisfied that the nonconformity has been fully taken into account by lowering the value determination (since the appraised value was originally estimated "as repaired."

3J.17 Water and Sewage Systems

The subject property must have:



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- A continuous supply of safe and potable water for drinking, bathing, showering, and sanitary uses,
- Hot water;
- Sanitary facilities; and
- A safe method of sewage disposal.

Connection to a public or community water or sewage disposal system is mandatory only if required by the local building, planning, or health authorities.

3J.17(a) Water Systems

The appraiser must ensure that accurate water supply information is reported in the appraisal and the SAR must condition the NOV appropriately. If the appraiser is aware of any issues regarding the water supply, the appraiser must comment in the appraisal.

The appraiser must comment and adjust for any market reaction as a result of water contamination, as well as any environmental stigma.

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| Individual Water Supply | <p>Water quality for an individual water supply must meet the requirements of the health authority having jurisdiction. If the local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.</p> <p>A water quality test is required for all individual water systems. All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample may be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority.</p> <p>The appraiser must comment, and the Veteran must acknowledge awareness, in writing, when the water to the property is:</p> <ul style="list-style-type: none">• Supplied by dug wells, cisterns, or holding tanks used in conjunction with water purchased and hauled to the site,• Provided with a mechanical chlorinator,• Provided through springs, lakes, rivers, and sand -point or artesian wells, or |
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| | <ul style="list-style-type: none"> Supplied with a rainwater catchment system. <p>Proper mitigation of lead contaminated water must include a central filtering system, which filters all water that could serve the property's occupants.</p> <p>If the property has a water filtration system, the Veteran must acknowledge in writing that the water must be continuously treated as required by the local health authority to be considered safe for human consumption and for this to be effective, the system must be inspected and maintained to include filter replacements per the manufacturers' recommendations.</p> <p>The appraiser must be familiar with the minimum distance requirements between private wells and sources of pollution. The appraiser is not required to sketch or note distances between well, property lines, septic tanks, drain fields, or building structures.</p> <p>The water quality test must be dated within 90 days from the date of the Note for existing construction unless the local authority indicates otherwise.</p> |
| Shared Wells | <p>A shared well refers to a well that serves two or more properties. The shared well must be:</p> <ul style="list-style-type: none"> Capable of providing a continuing supply of safe and potable water to each property simultaneously, so that each dwelling will be assured a sufficient quantity for all domestic purposes; and Protected by a permanent easement, which allows access for maintenance and repair. Maintained under a well-sharing agreement containing provisions for the cost of repairs that is binding on the signatory parties and their successors in title and has been recorded in public records. <p>The shared well agreement must be provided for review and acceptability.</p> |
| Community Water Supply | <p>A community water system refers to a central system that is owned, operated, and maintained by a private corporation or nonprofit property owners' association. The appraiser must not that the property is served by a community water system.</p> <p>The water supply must be sufficient in size for the project. There must be evidence of approval of the facilities by the local or state health authority in the loan file.</p> |

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| | <p>A trust deed is required if the local or state authority that approved the system does not:</p> <ul style="list-style-type: none"> • Enforce compliance with its requirements; • Fix rates; and • Provide for prompt relief in case of deficient operation, service, or exorbitant rates. <p>If a trust deed is required for a privately-owned system, it should be similar to the trust deed found in HUD Handbook 4075.12.</p> |
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3J.17(b) Sewage Systems

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| Sewage Disposal System | <p>An individual sewage disposal system must adequately dispose of all domestic wastes in a manner which will not create a nuisance, or in any way endanger the public health.</p> <p>On proposed construction or new or existing construction where the appraiser notes a problem, or if the area is known to have soil percolation problems, health authority approval of the individual sewage disposal system is required.</p> <p>The septic test must be dated within 90 days from the date of the Note for existing construction.</p> |
| Pit Privies | <p>Individual pit privies are permitted where such facilities are customary and are the only feasible means of waste disposal, provided they are installed in accordance with the requirements of the local health authority.</p> |
| Community Sewage Disposal | <p>A community sewage system refers to a central system that is owned, operated, and maintained by a private corporation or a nonprofit property owners' association. The appraiser must note that the property is on a community sewage system.</p> <p>The sewage system must be adequate in size and properly operated and maintained so as to prevent it from becoming obnoxious or a menace to public health. There</p> |



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| | <p>must be evidence of approval of the facilities by the local or state health authority in the loan file.</p> <p>A trust deed is required if the local or state authority that approved the system does not:</p> <ul style="list-style-type: none">• Enforce compliance with its requirements;• Fix rates; and• Provide for prompt relief in case of deficient operation, service, or exorbitant rates. If a trust deed is required for a privately-owned system, it should be similar to the trust deed found in HUD Handbook 4075.12 |
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3J.18 Certifications

When certifications, such as termite, roofing, structural, electrical, plumbing, heating, or property inspection, a qualified professional from that field must complete the inspection and certification. If the subject property's state requires licensing or certification for the profession, the underwriter is responsible for verifying the professional's license or certification. If any of the inspections result in necessary repairs, the repair bills should be itemized, and the repairs verified as satisfactorily completed with a clear certification issued.

3J.18(a) Property Inspection

If a home inspection is performed, and is included in the loan file, and identifies the need for repairs, which were not identified in the appraisal report, the underwriter is responsible for determining that the property meets VA minimum property standards.

If minimum property standards are not met, the underwriter must request the appropriate documentation, certifications and/or repairs to ensure the property meets minimum property standards.

3J.18(b) Wood Destroying Insects

Appraisers must report any apparent evidence of wood destroying insect infestation, fungus growth, or dry rot. The appraisal must be subject to a wood destroying insect inspection if any infestation or damage is apparent and all damage must be repaired.

If the property is located in an area on the [Termite Infestation Probability Map](#) where the probability of



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termite infestation is "very heavy" or "moderate to heavy," a wood destroying insect inspection report must be required on the NOV.

3J.18(b)(i) Existing and New Construction Properties

Purchases and refinances (except streamline refinances) must have a complete report that is not more than 90 days old from the Note date. All structures within the legal boundaries of the property, including garages, must be inspected. Detached sheds or other improvements on the site may be included in value if the improvements meet MPR's. If the improvement does not meet MPRs it must be excluded from value. If the improvement presents a health or safety hazard, the appraisal must be completed subject to the removal of the improvement.

3J.18(b)(ii) Proposed Construction Properties

For proposed construction treatments, the following must be used:

- [Subterranean Soil Treatment Guarantee Form NPMA 99-A](#); and
- [Subterranean Soil Treatment Record-Form NPMA 99-B](#).

If a state has more stringent record keeping requirements than Form-HUD NPMA-99-B, the state form can be accepted in lieu of the NPMA-99-B, in which case the state form would be attached to Form HUD NPMA-99-A.

The acceptable methods of treatment for protection against subterranean termite attacks are:

- Chemical soil treatment;
- Pressure preservative treated wood;
- Naturally, termite-resistant wood (e.g., redwood, cedar); and
- Physical barriers (such as metal or plastic termite shields).

The National CABO Dwelling Code permits the use of pressure preservative treated wood as a measure of termite protection.

3J.18(c) Condominiums

A termite inspection is not required on units in high-rise condominiums (vertically stacked units). For villa and town home style condominiums where units are side by side, if located in a "very heavy" or "moderate to heavy" zone, a termite inspection must be required unless the HOA provides evidence of treatment.



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3J.18(d) Wood Infestation Damage

Active infestations must be treated, and all related damage must be properly corrected.

If the wood destroying insect damage is structural in nature, an inspection must be performed by a qualified pest control operator (inspector affiliated with a pest control company) who meets all requirements for pest control operators within the state the property is located. All repairs must be completed prior to closing.

3J.19 Environmental Hazards

Structural soundness of the improvements may impair the customary use and enjoyment of the property. The property must be free of all foreseeable hazards and adverse conditions that may affect the health and safety of the occupants.

Environmental hazards include underground storage tanks, slush pits oil and gas wells (operating or abandoned) hydrogen sulfide gas emitted from petroleum product wells, chemical contamination (including methamphetamine) or soil contamination from sources on or off the property.

If the real estate broker, the property seller, the property purchaser, any employee of Correspondent Client, or any other party to the mortgage transaction reveals that an environmental hazard exists in or on the property or in the vicinity of the property, that information must be disclosed to the appraiser and the individual mortgage file must be noted accordingly (Such information must be disclosed to the borrower and must comply with any state or local environmental laws regarding disclosure).

When the appraiser has knowledge of any hazardous condition (whether it exists in or on the subject property or on any site within the vicinity of the property)-such as the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, radon gas, etc.,-it must be noted on the appraisal report and any influence that the hazard has on the property's value and marketability (if it is measurable through an analysis of comparable market data as of the effective date of the appraisal) must be commented on. Appropriate adjustments in the overall analysis of the property's value must be made.

The appraisal must be subject to correction of the problem in accordance with any local, state, or federal requirements, or documentation from the appropriate local, state, or federal authority that the condition is acceptable.



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3J.20 Property Assess Clean Energy (PACE)

The appraiser must be notified when the property is subject to a PACE obligation and must be provided with all terms and conditions of the PACE obligation.

The appraiser must review the sales contract and property tax records for the subject property to determine the amount outstanding and the terms of the PACE obligation:

- If the appraiser is notified that the subject property will remain subject to a PACE obligation;
- When the appraiser observes that the property taxes for the subject property are higher than average for the neighborhood and type of dwelling; and
- When the appraiser observes energy-related building components or equipment or is aware of other PACE-allowed improvements during the inspection process.

The appraiser must report the outstanding amount of the PACE obligation for the subject property and provide an explanation of the terms. Where energy and other PACE-allowed improvements have been made to the property through a PACE program, and the PACE obligation will remain outstanding, the appraiser must analyze and report the impact on value of the property, whether positive or negative, of the PACE-related improvements and any additional obligation (i.e., the PACE special assessment).

See Chapter 3C VA Financing, 3C.6 Property Assessed Clean Energy (PACE) for requirements when a PACE or PACE-like loan exists.



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| Revision History | Date |
|---|------------|
| Updated Appraisal Transfer section to clarify (per VA Service Desk): Transfers completed for one Veteran on a property cannot be used for a different Veteran on the same property. VA appraisals are specific to the individual Veteran and the property. | 05.22.2025 |



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Chapter 4A USDA Eligibility

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4A.1 Delinquent Federal Debt

4A.1(a) Delinquent Federal Non-Tax Debt (CAIVRS)

Borrowers with delinquent federal non-tax debt, including deficiency judgments, and other debt associated with past government insured mortgages are ineligible unless the debt is paid in full, or a release of liability is documented. Information on delinquent federal non-tax debt may be obtained from public records, credit reports, or equivalent and CAIVRS.

All borrowers must be screened using HUD's [Credit Alert Interactive Voice Response System](#) (CAIVRS) except those borrowers involved in a Streamlined-Assist or Streamlined Refinance.

CAIVRS may return the following results:

- A: Approved by CAIVRS (no issues exist)
- B: Multiple cases from one or more Federal agencies
- C: Claim filed
- D: Default on loan
- F: Foreclosure of loan
- J: Judgment filed

An "A" response is the only acceptable result for eligibility for a USDA loan.

GUS will automatically retrieve the CAIVRS response for each borrower when the Borrower Information application page is saved. If the automatically retrieved CAIVRS response is not an "A" response, obtain evidence of an "A" CAIVRS response outside of GUS. The CAIVRS response cannot be overwritten or revised within GUS. USDA will retrieve and confirm an "A" CAIVRS response when the loan file is processed by USDA's Guaranteed Loan System (GLS).

Non-borrowing spouse does not need to be checked against CAIVRS.

If the CAIVRS system is unavailable at the time the borrower information application page is completed, the user may manually retrieve the CAIVRS response by accessing the GUS Assets and Liabilities Page, under the CAIVRS information section accessing the HUD [CAIVRS](#) hyperlink. The CAIVRS number retrieved must be manually entered into the applicable CAIVRS Number block.



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4A.1(b) Delinquent Federal Tax Debt

Public records and credit information must be checked to verify that the borrower is not delinquent on any federal debt and does not have a tax lien placed against their property for a debt owed to the federal government.

Borrowers with delinquent federal tax debt are ineligible. All delinquent federal tax debt must be satisfied prior to or at closing unless the debt has been resolved in one (1) of the following ways:

- Payment in full; or
- A valid repayment agreement with the lien holder to make regular payments on the debt. The monthly payment must be included in the DTI ratio. The borrower must have made at least three (3) months of scheduled payments on time. The borrower may not prepay scheduled payments in order to meet the required minimum of three (3) months payments.

An open tax lien must be subordinate to the Newrez first mortgage. A letter of explanation is required for all federal or state tax liens.

4A.2 Documentation Standards and Age

All documents in the origination file relevant to underwriting should be reviewed for signs of alteration or fabrication. When conflicting information exists between or within documents, an adequate explanation must be obtained and documented.

Documentation for the borrower may not be handled by or transmitted from or through the equipment of interested third parties, such as real estate agents, builders, or sellers.

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| Age of Credit Documents | <ul style="list-style-type: none">• All documents (credit, asset, etc.) must not be more than 120 days old on the Note date for existing and new construction.• Documents whose validity for underwriting purposes is not affected by time, such as divorce decrees or tax returns, is not subject to a document expiration date. |
| Appraisal Validity | <ul style="list-style-type: none">• The effective date of the appraisal report must not be more than 180 days of the Note date.• The term of the appraisal begins on the subject property is inspected by the appraiser.• The reuse of an appraisal for a subsequent transaction is not permitted. |



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| Appraisal Update | <ul style="list-style-type: none">• The validity period of an appraisal report can be extended once with an Appraisal Update Report.• The appraisal may be expired at the time the appraisal update is required.• The appraisal update extends the validity of the appraisal for no more than one (1) year from the effective date from the original appraisal date.• The appraisal update is not valid if the subject property's value has declined. |
| Effective Date of Title Policy | The effective date of the preliminary title insurance policy must not be more than 180 days on the Note date. |

4A.3 Occupancy Types

4A.3(a) Primary Residence

A primary residence is a property that at least one (1) borrower occupies as their primary residence.

At least one (1) borrower must occupy the property within 60 days of closing and continue to occupy the subject property through the term of the loan.

A borrower who will retain ownership of the current primary residence is eligible to purchase another primary residence if all of the following are met:

- The current dwelling is not financed by a Rural Development Guaranteed or Direct Section 502 or 504 loan or active grant (the grant agreement has not expired);
- The borrower qualifies with both mortgage payments secured by the current primary residence and the subject property;
- The current home no longer meets the borrowers' needs. The loan file must contain documentation of a significant status change in the circumstances. Examples of changes in status include, but are not limited to:
 - Overcrowding, defined as 1.5 household members per room. The room count generally includes a living room, dining room, kitchen, den recreation room, and bedroom(s). Room counts do not include bathroom(s) or entry hall/foyer. Must verify that the overcrowding has existed for more than 90 days and will continue for at least nine (9) months.
 - The disability or limited mobility that cannot be accommodated without substantial retrofitting of the current property.
 - Relocation with a new employer or being transferred by current employer to an area not within a reasonable commuting distance.



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The loan file must contain:

- An explanation of the burden upon the borrowers imposed by the status change in the near and long term.
- An explanation why the purchase of the new property must be completed prior to the sale of the existing property.

4A.3(a)(i) Active-Duty Military

Active-duty military borrowers must occupy the property as their primary residence. They must provide a written statement expressing intent to meet occupancy requirements upon discharge from the service. A borrower who cannot physically reside in the property because they are on active duty will be considered to meet occupancy requirements defined in 3555.10 of 7 CFR 3555 provided the service person's family will continue to occupy the property as their primary residence.

4A.4 Program Eligibility

Program eligibility for the Rural Development Program is determined by borrower's assets and total household income.

The Client and borrower must certify that the borrower is unable to obtain mortgage financing from other sources upon terms and conditions which the borrower can reasonably fulfill. The certification can be made if the borrower does not meet the requirements to obtain a traditional conventional loan. Traditional conventional credit is defined as:

- The borrower has at least 20% down payment in liquid assets (excluding retirement funds) and additional funds to pay all closing costs;
- The borrower qualifies with ratios of not more than 28/36;
- The borrower demonstrates qualifying credit; or
- The loan term is a 30-year fixed rate.

If the above criteria can be met, the borrower is not eligible for a USDA Guaranteed Loan. Liquid assets for down payment purposes typically consist of cash or cash equivalents such:

- Funds in a checking or savings accounts
- Stocks, bonds, mutual funds
- Certificates of deposit
- Money market funds

The following are not considered liquid assets:



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- Liquid assets that are pledged as collateral or otherwise inaccessible without substantial penalty;
- Funds in retirement accounts that are restricted and may not be accessed without incurring substantial monetary penalties;
- Ownership of land; and
- Educational college savings plans, such as a 529 plan, which incur a penalty to withdraw.

4A.5 Borrower Eligibility

There is no maximum age for a borrower. Borrower(s) must have reached the minimum age at which the Note can be legally enforced in the jurisdiction in which the property is located.

Any person signing an application for a loan is a borrower.

- All borrowers must sign the Note;
- All borrowers must have a social security number;
- An Individual Tax Identification Number (ITIN) is not permitted; and
- Each borrower must be an individual:
 - Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts are not eligible.

U.S. citizenship is not required for mortgage eligibility; however, all borrowers must have lawful residency in the U.S. Non-U.S. citizens without lawful residency in the U.S. are not eligible.

4A.5(a) Eligible Borrowers

- A United States citizen
- Permanent resident alien, with proof of lawful permanent residence (Qualified Alien)
- Non-permanent resident alien **with one of the following Employment Authorization Document (EAD) effective March 18, 2025:**
 - **A03 Refugee**
 - **A04 Paroled Refugee**
 - **A05 Asylee**
 - **A10 Granted withholding of Deportation or Removal**
 - **C11 An Alien paroled into the United States in the public interest or temporarily for emergency reasons.**
- **NOTE: For future Refinance Transactions, the non-U.S. citizen rules that applied at the time the original loan was closed and guaranteed will carry over to the new refinance. If new borrowers are**



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added to the refinanced loan, they must meet the eligibility requirements effective on March 18, 2025.

For additional qualified alien criteria, see the [Chapter 8: Applicant Characteristics](#), in HB-1-3555 SF Guaranteed Loan Program Technical Handbook.

4A.6 Ineligible Borrowers

The following are ineligible:

- Borrowers with diplomatic immunity
- Foreign Nationals
- Guarantor and co-signers
- Non-U.S. citizens without lawful residency in the U.S.
- Trusts

4A.7 Ownership Interests

All borrowers must take title to the property in their own name at closing, be obligated on the Note or credit instrument and sign all security instruments. The borrower must hold title to the property as a fee simple estate. However, loans secured by a Leasehold Estate in areas in which they received market acceptance, as described in the Leasehold Estates section below.

In community property states, the borrower's spouse is not required to be a borrower or cosigner. However, the mortgage must be executed by all parties necessary to make the lien valid and enforceable under state law.

4A.7(a) Life Estate

A life estate is an interest in real estate held by an individual who is limited to the duration of the life of the individual holding the interest. Properties vested in a life estate are not permitted.

4A.7(b) Leasehold Estate

A leasehold estate is an estate or interest in real property held by virtue of a lease or sublease.

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| Leasehold Estate Requirements | <p>Review the lease to ensure that the lease meets all of the following requirements:</p> <ul style="list-style-type: none">• The mortgage must cover both property improvements and the leasehold interest in the land;• The leasehold estate must constitute real property, be subject to the mortgage lien, and be insured by a title policy;• The leasehold estate's term runs fifteen or more years beyond the maturity |
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| | <p>date of the loan closing;</p> <ul style="list-style-type: none"> • The leasehold estate must be assignable or transferable; and • The lease cannot be terminated except for nonpayment of lease rents. |
| Lease Requirements | <p>The lease must:</p> <ul style="list-style-type: none"> • Provide for lender notification of any default by the borrower and the option to cure the default; • Provide that the borrower will pay taxes, insurance, and association dues on the land and retain voting rights in the association; • Provide that the leasehold can be transferred, mortgaged, and sublet without restriction; • State rental increases in exact dollar amounts; • Be recorded and constitute an interest in real estate; • Permit mortgaging of the leasehold; • Provide for written notice of default; and • Provide renewal options for the leasehold mortgagee. |
| <p>AMENDMENTS TO MORTGAGES WITH LEASEHOLD INTEREST</p> <p>The following paragraphs must be inserted in the mortgage. The first paragraph should be placed directly before the legal description of the real estate.</p> <p>“All Borrower’s right, title, and interest in and to the leasehold estate for a term of years beginning on , 20 , created, executed and established by certain Lease dated , 20 , by , Page of Records of said County and State, and any renewals and extensions thereof, and all Borrower’s right, title, and interest in and to said Lease, covering the following real estate.”</p> <p>“Borrower will pay when due all rents and any and all other charges required by said Lease, will comply with all other requirements of said Lease, and will not surrender or relinquish any of Borrower’s right, title, or interest in or to said leasehold estate or under said Lease while this instrument remains in effect.”</p> | |

4A.8 Prepayment Penalty

Not permitted.



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4A.9 Power of Attorney

Refer to Chapter 9A Power of Attorney for eligibility information

4A.10 Assumption Eligibility

USDA loans may be assumed subject to USDA requirements.

4A.11 Ineligible Programs

The following programs are not eligible:

- Energy Efficient Mortgages (EEM)
- High-cost mortgage
- Refinance of a previously modified loan
- Refinance of a USDA Direct Loan
- Repair and Rehabilitation Loan
- Rural Energy Plus
- Single-close construction to permanent
- Texas Section 50(a)(6) Home Equity loans
- Transactions where the loan originator is acting in another real estate related role with the following exception: Loan officers who are appropriately licensed in the state of CA or FL who are acting as the buyer's agent. A copy of the FL Disclosure of Conflict of Interest or CA Dual Capacity Disclosure is required to be provided by the broker.

| Revision History | Date |
|---|------------|
| USDA Announcement 03.18.2025: Modified Eligible Borrowers to reflect: Non-permanent resident alien with one of the following Employment Authorization Document (EAD): <ul style="list-style-type: none">○ A03 Refugee○ A04 Paroled Refugee○ A05 Asylee○ A10 Granted withholding of Deportation or Removal○ C11 An Alien paroled into the United States in the public interest or temporarily for emergency reasons. Removed temporary authority for some Non-US Citizens eligible for financing: <ul style="list-style-type: none">• Borrowers who are receiving Federal assistance and they are a | 04.29.2025 |



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|---|--|
| <p>qualified alien</p> <ul style="list-style-type: none">• Refugees or Asylum status (EAD not required) and• 24- month temporary guidance (expiring 5.2.2025)<ul style="list-style-type: none">○ Borrowers with valid SSN and a valid EAD such as Form 1-766 are eligible. | |
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Chapter 4B USDA Transaction Types

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4B.1 Purchase Mortgage

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. The proceeds from the transaction must be used to:

- Finance the acquisition of the subject property; and
- Convert an interim construction loan or term Note into permanent financing.

Complete purchase agreements, including all addenda, are required for all purchase transactions. Borrowers should receive Form HUD-92564-CN, For Your Protection: Get a Home Inspection.

Generally, renegotiated sales contracts are not allowed, however, minor adjustments due to condition or other relevant factors are permitted. Increasing of sales price after the appraisal is completed to provide seller credit is not permitted.

Lender fees and charges must meet the points and fees limits published by the Consumer Financial Protection Bureau (CFPB) in the Federal Register at 12 CFR 1026.43(e)(3) and cannot exceed those charged other borrowers for similar transactions. Those fees, include but are not limited to the following:

- Loan Acquisition Expenses: legal, architectural, and engineering fees, title clearance costs, and insurance costs. The guarantee fee and fees for appraisal, surveying, tax monitoring, expenses for homeownership education counseling, and other technical services associated.
- Reasonable lender fees may include:
 - Origination fee and other fees and charges;
 - Discount points; and
 - Administrative fees such as Realtor Processing/Transaction fees and Real Estate Transaction fees.

Payment of finder's fee, real estate commission fees (seller or buyer), and referral fees may not be financed.

- Closing Costs: reasonable and customary for the area. Closing costs cannot exceed those charged other borrowers.
- Design Features or Equipment for Physical Disabilities. Special design features or permanently installed equipment to accommodate a household member who has a physical disability is an eligible loan purpose. The purchase of personal items for such individuals, such as wheelchairs, is not an eligible loan purpose.
- Connection, Assessment, and Installment Fees: reasonable and customary connection fees,



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assessments, or the pro rata installment costs for utilities such as water, sewer, electricity, and gas for which the buyer is liable.

- **Taxes and Escrow Accounts:** a pro rata share of real estate taxes that are due and payable on the property at the time of closing and funds for the establishment of escrow accounts for real estate taxes, hazard and flood insurance premiums, and related costs.
- **Essential Household Equipment:** loan funds can be used to pay for essential household equipment such as wall-to-wall carpeting, ovens, ranges, refrigerators, washers, dryers, and heating and cooling equipment as long as the equipment is conveyed with the dwelling, and such items are normally sold with dwellings in the area.
- **Broadband:** Loan funds may be used to install fixed broadband service to the household, as long as the equipment is conveyed with the dwelling.
- **Site Preparation:** site preparation activities, including grading, foundation plantings, seeding or sod installation, trees, walks, fences, and driveways.

Purchase transactions do not allow for cash back to the borrower at closing other than the following:

- Costs paid by the borrower in advance (e.g., sales contract deposit, appraisal, and credit report fees);
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program; and
- When purchasing a property that is a short sale, reimbursement for the borrower's overpayment of fees, including refunds that may be required in accordance with certain federal laws or regulations. The closing disclosure must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund.

Note: If the borrower receives cash back for an allowable purpose as listed above, confirm that the minimum borrower contribution requirements have been met. Reimbursements or refunds permitted above may also be applied as a principal curtailment. A pro-rated real estate tax credit is not an interested party contribution, and it cannot be considered when determining if the borrower has sufficient assets for the transaction.

Within limitations imposed by applicable state laws, closing costs may not be financed as part of a purchase transaction.

4B.1(a) Owner of Record and Chain of Title

The property must be purchased from the owner of record and documentation to verify ownership must



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be obtained.

- The transaction may not involve any sale or assignment of the sales contract.
- Transactions involving a double escrow are not permitted.

If the property was sold within 12 months to the application date, review evidence of prior ownership and determine if there are any undisclosed identity of interest transactions and for compliance with Property Flipping (below).

Documentation may include, but is not limited to:

- A property sales history report;
- A copy of the recorded deed from the seller;
- Other documentation, such as a copy of a property tax bill, title commitment, or binder, recorded deeds, demonstrating the seller's ownership of the property and the date it was acquired; or
- Copies of recorded deeds, tax statements, or a 12-month chain of title on the title commitment.

A transaction where the property was previously sold within the last 12 months requires scrutiny to ensure the transaction is legitimate. Some characteristics of fraudulent transactions include but are not limited to foreclosure bailouts, distressed sales, and inflated values due to stated improvements that are not supported.

In purchase transactions where the seller is a corporation, partnership, or any other business entity, ensure the borrower is not an owner of the business entity selling the subject property.

Intermediary Companies are not eligible in conjunction with USDA financing. Intermediary Companies (IC) are entities that generally provide cash-offer assistance programs for the sale of the borrower's departing residence and/or the purchase of the borrower's new residence. An IC may be identified through the purchase agreement or through a separate contract. Examples of Intermediary Company programs are Homeward, RibbonCash Offers, and Zoom Casa.

4B.1(b) Dual Capacity

An identity-of-interest transaction is a sales transaction between parties with family or business relationships.

An identify-of-interest transaction does *not* include an employer/employee transaction when purchasing



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the seller's primary residence.

Identity of interest and non-arm's length transaction are permitted with no restrictions.

Parties acting in multiple roles in a single mortgage transaction are not eligible. For example:

- The real estate agent (selling agent or buyer's agent) for the subject property may not act as the loan officer for the borrowers purchasing the same subject property;
- The loan officer may not take their own application; or
- Spouses working as loan officers/real estate agents may not receive direct or indirect compensation.

4B.1(c) Property Flipping

Determine that any recently sold property's value is strongly supported when a significant increase between sales occur. Perform a thorough review of the appraisal report to validate and support the property's value and protect the borrowers from possible predatory real estate lending.

4B.2 Non-Streamlined and Streamlined Refinance Mortgage

A Non-Streamlined and Streamlined Refinance transaction is a new mortgage for a borrower with legal title on the same property with proceeds used to pay off any existing liens.

A Non-Streamlined and Streamlined Refinance must meet the following:

- Existing mortgage is a Section 502 Guaranteed or Direct Rural Development loan;
- Existing loan must have closed at least 180 days prior to RD's receipt of a Conditional Commitment request for refinance;
- Title must be in the name of at least one (1) borrower prior to closing for refinance transaction;
- At least one (1) original borrower must be retained on the new loan;
- Interest rate on the new loan must be less than or equal to the interest rate of the loan being refinanced;
- Loan amount may include (up to the appraised value):
 - Unpaid principal balance and interest of the loan being refinanced plus the Guarantee Fee;
 - Reasonable and customary closing costs (not to exceed 3% of the total loan amount) and prepaids;
 - Discount points to buy down the interest rate; and



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- Subsidy recapture: Subsidy recapture may be financed or deferred. (Non-Streamlined Refi only).
See <https://rdhomeloans.usda.gov/payoff.html>.
- Cash out limited to the reimbursement of personal funds used for eligible loan purposes as part of the refinance transaction, such as appraisal fees or credit report fee (does not include fees paid by credit card or short-term loan). Evidence showing use of personal funds is required;
- Cash out as result of overestimate of escrow holdback and per diem interest calculations must be applied to principal reduction of the new loan; and
- Underwriting conditions and closing instructions must indicate “No cash back to borrower is permitted” (not even one (1) dollar is permitted).

4B.2(a) Short Pay Off

A rate and term refinance is where the maximum mortgage amount is insufficient to extinguish the existing mortgage debt may be eligible provided the existing Note holder writes off the amount of the indebtedness that cannot be refinanced into the new USDA mortgage.

- This transaction may not result in a modified loan, restructured loan or short payoff; and
- The subsequent refinance of a modified/restructured loan is permitted as long as the borrower has made timely mortgage payments on the modified/restructured loan in accordance with the modification agreement for the time period of modification in determining late housing payments. The loan must meet standard refinance requirements.

4B.3 Streamlined-Assist Refinance Mortgage

A Streamlined-Assist Refinance transaction is a new mortgage for a borrower with legal title on the same property with proceeds used to pay off existing first lien.

A Streamlined-Assist Refinance must meet the following:

- Existing mortgage is a Section 502 Guaranteed or Direct Rural Development loan;
- Existing loan must have closed at least 180 days prior to USDA’s receipt of a conditional commitment request for refinance;
- Title must be in the name of at least one (1) borrower prior to closing for refinance transactions;
- At least one (1) original borrower must be retained on the new loan;
- Interest rate on the new loan must be less than or equal to the interest rate of the loan being refinanced;
- Loan amount may include:



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- Unpaid principal balance and interest of the loan being refinanced plus the Guarantee Fee;
- Reasonable and customary closing costs (not to exceed 3% of the total loan amount) and prepaids; and
- Discount points to buy down the interest rate.
- Cash out limited to the reimbursement of personal funds used for eligible loan purposes as part of the refinance transaction, such as appraisal fees or credit report fee (does not include fees paid by credit card or short-term loan). Evidence showing use of personal funds is required;
- Cash out as result of overestimate of escrow holdback and per diem interest calculations must be applied to principal reduction of the new loan;
- Underwriting conditions and closing instructions must indicate “No cash back to borrower is permitted” (not even one dollar is permitted); and
- Unpaid fees, past due interest, and late fees/penalties cannot be included in the new loan.

4B.4 Existing Dwelling

An existing dwelling is a property that has been completed for more than 12 months or has been completed less than 12 months but has been previously occupied.

4B.5 New Construction

New dwellings must be designed and constructed in accordance with certified plans and specifications.

Evidence of all of the items below must be provided as part of permanent loan file:

- Certified plans and specifications
- Required construction inspections
- Thermal standards are met

Certifications may be accepted from individuals or organizations trained and experienced in the compliance, interpretation, or enforcement of the applicable development standards for drawings and specifications. One year builder warranties are deemed acceptable when the policy is:

- non-refundable or cancellable,
- the policy is from an insurance company licensed to do business in the state where the property is located, and
- the coverage includes (from effective date) at least one year for any defects caused by faulty workmanship or defective materials.



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The loan file must contain evidence that the plans and specifications comply with all development standards (current International Code council (ICC) standards or current state adopted ICC code(s) for residential construction) applicable to the new construction. Acceptable evidence includes any of the following:

1. Certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. [Form RD 1924-25](#), *Plan Certification* may be used as an optional format to document certification. Qualified individuals or organizations are:
 - Licensed architects
 - Professional engineers
 - Plan reviewers certified by a. national model code organization listed in 7 CFR 1924, Part A, in Exhibit E
 - Local building officials authorized to review and approve building plans and specifications
 - National codes organizations
2. Certificate of Occupancy. State Directors determine if local communities or jurisdictions qualify to use this form of applicable evidence in accordance with RD Instruction 1924-A, section 1924.5(f)(1)(iii)(C)(2). State Directors will publish a state supplement if this is a permissible option to documenting plan certifications.
3. Building Permit. State Directors determine if local communities or jurisdictions qualify to use this form of applicable evidence in accordance with RD Instruction [1924-A](#), section 1924.5(f)(1)(iii)(C)(2). State Directors will publish a state supplement if this is a permissible option to documenting plan certifications.

Certifications may be accepted from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

- Licensed architects;
- Professional engineers;
- Plan reviewers certified by a national model code organization;
- Local building officials authorized to review and approve building plans and specifications; or
- National codes organizations.

*Applicable development standards. The current International Code Council (ICC) standards or current state adopted ICC code (s) for residential construction.

4B.5(a) Construction Inspections

The loan file must contain copies of the documents described in one (1) of the following three (3) options:



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1. Certificate of Occupancy issued by a local jurisdiction that performs at least three (3) construction phase inspections, including inspections noted in Option 2 below and a one-year builder warranty plan acceptable to USDA.
2. Three (3) construction inspections performed when:
 - Footings and foundation are ready to be poured and prior to back-filling.
 - Shell is complete, but plumbing, electrical and mechanical work is still exposed. Final inspection of completed work prior to occupancy.
 - A 1-year insured builder warranty plan. Builders may utilize their own warranty form, [HUD 92544](#) or [Form RD 1924-19](#). Borrowers who build their own homes cannot provide a self-warranty
3. Final inspection and a 10-year insured builder warranty plan. See RD Instruction [1924-A](#), Exhibit L for acceptable 10-year insured builder warranty plans.

A newly constructed dwelling that does not meet the definition of an existing dwelling and cannot meet the inspection and warranty requirements is limited to 90% of the present market value. The dwelling must meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction.

4B.5(b) Thermal Standards for New Construction

The loan file must contain evidence thermal standards meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction.

Documentation of conformance may be by one (1) of the following options:

- The final inspection or Certificate of Occupancy issued by a local jurisdiction;
- The builder may certify confirmation with the IECC standards; or
- A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards or
- HUD Data Plate confirmation with IECC Standards.

4B.5(c) Flood Zones

New or proposed construction in a flood zone is eligible if the following are met:

- A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) removes the property for the SFHA is obtained from FEMA; or



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- Obtain a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33). The flood elevation certificate must document that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, are built at or above the 100-year flood elevation in compliance with National Flood Insurance Program (NFIP) criteria. A licensed engineer or surveyor must prepare the flood elevation certificate.

Documentation is included in the file in accordance with RD Instruction 1970 Subpart F, that there is a demonstrated need for the SFHGLP and there are no practicable alternatives to new construction within the SFHA that are acceptable to the applicant(s). Examples include but are not limited to the following: the entire community is located within the SFHA, there are no comparable homes to the proposed new dwelling, the existing housing stock is unacceptable to the applicant, etc.

Part of the site may be located in the SFHA without triggering these requirements, as long as no part of the dwelling is located in the SFHA. Flood insurance may be required even if the residential building and related improvements to the property are not located within the SFHA, and there is reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.

4B.5(d) Manufactured Housing New Construction (Delegated Clients)

In addition to all new construction requirements in 4B.5, the additional requirements must be met:

- An itemized cost breakdown of the total package, including the base unit, eligible options, site development, installation, set-up, lot costs, and any credit for wheels and axles;
- Dealer certification that any cash payment or rebate as a result of the purchase will be deducted from the price of the unit and not paid directly to the borrower;
- Dealer certification that proposed cost is the full price of the unit. If furniture is being purchased by the applicant with personal funds, a lien will not be filed against the security property;
- Foundation plan designed to meet the HUD [Permanent Foundations Guide for Manufactured Housing](#), (PFGMH) guidelines;
- Plot and site development plans; and
- Contractor certification that multi-sectioned units were properly joined and sealed according to the manufacturer's specifications and the home sustained no damage during transportation and set-up.

See Chapter 4D, Property Types for all manufactured housing guidelines.



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4B.6 Construction to Permanent Mortgage

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower obtained to fund the construction of a new residence.

A single disbursement to a builder for the purchase of a completed property is not considered a conversion of construction-to-permanent financing transaction.

The transaction will be considered a refinance as a two-close transaction:

- The construction period is limited to no greater than one 12-month period. The 12-month period must have occurred directly prior to permanent financing;
- Credit document standard guidelines apply;
- New construction documentation must be obtained (plans and specifications, inspections, warranty, etc.);
- The Loan Note Guarantee will be issued on the permanent financing, once construction is complete; and
- The guarantee fee structure for this type of financing will be considered a purchase transaction.

4B.7 Ineligible Transaction Types

The following are ineligible transaction types:

- Installment land contracts
- Single-close modification of the Note transactions

| Revision History | Date |
|---|------------|
| USDA 12.19.2024 Updates for Seasoning Period for Refinance Transactions: <ul style="list-style-type: none">• The existing USDA loan being refinanced must have closed at least 180 days prior to the Conditional Commitment request.• The USDA existing loan being refinanced must have a mortgage payment history which does not have a delinquency greater than 30 days within the previous 180- day period. | 01.30.2025 |
| Overlays identified for Owner of Record and Chain of Title for: <ul style="list-style-type: none">• Transactions involving any sale or assignment of the sales contract are not permitted.• Transactions involving a double escrow are not permitted | 02.27.2025 |



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Chapter 4C USDA Financing

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4C.1 Determining Value

For any loan, the eligible amount of financing is determined by factors specific to that loan, including, but not limited to the type of financing, loan-to-value (LTV) ratio, loan amount, property type, and income determination.

| | |
|-------------------------|---|
| Purchase | Value in a purchase transaction is generally defined as the lesser of the purchase price or appraised value of the subject property. |
| Non-Streamlined Refi | Value in a non-streamlined refinance transaction is generally defined as the appraised value of the subject property. See our Product Summaries for specifics in determining value based on product, property type, and length of title held. |
| Streamlined Refi | Value is based on the original loan balance |
| Streamlined Assist Refi | |

4C.2 Calculating Loan-to-Value Ratios

4C.2(a) Loan-to-Value Ratio (LTV)

The LTV ratio is obtained by dividing the first mortgage amount, excluding the financed Guarantee Fee, by the value.

4C.2(b) Combined Loan-to-Value (CLTV Ratio)

The CLTV ratio is obtained by dividing the sum of the first mortgage amount, excluding financed Guarantee Fee, plus the current principal balance of subordinated closed-end second liens and/or the maximum available credit line of subordinated open-end second liens by the value.

4C.3 Temporary Interest Rate Buydowns

Temporary interest rate buydowns are designed to reduce the borrower's monthly payment during the early years of the mortgage. At closing, an escrow account is established. Each month, the servicing lender draws down an amount equal to the difference between the principal and interest payment (P&I) at the Note rate, and the P&I at the buydown rate.

The borrower must be qualified based on the note rate without consideration of the bought-down rate. If reserves are required, the reserves must be calculated using the Note Rate.

The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown



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plan. In no event, may the buydown plan change the terms of the mortgage Note.

4C.3(a) Buydown Agreement

The borrower must agree in writing that the buydown funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest to the extent provided under the subsidy buydown agreement.

The buydown agreement must provide for all of the following:

- Must be a written agreement between the party providing the buydown funds and the borrower;
- Must provide that the borrower is not relieved of their obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available;
- May include an option for the buydown funds to be returned to the borrower or to the Company, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied;
- The executed agreement, must be included in the file and must clearly show the calculations of the total cost of the temporary subsidy buydown, any interested party contribution and the annual percentage increase in the borrower's monthly principal and interest payment; and
- All of the terms of the buydown plan must be disclosed to all parties, including the mortgage insurer, and the property appraiser.

4C.3(b) Terms of the Buydown

No limit is placed on the total dollar amount of an interest rate buydown.

The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.

An interest rate buydown plan must provide for:

- A buydown period not greater than 24 months; and
- Increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.

More frequent changes are permitted as long as the total annual increase does not exceed 1%.

4C.3(c) Buydown Account and Funds

- Buydown funds may come from:
 - The seller;
 - The Client (not Newrez); and



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- Any other interested party.
- A split buydown is permitted when the buydown funds are paid by the lender, seller and/or third parties. **A split buydown is not permitted when the borrower pays for any portion of the funds;**
- The borrower may not provide the buydown funds;
- Buydown accounts must be established and fully funded by closing;
- Funds for buydown accounts must be deposited into custodial bank accounts. Note: Buydown funds cannot be included in accounts with the Company corporate funds;
- The borrower's only interest in buydown funds is to have them applied toward payments as they come due under the Note;
- Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied;
- Buydown funds cannot be used to pay past-due payments; and
- Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.

4C.4 Upfront Guarantee Fee

The Guarantee Fee is the up-front financing fee paid to the USDA for the loan guarantee. The guarantee fee may be paid in cash or financed into the loan amount. See our Product Summaries for details.

The Annual Fee is the premium paid monthly over the life of the loan. The initial Annual Fee, for the first year of the loan, will be calculated based upon the guaranteed loan amount. For the remaining years of the loan, the Annual Fee will be calculated on the average annual scheduled unpaid principal balance of the loan, not the actual unpaid principal balance. This fee will be added to the borrower's monthly payment and will remain for the life of the loan.

There are three (3) options for payment of the upfront guarantee fee:

1. Pay the entire upfront guarantee fee at closing;
2. Finance part of the upfront guarantee fee; or
3. Finance the entire upfront guarantee fee.

Examples

| Option 1: PAY ENTIRE UPFRONT GUARANTEE FEE AT CLOSING |
|---|
| Borrowers may elect to pay the entire fee at loan closing from personal funds, seller concessions, or eligible gift assistance at settlement. |



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Example

\$100,000 loan amount

$\$100,000 \times 1\% = \$1,000$ upfront guarantee fee paid at loan closing

Option 2: FINANCE PART OF THE UPFRONT GUARANTEE FEE

The borrower may elect to finance only a portion of the upfront guarantee fee. The remaining amount of the upfront guarantee fee not financed will be paid by the borrower from personal funds, seller concessions, or eligible gift assistance at settlement.

Example:

Total loan amount will be $\$100,500 \times 1\% = \$1,005$ (Guarantee fee)

The borrower will pay the remaining \$505 of the guarantee fee from personal funds at settlement
($\$1,005$ total fee less $\$500$ financed = $\$505$)

Option 3: FINANCE THE ENTIRE UPFRONT GUARANTEE FEE

The appraised value may only be exceeded by the amount of the upfront guarantee fee financed. Therefore, the entire upfront guarantee fee may be financed into the total loan.

Example

The appraised value = \$100,000

The purchase price = \$98,000

Finance \$2,000 in eligible loan closing costs (does not include the upfront guarantee fee)

Base loan amount = \$100,000 (\$98,000 purchase price + \$2,000 eligible closing costs)

Total loan amount including the entire upfront guarantee fee being financed

$\$100,000 / .99 = \$101,010.10$ (total loan amount including the upfront guarantee fee)

$\$101,010.10 \times 1\% = \$1,010.10$ (upfront guarantee fee)

4C.5 Property Assessed Clean Energy (PACE)

Property Assessed Clean Energy (PACE) refers to an alternative means of financing energy and other PACE-allowed improvements to residential properties using financing provided by private enterprises in conjunction with state and local governments.

Generally, the repayment of the PACE obligation is collected in the same manner as a special assessment tax is



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collected by the local government rather than paid directly by the borrower to the party providing the PACE financing and is also secured in the same manner as a special assessment tax against the property.

In the event of a sale, including a foreclosure sale, of the property with outstanding PACE financing, the obligation will continue with the property causing the new homeowner to be responsible for the payments on the outstanding PACE amount. In cases of foreclosure, priority collection of delinquent payments for the PACE assessment may be waived or relinquished. **As a result, loans encumbered with PACE or PACE-like obligations are not eligible for USDA financing.**

4C.5(a) Purchase Transactions

The sales contract must include a clause specifying that the PACE obligation will be satisfied by the seller at, or prior to closing. The FHA roster appraiser must be informed that the PACE obligation will be paid off as a condition of loan approval.

The appraiser must report the outstanding amount of the PACE obligation(s) and the valuation impact of the PACE-related improvements.

4C.5(b) Refinance Transactions

The outstanding PACE obligation may be included as existing debt to be paid off as part of rate and term refinance transaction.

4C.6 Principal Curtailment

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the loan.

4C.6(a) Delegated Client

A principal curtailment is permitted.

4C.6(b) Non-Delegated Client

A principal curtailment is permitted. The maximum amount of the curtailment cannot exceed \$500.

If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment.



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4C.7 Escrow Waivers

Not permitted.

| Revision History | Date |
|---|------------|
| Overlay identified for Escrow waivers for taxes and insurance | 01.30.2025 |



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Chapter 4D in USDA Property Types

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4D.1 Eligible Property Types

4D.1(a) Single-Family Residence

A detached, semi-detached, or attached single-family dwelling, including town homes and row homes.

4D.1(a)(i) Accessory Dwelling Unit

An ADU (Accessory Dwelling Unit) refers to a habitable living unit, within, or detached from a single-family dwelling, which constitutes a single interest in real estate. The presence of a single ADU does not automatically classify property as ineligible.

Design features as converted portions of existing homes that include a kitchenette or additional attached living area (e.g. bedroom and/or bathroom) without a separate address or independent utilities (e.g. water, gas, electricity) are not restricted, provided the ADU functions in support of household members only.

ADU's which function in support household members, such as multigenerational households are acceptable; however, those designated to create a potential rental income stream are not.

The appraiser will:

- determine if the ADU represents a second single family housing dwelling unit; and,
- document the highest and best use considering all property characteristics, including the status of utilities if they are separate, when making this determination; and,
- include their evaluation in the site analysis and highest and best use section of the appraisal report, as applicable.

4D.1(b) Modular Home

A modular home is a factory built home constructed to the state, local or regional building codes where the home will be located. A modular home is constructed in two or more three-dimensional sections, including interior and exterior finish, plumbing, wiring and mechanical systems.

Upon completion, the modular home is transported to the property site and then joined together on a permanent foundation. A modular home may be transported on a steel undercarriage, but that is not a permanent structural component of the improvements, and it is usually removed at the time the house is attached to the foundation. The modular home assumes the characteristics of a site-built home.



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4D.1(c) Condominium

A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas.

A condominium project is created according to local and state statutes. The structure is two (2) or more units with the interior airspace individually owned. The balance of the property (land and building) is owned in common by the individual unit owners.

For additional insurance requirements, see the Condominium Insurance section in Chapter 5, Insurance and Survey Requirements in the Operations Guide.

Complete requirements for Condominium warranties and Planned Unit Developments may be accessed through [USDA Chapter 12 -Property and Appraisal Requirements](#). These requirements are located in Section 5: Condominiums, 12.11 Condominiums and Planned Unit Developments (pages numbered 12-33 through 12-36)

Condominium projects governed by a HOA can be approved in accordance with HUD/FHA, VA, Fannie Mae or Freddie Mae eligibility guidelines.

4D.1(d) Planned Unit Development (PUD)

A PUD is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. For a project to qualify as a PUD, all of the following requirements must be met:

- Each unit owner's membership in the HOA must be automatic and non-severable;
- The payment of assessments related to the unit must be mandatory; and
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in project or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects.



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These projects:

- Have no common property and improvements;
- Do not require the establishment of and membership in an HOA; and
- Do not require payment of assessments.

For additional insurance requirements, see the Condominium Insurance section in Chapter 5, Insurance and Survey Requirements in the Operations Guide.

4D.1(e) Mixed-Use Property

A mixed-use property is defined as a property primarily used as a residence, but is also being used for a small, commercial purpose, such as a property with space set aside for a day care facility, a beauty or barber shop, doctor's office, a small neighborhood grocery or specialty store.

A mixed-use property must meet all of the following:

- The property must be a one-unit property that the borrower occupies as his or primary residence;
- The borrower must be both the owner and the operator of the business;
- The property must be primarily residential in nature, located in a residential neighborhood, and be typical for properties in the market area;
- The use must represent a legal, permissible use of the property under local zoning laws;
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residence;
- The commercial use must not have an adverse effect on the habitability and safety of the property or site; and
- See our Product Summaries for eligibility and Chapter 4J [USDA Appraisal](#)

4D.1(f) Manufactured Housing

A manufactured home is any dwelling unit built on a permanent chassis and attached to a permanent foundation system. **The primary distinction between manufactured homes and modular lies in the construction standards or code and the inspection processes that must be adhered to.**

See [Chapter 4B](#) USDA Transactions for New Construction Manufactured Home purchase transactions and the Glossary for manufactured home definitions.



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4D.1(f)(i) Manufactured Home Eligibility

The following eligibility requirements must be met for all manufactured homes:

- Site development work must conform to standards imposed by the state and local government;
- **Subject must be** One-unit dwelling;

4D.1(f)(ii) **New Construction Manufactured Homes** (Delegated Only)

- Eligible for financing for the purchase of an eligible new unit, transportation, and set up costs.
- The following criteria outlines an eligible manufactured unit for guarantee with the Single-Family Housing Guaranteed Loan program (SFHGLP):
 - Must be a new unit in stock that has never been installed or occupied at any other site or location. Manufactured units may be moved only from the manufacturers or dealer's lot to the site on which the unit will be financed.
 - Must have a floor area of not less than 400 square feet.
 - Must be placed on a permanent foundation built to FHA guidelines in effect at the time of certification. Guidelines are published in the [Permanent Foundation Guide for Manufactured Housing](#) (HUD-4930.3G)
 - Meet or exceed the Federal Manufactured Home Construction and Safety Standard (FMHCSS) Uo Value Zone for the geographic area the unit will be placed. The Uo Value Zone refers to a geographical region and is the measure of the overall heat transfer coefficient of a building. The Value Zone will be indicated on the Comfort Heating and Cooling Certificate. Builder must certify thermal requirements at time of purchase have been met.
- Must have a manufacture date that is within 12 months of the date of loan closing. The manufactured home must be affixed with a data plate inside the home in which the date the unit was manufactured can be found. The certification label must be affixed in a location that will remain visible after all work is completed that is necessary to complete the installation of the home at the home site.
 - **As an** alternative to the original documentation HUD Certification Label(s), **obtain** a recent "HUD Certification Verification" letter issued by the [Institute for Building Technology and Safety](#) (IBTS). **A duplicate HUD Data Plate may be available from the IBTS or by contacting** the In-Plant Primary Inspection Agency (IPI) or manufacturer.



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4D.1(f)(iii) Existing Manufactured Homes

The purchase of an eligible existing manufactured home and site must meet following criteria for guarantee:

- The existing unit must have never been previously installed on a different homesite.
- Must have a floor area of not less than 400 square feet.
- After factory construction no other alterations, except for: porches, decks or other structures which were built to engineered designs or were approved and inspected by local code officials
- Certification of proper foundation installation is required to confirm installed on a permanent foundation to comply with both:
 - Manufacturer requirements and
 - HUD Installation standards as shown in [HUD-4930.3G](#), Permanent Foundation for Manufactured Housing.
- Manufactured date is within 20 years from the date of loan closing and meets or exceeds the Federal Manufactured Home Construction and Safety Standard (FMHCSS) as evidenced by both:
 - An affixed HUD Certification label and
 - A HUD Data Plate.
- Note: The manufacture date can be found on the data plate located inside the home.
 - If the original **HUD Certification Label(s)** are not available, alternatives are:
 - Obtain a verification letter with the same information contained on the HUD Certification Label(s) from the Institute for Building Technology and Safety (IBTS).
 - A duplicate **HUD Data Plate** may be available from the:
 - Institute for Building Technology and Safety (IBTS), or
 - by contacting the In-Plant Primary Inspection Agency (IPIA) of the manufacturer. A list of the IPIA and DAPIA Offices is posted at [US Department of Housing and Urban Development Program Offices](#)
- Financing of an existing unit due to transfer of an existing Section 502 Direct Guarantee loan or purchase of a real estate Owned (REO) Property. Repairs associated with these transactions may be included.



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4D.1(f)(iv) **Construction and Site Requirements for New Dwellings**

The borrower will contract with a licensed manufactured dealer. Manufactured homes must meet the site and other requirements for new dwellings. The permanent loan file must contain the following:

- An itemized cost breakdown of the total package, including:
 - the base unit, and,
 - eligible options, and
 - site development, and
 - installation, and
 - set-up, and
 - lot costs, and
 - any credit for wheels and axles.
- Dealer certification that any cash payment or rebate as a result of the purchase will be deducted from the price of the unit and not paid directly to the borrowers.
- Dealer certification that proposed cost is the full price of the unit. If furniture is being purchased by the applicants with personal funds, a lien will not be filed against the security property.
- Foundation plan designed to meet HUD Handbook 4930.36< Permanent Foundations Guide at Manufactured Housing (PFGMH), guidelines. This guide is available at: <https://www.huduser.gov/portal/publications/destech/permfound.html>
- Plot and site development plans.
- Inspections in accordance with USDA Handbook guidelines.
- Contractor for certification for multi-sectioned units were;
 - properly joined and sealed according to the manufacturer's specifications, and
 - The home sustained no damage during transportation and set-up.

The primary distinction between manufactured homes and modular lies in the construction standards or code and the inspection processes that must be adhered to.

4D.1(f)(v) **Modifications to the Manufactured Home**

Additions or structural modifications may make the original unit structurally unsound bring the original unit out of compliance with the HUD Manufactured Home Construction Safety Standards (MHCSS) and make the home ineligible.



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However, manufactured homes that have an addition or have had a structural modification may be eligible

- if the state in which the property is located requires inspection by a state agency to approve modifications to the property and there is confirmation that the property has met the requirements; or
- if the state does not have these requirements, the property must be inspected by a licensed professional engineer who can certify that the addition or structural changes were completed in accordance with the HUD MHCSS.

4D.1(f)(vi) Ineligible Manufactured Home Property Types

The following are ineligible property types:

- A manufactured home that is not titled as real estate;
- Construction-to-permanent

4D.1(f)(vii) Lien Release Requirements

The dealer must furnish a manufacturer's certificate of origin indicating that the unit is free and clear of all legal encumbrances. A copy of the manufacturer's statement or certificate of origin will be retained in the lender's mortgage permanent loan file.

4D.1(f)(viii) Titling the Manufactured Home as Real Property

All manufactured housing units and land must be classified, **zoned** and taxed as real estate to be eligible.

The manufactured home loan must be secured by a perfected lien on real property consisting of the manufactured home and land and the manufactured home must be legally classified as real property.

Evidence must be provided to document that the manufactured home is classified as real property may be through tax certificates or title policy to validate that both land and unit are taxed as one parcel.

The loan is not eligible if the original chattel deed or title is not purged, and the property does not



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have marketable real estate title.

The mortgage must be insured by a standard real property title insurance policy. Both the unit and site must be evidenced by a recorded mortgage or deed of trust. Preliminary Title Report or Final Title Policy must reflect the commitment or issuance of the appropriate ALTA Endorsement (e.g. ALTA 7.1-16) required to validate that the home is treated as real property.

A combination of a chattel and real estate mortgage is not acceptable. If a certificate of title cannot be surrendered, the lien must be indicated on the certificate of title.

The Deed of Trust or Mortgage (security instrument) must include a complete legal description that includes land and manufactured unit details regarding the manufacturer name, model, year, serial number, size, and any other information required by state law to identify a manufactured home.

4D.2 Solar Panels

If the property owner (seller) is the owner of the solar panels and the solar panels will be included as part of the purchase transaction then standard eligibility requirements apply (e.g., appraisal, insurance, and title). If the solar panels are subject to a lease agreement, power purchase agreement (PPA), or similar type of agreement the following requirements apply:

- Leases and contracts will vary by company and should be considered on a case by case basis to ensure all terms/regulations are met;
- First lien position, by the lender, should be protected and maintained;
- The property should maintain access to an alternative source of electric/gas power that meets community standards;
- The energy company or lessee should not block any foreclosure or servicing actions;
- The lease agreement or PPA should indicate that any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner is obligated to repair the damage and return the improvements to their original or prior condition;
- The lease agreement, PPA, or other agreement should indicate that the owner of the solar panels cannot be a loss payee on the homeowner's insurance policy; and
- Leased solar panels are considered personal property and are not included in the appraised value.



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4D.2(a) Ineligible

The following make financing the subject property with solar panels ineligible:

- The agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the property is subject to impermissible legal restrictions; and
- Properties with Property Assessed Clean Energy (PACE) loans or assessments.

4D.3 Deed/Resale Restriction

Resale restrictions on the property purchase price are not acceptable.

If the property is restricted to low- or moderate-income borrowers or for an age restricted communities (55+) then the property is acceptable subject to the following Fannie Mae guidelines:

- To provide affordable housing for low-income and moderate-income persons, some state and local governments have introduced the concept of "inclusionary zoning." First mortgages that are subject to this type of zoning restriction or land-use regulation are permitted. In such cases, the deed restrictions must be subordinate to our mortgage and Newrez must have the first claim to any hazard insurance settlement or condemnation award. In addition, the restrictions cannot impair our legal rights to remedy a default under the mortgage terms, nor should they require us to send a notice of default or foreclosure to any third party;
- The source of the deed restrictions must be included in the public land records so that it is readily identifiable in a routine title search; and
- Any resale controls that affect the restricted units must be for a fixed period. They must be administered by an authorized governmental unit that has established procedures for screening and processing applicants. The zoning authority or local jurisdiction may retain the "right of first refusal" to purchase a restricted unit that is being resold. This right must be exercised within 90 days after the property is listed for sale. However, the deed restrictions cannot obligate us to notify the zoning authority or local jurisdiction separately about a pending foreclosure sale of the restricted unit.

4D.4 Ineligible Property Types/Characteristics

The following property types or characteristics are ineligible:

- Assisted living projects
- Bed and breakfast properties
- Boarding houses



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- Builder model leaseback (purchase transactions)
- Commercial properties
- Condo hotels
- Container homes
- Cooperative units
- Existing manufactured home that was previously installed on a different homesite
- Farm-related property
- Fraternity or sorority houses
- Hawaii Lava Zones 1 & 2
- Houseboats
- Hobby farms
- Income producing properties
- Industrial properties
- Investment securities
- Mixed Use Property Types
- Mobile home
- Multi-family dwelling containing more than four units
- Non-warrantable condos
- Other transient housing
- Properties located in a Coastal Barrier Resources System (CBRS)
- Properties not suitable for year-round occupancy
- Properties served by cisterns
- Properties used primarily for agriculture, farming, or commercial enterprise
- Properties without full utilities installed to meet all local health and safety standards
- Rehabilitation loans
- Residential property with a permanently affixed manufactured home on the property
- Tax-sheltered syndicate
- Timeshare unit/project
- Tourist housing
- Two to Four Unit Property
- Unimproved or vacant land
- Unique properties (3D printed homes, geodesic home, berm homes, shouses, barndominiums)



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- Vacation homes
- Working farm, ranch, or orchard

Due to the agricultural land and property characteristics of rural areas, only properties that are predominantly residential in use, character and appearance are eligible. The subject property cannot have any land or buildings (e.g., barns, silos, greenhouses, or livestock facilities) that have income-producing uses for agricultural, farming, or commercial purposes.

A minimal income-producing activity, such as maintaining a garden that generates a small amount of additional income may be eligible. Other examples are below:

- Barns used for storage and outbuildings, such as storage sheds, are permitted if they are not used primarily for income producing agricultural, farming, or commercial enterprise.
- Residential site that houses a windmill, billboard or cellphone tower.
- Home-based operations such as childcare, product sales, or craft production that do not require specific building features are not restricted.

| Revision History | Date |
|---|------------|
| USDA updated Manufactured Home Eligibility effective 05.05.2025 to include: <ul style="list-style-type: none">• New Construction Manufacture date is within 12 months of the loan closing date• Construction and Site Requirements for New Dwellings• Purchase of an existing Manufactured home and site.• Clarification for Title and Lien requirements• Ineligible Property Types - Added Existing manufactured home that was previously installed on a different homesite Removed Manufactured Home Pilot program guidelines | 04.29.2025 |



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Chapter 4E USDA Underwriting

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4E.1 Guaranteed Underwriting System

Guaranteed Underwriting System (GUS) is USDA's automated underwriting system that evaluates mortgage default risk and arrives at an underwriting recommendation by relying on a comprehensive examination of the primary and contributory risk factors in a mortgage application. It analyzes the information in the loan casefile to reach an overall credit risk assessment to determine eligibility for delivery to USDA.

GUS is intended to compliment and not replace the judgment of experienced underwriter. A GUS decision is not the basis for granting or denying credit and is not a replacement for a lending decision.

When underwriting loans with GUS, you must:

- Employ prudent underwriting judgment in assessing whether a loan casefile should be approved;
- Confirm the accuracy of the data submitted, making sure that you did not fail to submit any data that might have affected the GUS recommendation had it been known;
- Ensure that the loan complies with all of the verification messages and approval conditions specified in the DU Underwriting Findings Report;
- Confirm the assets entered into GUS and used as reserves are funds available to the applicants post-closing;
- Enter borrowers as self-employed with an ownership interest $\geq 25\%$;
- Ensure that the loan complies with all of the verification messages and approval conditions specified in the Underwriting Findings Report;
- Review auto-calculated rental income which employs a 25% vacancy factor and uses 75% of the rental income entered for monthly rental income and subtracts the lender entered amounts for monthly mortgage payment(s) insurance, taxes, association dues, etc.;
- Apply due diligence when reviewing the documentation in the loan file;
- Court Ordered Debts will be manually entered in GUS as Other; this obligation must specify what the obligation is (i.e. child support, alimony, garnishments, etc.);
- Rental Income received for less than 24 months should not be entered into GUS as rental income;
- For loans with a temporary buydown, both the full note rate and the initial buydown rate must be entered in GUS;
- Add "open" to 30 days accounts to correspond with GUS and the 1003.
- Review the credit report to confirm that the data that GUS evaluated with respect to the borrower's credit history was accurate and complete; and



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- Determine if there is any potentially derogatory or contradictory information that is not part of the data analyzed by GUS. Take action when erroneous data in the credit report or contradictory or derogatory information in the loan file would justify additional investigation or would provide grounds for a decision that is different from the recommendation that GUS delivered.

4E.2 GUS Findings and Underwriting Report

When a loan is submitted to GUS, one of the following recommendations will be returned on the GUS Underwriting Findings Report.

| Decision | Description |
|--------------------|--|
| Accept/Eligible | Minimum documentation provisions apply for submission to USDA for commitment. |
| Accept/Ineligible | <p>Borrowers meet credit risk standards but may be out of compliance with program eligibility guidelines. Typical reasons for an Ineligible recommendation are:</p> <ul style="list-style-type: none">• Property not located in a rural area;• Program eligible income exceeds USDA guidelines;• Non-owner-occupied transaction; and• Not a qualified alien; <p>Loans with GUS Approve/Ineligible are not eligible.</p> |
| Refer | Risk factors have been identified and manual underwrite must be performed in order to determine if borrowers have compensating factors and meet USDA credit standards for program eligibility and approval. |
| Refer with Caution | <p>Risk factors have been identified and manual underwrite must be performed in order to determine if borrowers have compensating factors and meet RD credit standards for program eligibility and approval.</p> <p>The credit risk of Refer with Caution is greater than Refer.</p> |
| Manual Downgrade | <p>If any of the following exist, the loan must be downgraded and manually underwritten for any loan receiving an Accept recommendation:</p> <ul style="list-style-type: none">• The credit score cannot be validated;• The loan file contains information or documentation that cannot be entered |



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| | |
|--|---|
| | <p>into or evaluated by GUS;</p> <ul style="list-style-type: none">• Additional information not considered in the GUS recommendation affects the overall eligibility of the loan;• Liabilities that have been manually entered into GUS and do not appear on the credit report; and• Disputed account unless the following conditions are met on the credit report:<ul style="list-style-type: none">○ The disputed trade line has a zero balance;○ The disputed trade line is marked “paid in full” or “resolved;” and○ The disputed trade line has a balance owed of less than \$500 and is more than 24 months old.• Authorized user accounts that do not meet the requirements in the Credit chapter; and• Potential derogatory or contradictory information: GUS will review for bankruptcy, foreclosure, deed-in-lieu of foreclosure and late payments. GUS cannot determine a pre-foreclosure or short sale. |
|--|---|

4E.3 Maximum Number of Borrowers

There may be no more than four (4) borrowers on a transaction and submitted to DU. Any loan with more than four (4) borrowers must be manually underwritten. Refer to Section 4E.2 for Manual Downgrade.

4E.4 Resubmission Policy

When data changes during loan processing, after a Conditional Commitment (3555-18 by RD) is issued or prior to closing, the GUS underwriting recommendation could be compromised. Resubmission to GUS is required when material changes occur. Any request to release GUS data updates after issuance of a Conditional Commitment will be treated as a new request, processed in date order of applications received.

Loans must be resubmitted when any of the following occur.

| Data Element | Resubmit the loan if... |
|---------------------------------|-------------------------|
| Appraised Value | Any change in value |
| Assets: Funds Required to Close | The assets decreased |



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| | |
|--|-------------------------------------|
| Assets: Reserves | The reserves decreased |
| Borrowers Added/Deleted | Any borrowers are added or deleted |
| Interest Rate | The interest rate increases |
| Income | The income decreases |
| Loan Amount | There is an increase in loan amount |
| Loan Purpose | Loan purpose changes |
| Loan Type (product) | Loan type changes |
| Occupancy Type | Occupancy type changes |
| Property Type | Property type changes |
| Sales Price | Sales price changes |
| Resubmit the loan if there are any changes that would negatively affect the borrower' ability to repay the loan. | |

| Revision History | Date |
|--|------------|
| <p>USDA Announcement 01/05/2024: Identified GUS Underwriting Findings Report with following:</p> <ul style="list-style-type: none">• Court Ordered Debts will be manually entered in GUS as Other; this obligation must specify what the obligation is (i.e. child support, alimony, garnishments, etc.);• Rental Income received for less than 24 months should not be entered into GUS as rental income;• For loans with a temporary buydown, both the full note rate and the initial buydown rate must be entered in GUS. | 01.30.2024 |



USDA Underwriting Guide

Chapter 4F USDA Credit

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4F.1 Documentation Standards

A credit report must be obtained for each borrower who will be obligated on the Note.

All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference. The current balance, current status, rating, monthly payment amount, and payment history for the most recent 12 months must be provided.

Written verifications of mortgage, rent, or credit must be sent directly to the creditors. The return address on the verification must be the lender's address. The hand carrying of verifications is strictly prohibited.

When the credit report shows a victim statement under the FACT Act, the originating entity must document in writing the steps taken to validate the loan application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws.

Credit report alerts must be reasonably resolved with supporting documentation included in the loan file. Although due diligence is required, it does not release the Client from representations and warranties regarding misrepresentation.

4F.1(a) Credit Report Red Flags

When underwriting a credit report, the borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information. The borrower's address history must be examined for consistency with other file documentation. Discrepancies must be adequately explained, and questionable explanations researched. The use of a U.S. address to obtain a credit report for a borrower who resides in another country is not permitted.

4F.1(b) Frozen Credit

Any borrower with one (1) or more repositories with frozen credit on their credit report must have their credit unfrozen and must be re-underwritten.

If the credit is unfrozen after the date that the original credit report was ordered, a new three-file merged credit report must be obtained to reflect current updated information from all repositories.



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4F.1(c) Updated Credit Report or Supplement to the Credit Report

A new credit report must be obtained and rescored through GUS if the underwriter identifies inconsistencies between any information in the loan file and the original credit report.

4F.2 Credit Scores

4F.2(a) Credit Scores

Refer to individual Product Profiles for any credit score requirements.

4F.3 Selection and Validation of Credit Scores

Select the credit score for each individual borrower. Use the lowest selected credit score among all borrowers for loan qualification.

| Number of Scores | Score |
|---|-------------------------------|
| 3 | Middle Score |
| 2 | Lower of the two |
| 1 | Use the single reported score |
| If two (2) repositories report identical credit scores, use that score for qualification. A credit report with no score must refer to non-traditional tradeline requirements. | |

4F.3(a) Validating the Credit Score

GUS will determine the acceptable credit score to be used for Accept, Refer, and Refer with Caution recommendations. Validation of the credit score is not required for GUS Accept with Full Documentation.

4F.3(a)(i) Tradeline requirements for **GUS Refer, Refer with Caution and Manually Underwritten Loans**

Credit Score validation is required. At least one (1) borrower whose income or assets are used for qualification must have a valid credit score:

- Credit score must be supported by two (2) trade lines with a minimum of a 12-month payment history; and
- Trade lines may be open, closed, or paid in full.



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GUS Refer, Refer with Caution, and manually underwritten files are not eligible for debt ratio exceptions if:

- There is not one applicant with a validated score using traditional tradelines on the credit report, or
- The file requires non-traditional credit tradelines.

4F.3(a)(ii) Authorized User Accounts

An authorized user account may be used to validate the credit score when one (1) of the following exists:

- Another borrower in the mortgage transaction is the owner of the trade line;
- The owner of the trade line is a spouse; or
- The borrower can provide written documentation (e.g., canceled checks, payment receipts, etc.) that they have been making the payments for at least 12 months preceding the application.

The monthly payment obligation must be included in the DTI ratio.

4F.4 Nontraditional Credit

The use of a nontraditional credit history may be considered to document a borrower's ability to pay monthly debt obligations. The following may be considered to support credit worthiness:

4F.4(a) Borrowers with a 12-month Verification of Rent (VOR)

Borrowers with a 12-month verification of rent require the following:

- Two (2) trade lines are required; The VOR and one (1) additional tradeline
- The second trade line must be an eligible traditional trade line from a credit report with a 12-month pay history or an eligible nontraditional tradeline.

4F.4(b) Borrowers without a Rental History

Borrowers without a Rental History require three (3) trade lines from a combination of traditional trade lines with a 12-month history and eligible nontraditional trade lines

4F.4(c) Acceptable Nontraditional Credit

Acceptable nontraditional credit includes:



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- Nontraditional Merged Credit Report (NTMCR);
- Self-reported trade lines in a traditional credit report; and
- Third party verifications, including cancelled checks, money order receipts, electronic payments, payment histories from creditors or bank statements that clearly identify the debit payment for product or service.

An eligible nontraditional tradeline must have a 12-month history and cannot have been closed more than six (6) months prior to loan application. Examples of acceptable non-traditional credit sources include but are not limited to:

- Rent or housing payments
- Utility services: gas, electric, water, land-line telephone service, or cable TV (not already included in rent payments)
- Insurance payments: automobile, life, household, renter's insurance, medical supplements (Premiums paid through payroll deductions are ineligible)
- Childcare: licensed childcare providers may provide documentation to support the date of enrollment, dates of fees paid, etc. (Documentation to support cash withdraws or handwritten receipts are not acceptable)
- School tuition
- Payments to local stores (car dealerships, department, furniture, appliance stores, specialty stores, etc.)
- Payments for uninsured portions of medical bills
- Internet or cell phone services
- Automobile leases
- Personal loans with repayment terms in writing, supported with canceled checks, money order receipts, or electronic payment receipts
- 12-month documented history of savings that demonstrate regular deposits which equal three (3) months of proposed mortgage (PITI) payments that will be retained as cash reserves post-closing
- Any other reference that gives insight into the borrower's willingness to make periodic payments on a regular basis for recurring credit obligations
- Monthly subscription services, gym memberships, etc.

Child support, alimony, garnishments, court ordered debts, monthly subscription services, gym memberships, etc. are not eligible nontraditional credit trade lines. Borrower's that use nontraditional credit to qualify are not eligible for debt ratio waivers.



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4F.5 Inquiries and Undisclosed Liabilities

All credit inquiries (excluding all utility company inquiries) made within 90 days must be validated.

All debt incurred during the application process and through loan closing must be disclosed on the final application and included in the loan qualification. When the credit report reveals a significant debt not listed on the application, a written explanation from the borrower addressing the omission is required. The absence of a written explanation from the borrower may render the loan ineligible.

When the credit report indicates recent inquiries (excluding all utility company inquiries), confirm that the borrower has not been granted any additional debt that is not reflected on the loan application. If additional credit was applied for and/or approved or obtained, a verification of that debt must be provided, and the borrower must be qualified with the monthly payment.

If undisclosed or inaccurate debt is revealed, comply with all of the following:

- Verify the actual or new monthly payment;
- Include the monthly payment amount and resubmit the loan to GUS; and
- Determine that the additional debt will not be used to meet the borrower's minimum required investment.

If the debt was not reported on the credit report and considered by GUS and are manually added to the application, the loan must be manually downgraded to a Refer and manually underwritten. The manual entry of child support, alimony, garnishments that are not typically reflected on the credit report will not require a manual downgrade.

4F.5(a) Debt Identified After Conditional Commitment Issued

| | |
|------------------------------|--|
| Cumulative Debt \$50 or Less | When the additional monthly amount(s) of new/increased debt(s) does not exceed \$50, the Conditional Commitment may be used. No further action is required. |
| Cumulative Debt Over \$50 | <ul style="list-style-type: none">• A request to release the GUS loan be released by USDA may be made. Enter the new/increased debt(s) and payment amount(s) in GUS.• A new preliminary underwriting submission must be completed to confirm the GUS underwriting recommendation.• Upload the documentation, as applicable, and complete a new final |



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| | <p>underwriting submission to USDA.</p> <ul style="list-style-type: none">• USDA will issue a new Conditional Commitment.• The loan cannot be closed without a valid Conditional Commitment. |
|--|---|

4F.6 Credit Exceptions

A Credit Exception Summary is required on the underwriting transmittal for GUS Refer, Refer with Caution or manually underwritten files that meets the following:

- The circumstances that led to the derogatory credit were temporary in nature, beyond the applicant's control and due to the current employment, financial or health of the household, which are unlikely to recur; and,
- Permanent loan file must include documentation to support extenuating circumstances factors; and
- Rationale for issuing credit exception (identified by compensating factors, etc.) and why the applicant(s) remain an acceptable credit risk.

Note: Prior USDA losses, delinquent non-tax Federal debts, delinquent child support and ineligible CAIVRS results are not eligible for approval of a credit exception.

4F.7 Housing Payment History

All housing payments made within the previous 12 months must be verified and documented. Rent or mortgage payments from a family member or other interested party will not be considered unless 12 months of canceled checks, money order receipts or electronic payment confirmations are provided.

A mortgage payment is considered current if it is paid within the month due. A letter of explanation and supporting documentation is required when payments are made beyond the month due.

Payment histories on all mortgage trade lines, regardless of occupancy, including first and second mortgage liens, and HELOCs (includes housing expenses and related expenses, including utilities) are considered mortgage debt. Mobile homes and manufactured homes reported as an installment loan must be considered as a housing payment and reviewed as such. Timeshares are considered installment debt and not a mortgage debt.

Transactions involving a significantly higher proposed mortgage payment in comparison to the current housing payment, or reflect no previous housing obligations, should be closely evaluated for risk and borrower's ability to repay the new mortgage obligation.



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For loans manually underwritten, a Verification of Rent (VOR) may be required. Refer to the GUS Underwriting Findings Report to determine if a VOR is required. If a full 12 month VOR is not available, client may verify the amount of rental history that has been paid. One rent or mortgage payment paid 30 or more days late within the last 12 months, the file must contain documentation to support loan approval

Borrowers with no verifiable history of housing payments are not automatically ineligible. The underwriter must review available documentation to determine if the borrower has an acceptable credit history and meets program guidance.

See our Product Summaries for housing payment history requirements.

4F.8 Significant Derogatory Credit

The presence of significant derogatory credit dramatically increases the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit include bankruptcies, deeds-in-lieu, foreclosures, pre-foreclosure sales, short sales, and charge-offs of mortgage accounts.

Compensating factors cannot be used to compensate for derogatory credit.

4F.8(a) Waiting Period Requirements

Borrowers who have experienced any of the below significant derogatory events must meet the below requirements. Shorter timeframes due to extenuating circumstances are not eligible.

| Derogatory Event | Wait Time | |
|------------------------------|---------------------------|--|
| | GUS Accept | Manual Underwrite |
| Foreclosure/ Repossession | ≥ 3 years from completion | <ul style="list-style-type: none">Borrower must provide a written explanation.< 3 Years prior to the loan application, a Credit Exception required |
| Short Sale/DIL | ≥ 3 years from recording | < 3 Years prior to the loan application, a Credit Exception is required |



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| Chapter 7 Bankruptcy | Follow GUS decision | <ul style="list-style-type: none"> • < 3 years from discharge • Discharged Less than 3 years requires a credit exception documented and submitted with the loan file. |
| Chapter 13 Plan in Progress | <ul style="list-style-type: none"> • Follow GUS decision • All payments must be included on the loan application and in the DTI ratio | <ul style="list-style-type: none"> • 12 months of the payout period must have elapsed; • All required payments have been made on time; • The borrower has written permission from the bankruptcy court/trustee to enter into a mortgage transaction; and • All payment must be included on the loan application and in the DTI ratio. |
| Chapter 13 Completed Plan | Follow GUS decision | Plans completed 12 months prior to the loan application are acceptable. |
| Previous USDA Loss | <p>A borrower with a previous Section 502 or Guaranteed loan that resulted in a loss paid by the Federal government, within seven years prior to the note date, must provide all of the following</p> <ol style="list-style-type: none"> 1. Explanation and documentation of the circumstances that led to the loss paid on their behalf; Example: If the loss were due to reduced wages, IRS tax transcripts would document the loss of income. Medical explanations are not required to submit private health information 2. Explain why the loss is unlikely to recur; Example: Losses due to unemployment and no medical insurance would show a new stable work history with medical benefits 3. Documentation and recommendation for loan approval with the final and complete application submission. Explain positive aspects of the loan file which attribute to future success. | |



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| | <p>Examples: Stable job time of two (2) years or more, low qualifying ratios, reserves available post loan closing, etc.</p> <p>USDA will review the explanation and supporting documentation and make the final determination of the borrower(s) eligibility for a new guaranteed loan.</p> |
| <p>A borrower that has a foreclosure or DIL discharged, short sale closed, or a repossession reported post-divorce/filed legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.</p> | |

4F.8(b) Delinquent Credit

| Credit Event | GUS Accept | Manual Underwrite |
|---------------------|--|-------------------|
| Collection Accounts | <p>A collection account refers to a loan or debt that has been submitted to a collection agency through a creditor. The underwriter must review all collection accounts and determine if the borrower is an acceptable credit risk, regardless of the GUS underwriting decision.</p> <p>If the cumulative total of all non-medical collections exceeds \$2,000, provide one (1) of the following:</p> <ul style="list-style-type: none"> • All collection accounts must be paid in full prior to closing; • Use an existing repayment plan or require payment arrangements be made with the creditor and include the monthly payment in the DTI ratio; or • Include 5% of the outstanding balance of the total collection amounts. <p>Medical collection accounts do not need to be paid off.</p> | |
| Charge-off Accounts | <p>A charge off account refers to a loan or debt that has been written off by the creditor.</p> <p>The underwriter must review all charge-off accounts and determine if the borrower is an acceptable credit risk, regardless of the GUS underwriting</p> | |



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| | recommendation. | |
| Judgments, Liens, Past Due Accounts, Unpaid Taxes | <p>A judgment refers to any debt or monetary liability of the borrower (including child support), and the borrower's spouse in a community property state, unless excluded by state law, created by a court, or other adjudicating body.</p> <p>Non-Federal Judgments</p> <ul style="list-style-type: none"> • Open and unpaid non-federal judgments are eligible when: <ul style="list-style-type: none"> ○ The borrower is not delinquent and has a payment arrangement with the creditor and has made regular and timely payments for the three (3) months prior to application date. Borrowers may not prepay scheduled payments in order to meet the required minimum of three (3) months of payments. Payments must be also included in the calculation of the DTI; and ○ A copy of the payment agreement is required in addition to evidence that the payments have been made in accordance with the payment agreement. <p>Federal Judgments</p> <ul style="list-style-type: none"> • Delinquent federal tax debt is eligible with proof of approved IRS repayment plan(s) when: <ul style="list-style-type: none"> ○ A minimum of three (3) timely payments must have been made according to the terms on each active repayment plan(s) prior to the note date. Borrowers may not prepay scheduled payments in order to meet the required minimum of three (3) months of payments; ○ Payments must be also included in the calculation of the DTI; and ○ A copy of the payment agreement is required in addition to evidence that the payments have been made in accordance with the payment agreement. ○ If borrower has multiple approved IRS repayment plan(s), file must include supporting documentation for an acceptable credit risk. | |
| Consumer Credit Counseling | Follow GUS decision | <ul style="list-style-type: none"> • 12 months of the payment period of the debt management |



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| | | <p>plan has elapsed;</p> <ul style="list-style-type: none"> • All payments have been made on time; and • Written permission from the counseling agency to recommend the applicant as a candidate for a new mortgage loan debt. |
| Disputed Accounts – Non-Derogatory | <p>The GUS decision may be retained if any of the following are met:</p> <ul style="list-style-type: none"> • The disputed trade line has a zero balance; • The disputed trade line is marked “paid in full” or “resolved;” • The disputed trade line(s) are more than 24 months old; • The disputed trade line is current and paid as agreed; • The payment stated on the credit report is included in the monthly debts; • A documented payment from the creditor is included the monthly debt; or • 5% of the stated account balance on the credit report is included in the monthly debts. | <p>All of the following are required:</p> <ul style="list-style-type: none"> • Borrower must provide a letter of explanation; • The underwriter must determine the impact of the disputed account on the borrower’s ability to repay the mortgage debt; • Each disputed account must include: <ul style="list-style-type: none"> ○ The payment on the credit report; ○ 5% of the balance; or ○ A lesser amount documented by the creditor. |
| Disputed Accounts - Derogatory | <p>Disputed derogatory accounts that must be considered are non-medical collections and accounts with late payments in the last 24 months. The following may be excluded:</p> <ul style="list-style-type: none"> • Disputed medical accounts/collections; • Charged off accounts; • Disputed derogatory accounts that are the result of identity theft, credit | |



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| | <p>card theft, or unauthorized use when evidence (police report, attorney correspondence, creditor statement) is provided to support the applicant's explanation; or</p> <ul style="list-style-type: none"> Accounts of a non-purchasing spouse in a community property state. <p>Each account (excluding those listed above) must include a minimum monthly payment of:</p> <ul style="list-style-type: none"> The payment stated on the credit report; 5% of the balance of the account; or A lesser amount documented from the creditor. | |
| | <p>A GUS Accept with full documentation must be downgraded to a Refer when the borrower has \$2,000 or more collectively in disputed derogatory accounts in the last 24 months.</p> | <p>Analyze the potential impact to the borrower's ability to repay the proposed mortgage debt with disputed derogatory accounts.</p> |
| Court Ordered Child Support | <p>Delinquent court ordered child support, subject to the collection by an administrative offset (allows for federal payments in order to collect past due child support), must meet one (1) of the following:</p> <ul style="list-style-type: none"> Must have brought payments current prior to closing; The debt is paid in full; or A release of liability is documented. <p>Delinquent court ordered child support, not subject to the collection by an administrative offset, must meet one (1) of the following:</p> <ul style="list-style-type: none"> Must have an approved repayment agreement with three (3) timely payments made prior to closing; The arrearage is paid in full; or A release of liability is documented. | |
| Garnishments | <p>A garnishment is a legal process that instructs a third party to deduct payments directly from a debtor's wage or bank account for defaulted payments.</p> | |



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| | A garnishment may be deducted by the debtor's employer and disclosed on earnings statements. Garnishments must be included in the DTI ratio. |
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| Revision History | Date |
|---|------------|
| <p>Modified mortgage pay history to identify:</p> <ul style="list-style-type: none">For loans manually underwritten, a Verification of Rent (VOR) may be required. Refer to the GUS Underwriting Findings Report to determine if a VOR is required.Borrowers with no verifiable history of housing payments are not automatically ineligible. The underwriter must review available documentation to determine if the borrower has an acceptable credit history and meets program guidance.Credit Exception Summary content must be added on the underwriting transmittal for GUS Refer, Refer with Caution or manually underwritten files with specific requirements. Note: Prior USDA losses, delinquent non-tax Federal debts, delinquent child support and ineligible CAIVRS results are not eligible for approval of a credit exception. | 03.27.2025 |
| <p>Updated Credit Score requirements to identify:</p> <ul style="list-style-type: none">Borrower with only 1 Credit Score – Use the single reported scoreA Credit report with no score must refer to non-traditional tradeline requirements.Tradeline requirements expanded to include GUS Refer, Refer with Caution AUS decisions. Identified a credit score validation is required.Clarified for GUS Refer, Refer with Caution and manually underwritten files are not eligible for debt ratio exceptions if:<ul style="list-style-type: none">There is not one applicant with a validated score using traditional tradelines on the credit report, orThe file requires non-traditional credit tradelines | 06.26.2025 |



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Chapter 4G USDA Assets

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4G.1 Minimum Down Payment and Cash to Close

USDA does not require a minimum down payment or investment from the borrower. In addition, cash reserves are not required. Cash reserves, if disclosed, will be considered in the GUS risk assessment.

4G.2 Seller Concessions

Seller contributions, interested party contributions or concessions are limited to 6% of the sales price and must represent an eligible loan purpose. Real Estate commission fees are not included in the 6% cap.

Closings costs and/or prepaid items paid by the lender through premium pricing are not included in the seller contribution limitation. Seller contributions cannot be used to pay the borrower's personal debt or as an inducement to purchase by including movable articles of personal property such as furniture, cars, boats, electronic equipment, etc. This does not include household appliances that are typically part of the purchase transaction.

4G.3 Asset Sources

Most recent asset information available at the time of loan application should be obtained. Acceptable asset sources are listed below:

- [Financial Institution Accounts](#)
- [Bridge Loan](#)
- [Business Assets](#)
- [Cash on Hand](#)
- [Cryptocurrency](#)
- [Down Payment Assistance](#)
- [Earnest Money Deposit](#)
- [Foreign Assets](#)
- [Gifts Funds](#)
- [Income Tax Refund](#)
- [Life Insurance - Cash Value](#)
- [Marijuana Related Business and Hemp](#)
- [Notes Receivable/Repayment of Loans](#)
- [Private Savings Club](#)
- [Rent with an Option to Purchase](#)



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- [Retirement Accounts](#)
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- [Sale of Other Real Estate Owned](#)
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- [Trust Account](#)

Funds awarded to the borrower (e.g. disaster relief funds, lottery winnings, court-awarded settlements) are also acceptable sources of assets provided the source is not an interested party to the real estate or mortgage transaction.

4G.3(a) Financial Institution Accounts

Financial institution accounts include funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts.

These funds may be used for the down payment, closing costs, and reserves.

- Individual Accounts**: Funds in the borrower's individual account.
- Joint Accounts**: Funds held in a joint checking or joint savings account. An access letter is required if the parties are unrelated or there the spouse is not on the loan.
- Trust Accounts**: Funds disbursed from a trust account where the borrower is the beneficiary are acceptable if the borrower has immediate access to them. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the borrower has access to the funds.

Accounts that do not allow the borrower to have immediate access to the funds for the above stated purposes may not be used as acceptable assets, including funds in accounts where the borrower is not the beneficiary, such as custodial accounts.

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| Account Statements | Provide the most recent two (2) months account statements or the most recent quarterly account statement for manually underwritten loans. |
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| | <p>Account statements must be dated within 45 days of application. Quarterly account statements dated more than 45 days and less than 90 days are acceptable with verification that the funds are still available.</p> <p>Account statements must clearly identify:</p> <ul style="list-style-type: none"> • The financial institution • Borrower as the account holder • At least the last four (4) digits of the account number • Time period covered • Ending balance <p>If a supplemental statement is necessary, any financial institution-generated printout or alternative verification of the asset (such as deposit or withdrawal slips) is acceptable if all of the required data above is supplied and documented. Supplemental information must be on an institution form with the name of the financial institution or on letterhead signed by a representative. ATM receipts are not permitted.</p> <p>Account statements may be online account statements obtained by the borrower. Documents that are faxed or downloaded from the Internet must clearly identify the name of the institution and the source.</p> |
| Verification of Deposit | <p>A Verification of Deposit (VOD) issued by the financial institution may be obtained. Each Verification of Deposit must clearly identify:</p> <ul style="list-style-type: none"> • The financial institution • Borrower as the account holder • At least the last four (4) digits of the account number • Type of account • Open date • Account balance as of the date of the VOD • Average balance for the previous two (2) months. When an average balance is not provided, obtain the most recent two (2) months account statements <p>The VOD must be remitted directly to the depository. A VOD should never be</p> |



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| | mailed to a Post Office Box or to an individual's attention. If the borrower indicates this is necessary, the file must contain verification that the depository was independently contacted and verified this requirement. The return address on the verification must be the originator's address. The hand carrying of verifications is strictly prohibited. |
| Third Party Asset Verifications | <p>Direct verification by a third-party asset verification is acceptable as long as:</p> <ul style="list-style-type: none"> • The borrower provided authorization to use third-party verification; • The verified information provided conforms with the information that would be on a VOD or account statement, including a transaction history; and • The completion date complies with the allowable age of documentation. |
| Review of Asset Verification Documentation | <p>When there is a recently opened account or a large increase in an existing account, regardless of the age of the deposit, the source of funds must be explained by the borrower and verified. If a large deposit is from another account that is verified in the loan file, that account must be verified after the withdrawal to assure that the assets not counted twice.</p> <p>Individual non-recurring deposits > \$1,000 on the account statements not from wages or earnings must be sourced to support the deposits are not from undisclosed income sources.</p> <p>Unverified funds are not acceptable sources for the down payment, closing costs and/or reserves.</p> <p>If it is determined that the large deposits are a result of an income source not disclosed on the application, the borrower's household income must be re-evaluated to determine the borrower's eligibility for the program.</p> |
| Certificate of Deposit (CD) | <p>Review of the recent account statement (received monthly, quarterly, etc) ,ay be used to evidence the account balance and early withdrawal penalty, if applicable. These funds may be used for funds to close or reserves. If used for reserves, available funds are determined using the current vested balance, less applicable fees and/or penalties.</p> |
| Reserves | Use the ending balance as reflected on the most current bank statement, or on the verification of deposit if the date on the verification of deposit is dated after the |



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| | bank statement. A more conservative approach using a lower figure may also be an option. Electronic printouts are not permitted, unless they are the official electronic statements provided by the banking institution. Online screen printouts of transaction are not permitted. |
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4G.3(b) Bridge Loan

Bridge loans may be eligible for down payment, closing costs, and reserves.

Evidence of the loan proceeds, where they are held (depository account) and remaining balance must be provided. The payment must be included in the DTI ratio.

4G.3(c) Business Assets

Business assets are allowed for down payment, closing costs, and reserves if the following are met:

- The borrower must be the majority owner of the business;
- The use of these funds must be documented as having no negative impact on the business's livelihood; and
- Two (2) months bank statements or VOD and a recent bank statement.

When using business assets for reserves, use the lesser of:

- the current balance on the most current bank statement, or
- verification of deposit, if dated after the bank statement. (Note: online transaction printouts, registers or lists are not permitted in lieu of bank statements)

4G.3(d) Cash on Hand

Cash on hand is allowed for down payment and closing costs. The borrower must provide a letter of explanation to state how the funds were accumulated. Cash on hand may not be used for reserves.

4G.3(e) Cryptocurrency

Cryptocurrency is not allowed as an eligible asset for down payment, reserves, or funds to close; however, proceeds from the liquidation of cryptocurrency may be accepted when the following requirements are met:

- Verify that the cryptocurrency purchases were made using legal assets (such as funds from a bank, brokerage, or retirement account, proceeds from a sale of home or other tangible asset, etc.) and



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otherwise comply to existing policy on large deposits.

- Documentation provided by borrower to be included in file:
 - Statement showing original purchase of the cryptocurrency (dollar value and when purchased);
 - Bank or investment fund statements, bill of sale receipts or other proof to identify source of funds used to purchase the cryptocurrency; and
 - Statements showing the sale, liquidation or transfer of the cryptocurrency converted into U.S. dollars and transferred to the customer's bank or brokerage account.

4G.3(f) Down Payment Assistance

Down payment assistance (DPA) is an umbrella term for assistance to aid borrowers with the required down payment and/or borrower-paid closing costs and prepaids in a purchase transaction. **Newrez must review and approve all down payment assistance programs for Non-Delegated Clients.**

The DPA can be in the form of a grant (gift) or secondary financing. Any type of financing that creates a lien against the subject property is considered secondary financing, even if it is a "soft" or "silent" second (has no monthly repayment provisions) or has other features forgiving the debt.

Prior to approval, the non-profit's gift documentation must be reviewed to ensure no repayment is required and no liens will be placed on the subject property as a result of the gift. The grant to the home buyer must meet USDA requirements.

It must be determined that the entity providing the down payment assistance is a charitable organization as defined by Section 401(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c)(3) of the IRC. One resource for this information is the [IRS Exempt Organization Select Check](#), which contains a list of organizations eligible to receive tax-deductible charitable contributions.

Non-profit entities are not permitted to provide gifts to home buyers for the purpose of paying off installment loans, credit cards, collections, judgments, liens, and similar debts.

4G.3(g) Earnest Money Deposit

Earnest money deposit may be used for down payment, closing costs and reserves.

Earnest money deposits may be verified by one (1) of the following:

- A copy of the cancelled check;
- A copy of the deposit check and proof the check was cashed; and



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- Verification of sufficient funds on deposit in the depository account for the down payment, closing costs, etc.

The source of funds for the deposit must be verified (e.g., account statement) as well as the source of the deposit check. Ensure that the deposit is not counted twice in the file (deducted from the funds to close and counted in assets).

4G.3(h) Foreign Assets

Foreign assets may be used for down payment and closing costs. If the assets are derived from a sale of a foreign asset or from assets held in a foreign institution, the assets must be converted into United States currency by an independent third party and placed in a United States Federal or state regulated financial institution prior to closing. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified. Availability of funds must be verified and all accompanying documentation must be converted to English, or a translation attached to each document and ensure the translation is complete and accurate.

The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions.

See Chapter 2 Compliance of the Operations Guide for additional information.

4G.3(i) Gift Funds

The borrower may use funds received as a gift for down payment and closing costs from an acceptable donor. Gift funds are not an acceptable source of funds for reserves.

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| Gift Letter | <p>A gift letter signed by the donor 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. |
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| Donor | <p>A gift may be provided by any of the following:</p> <ul style="list-style-type: none"> • Child, parent, or grandparent; • A child is defined as a son, stepson, daughter, or stepdaughter; • A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent; • Spouse or domestic partner; • Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption; • Foster child; • Brother, stepbrother; • Sister, stepsister; • Aunt, uncle; • Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother -in-law, or sister-in-law of the borrower; • Borrower's employer or labor union; • Close friend with a clearly defined and documented interest in the borrower; • Charitable organization; and • Governmental agency or public entity that has a program providing homeownership assistance to: <ul style="list-style-type: none"> ○ Low or moderate income families; or ○ First time home buyers. <p>Donor must provide source of gift funds to document that funds came from donor's own funds and were not provided directly or indirectly by the seller, real estate agent, builder, or any other interest party to the transaction or any unacceptable source. Cash on hand is not an acceptable source of gift funds.</p> |
| Transfer of Gift Funds | <p>Verification and documentation that sufficient funds to cover the gift are in the donor's account or have been transferred to the borrower's account is required.</p> <p>Acceptable documentation to verify sufficient funds to cover the gift funds are either in the donor's account or have been transferred to the borrower's account, include any of the following:</p> <ul style="list-style-type: none"> • If the funds have been deposited into the borrower's account, obtain a bank statement evidencing deposit of the gift funds and donor's bank statement |



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| | <p>evidencing withdrawal.</p> <ul style="list-style-type: none">• If the funds have not been deposited into the borrower's account, obtain a certified check, money order, or wire transfer and bank statement showing withdrawal from the donor's account and evidence of deposit into the borrower's account.• If the funds will be sent to closing, a copy of the closing disclosure to verify the funds have been received by the settlement agent by the donor. <p>Note: Gift funds are considered the applicant's own funds, and excess gift funds are eligible to be returned to the applicant at loan closing.</p> |
| Gift of Equity | <p>Borrowers may receive a gift of equity from the seller of the subject property, provided the seller is a family member. A gift letter must be provided.</p> <p>The gift must be reflected as a credit on the Closing Disclosure and must be clearly labeled as a gift of equity. A gift of equity is not considered a seller contribution. The donor must have sufficient equity in the property to cover the gift. The sales agreement should refer to the gift of equity as part of the transaction. The Closing Disclosure will satisfy the donor's ability and receipt of gift verification.</p> |

4G.3(j) Individual Development Account (IDA)

An IDA may be used for down payment, closing costs, and reserves.

Document with one (1) of the following:

- Most recent two (2) months bank statements;
- Verification of Deposit; or
- Other evidence provided by the account trustee/management to support account activity and monthly balances.

Verification must document the vested/amount available for withdrawal without penalty or reimbursement.

4G.3(k) Income Tax Refund

If an income tax refund that has not yet been received will be used as funds for down payment or closing



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costs, the borrower must provide a copy of their signed personal tax return to verify the anticipated refund. Verification of receipt of the Refund Anticipation Loan via a copy of the refund check or electronic deposit and evidence the Refund Anticipation Loan has been repaid is required.

4G.3(l) Life Insurance-Cash Value

Net proceeds from a loan against the cash value or from the cash surrender value of the borrower's life insurance policy are an acceptable source of funds for down payment, closing costs and reserves.

Document all of the following:

- Borrower as policy owner;
- Period covered and current cash value;
- Receipt of the funds; and
- Any outstanding loans.

If the cash value of the life insurance is being used for reserves, the cash value must be documented but does not need to be liquidated.

4G.3(m) Marijuana Related Businesses (MRB) and Hemp

Federal law restricts marijuana related activities and therefore assets from these sources are not permitted.

Any business or activity related to marijuana use, growing, selling, or supplying marijuana. A marijuana-related business is defined as including any of the following:

- Possession of cannabis or cannabis seeds
- Processing
- Growing
- Harvesting/Cultivation
- Testing
- Packaging/Delivery
- Wholesale or Retail sales

Assets derived from the sale of Hemp may be eligible in states where Hemp is legal. The borrower must:

- Provide a written attestation by the hemp grower that they are validly licensed; or
- Obtain a copy of such license.



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Hemp income and/or assets are eligible in all states except the following:

- Washington, D.C.
- Idaho
- Mississippi

4G.3(n) Notes Receivable/Repayment of Loans

When funds are obtained from repayment of a previous loan made by the borrower, all of the following information must be provided:

- Written agreement between the borrower and the recipient of the loan;
- Verification the borrower had the ability to lend the funds. Provide evidence that the funds were withdrawn from the borrower's account; and
- Verification that repayment has been made. Provide statements verifying the funds were withdrawn from the recipient's account and deposited into the borrower's account.

4G.3(o) Private Savings Clubs

Private savings club refers to a non-traditional method of saving by making deposits into a member-managed resource pool.

All of the following is required:

- Club's account ledgers and receipts;
- Verification from the club treasurer that the club is still active, and length of time club has been active; and
- Evidence of receipt of funds from the club.

The underwriter must be able to determine that:

- It was reasonable for the borrower to have saved the money claimed; and
- There is no evidence that the funds were borrowed with an expectation of repayment.

If the borrower is obliged to continue making ongoing contributions under the pooled savings agreement, this obligation must be counted in the borrowers' total DTI ratios.



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4G.3(p) Rent with an Option to Purchase

Rent credits refer to the amount of the rental payment that exceeds the appraiser's estimate of fair market rent.

The cumulative amount of rental payments that exceed the appraiser's estimate of fair market rent may be considered accumulation of the borrower's cash investment.

The following must be documented:

- Market rent as determined by the subject property appraisal; and
- Evidence of receipt of the rental payments.

These gifts or credits must be applied as a reduction to the purchase price of the subject property.

4G.3(q) Retirement Accounts

Retirement accounts may be used for down payment, closing costs, and reserves. A recent account statement to evidence the account balance, vested balance available for withdrawal, and early withdrawal penalties, as applicable.

When used for reserves, 60% of the vested amount may be used. Retirement accounts that restrict withdrawals to circumstances involving the borrower's employment separation, retirement or death should not be considered cash reserves.

Funds borrowed against retirement accounts, 401K, IRA, etc. may be used for funds to close, but may not be used for reserves.

4G.3(r) Sale of Personal Property

Sale of personal property may be used for down payment, closing costs, and reserves.

All of the following is required:

- Document of the borrower's ownership of the asset;
- Evidence of the transfer of ownership of the asset through a bill of sale or statement from the purchase; and
- Receipt of sales proceeds through deposit slips, bank statements, or a copy of the purchasing



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party's cancelled check, money order or electronic funds transfer.

4G.3(s) Sale of Real Estate

The sale of real estate may be used for down payment, closing costs, and reserves.

Final Closing Disclosure indicating cash sales proceeds actually realized by the borrower.

Proceeds from the sale of the property should be included in the borrower's liquid assets (such as a checking or savings account).

The net proceeds that will be generated from the sale of an existing property must be established.

Both the actual sale price and net proceeds must be documented with one (1) of the following:

- Fully executed Closing Disclosure;
- Fully executed Final Seller's ALTA Settlement Statement; or
- Fully executed buy-out agreement accompanying a Closing Disclosure that is part of an employer's relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage verifying required net proceeds must be provided.

4G.3(t) Savings Bonds

Document the value of government savings bonds based on their purchase price unless the redemption value can be documented.

4G.3(u) Secured Loan from Personal Assets

Document the amount of the secured loan proceeds and the source (e.g., CD, stocks, etc.). Confirm the corresponding liability for this debt is included in the DTI, if applicable.

4G.3(v) Stocks, Stock Options, Bonds, Mutual Funds

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for down payment, closing costs, and reserves, provided their value can be verified and verification of the borrower's ownership of the account or asset is documented.

The most recent monthly statements, covering at least two (2) months, or quarterly statement, provided by



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stockbroker or financial institution managing the portfolio, evidencing the account balance, vested balance available for withdrawal, and early withdrawal penalty, as applicable.

4G.3(w) Trust Account

Funds from a trust account are eligible for down payment, closing costs, and reserves.

Provide all of the following:

- Verification that the borrower has access to the funds, amounts, circumstances, requirements to repay the withdrawal, etc.; and
- Most recent account/trust statement to evidence the account balance.

4G.4 Unacceptable Asset Sources

Sources of funds considered ineligible include, but is not limited to:

- Cash advance on a revolving charge account
- Cash for which the source cannot be verified (e.g., garage sales) Contribution limitations (Chapter [6C](#) Financing)
- Donated funds in any form, such as cash or bonds donated by the seller, builder or selling agent outside of approved financing
- Contributions in the Seller Concession
- Funds derived from a Marijuana Related Business (MRB)
- Funds in a Custodial (Uniform Transfers to Minors Act (UTMA) or Uniform Gifts to Minors Act (UGMA) or "In Trust For" account
- Gift of equity
- Gift that must be repaid in full or in part
- Labor performed by the borrower, also referred to as "sweat equity"
- Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
- Personal unsecured line of credit or loan
- Restricted stock
- Rent credits
- Salary advance
- Sweat equity



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| Revision History | Date |
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| Reserve requirements updated per Rural Housing /USDA 3555-1/Ch 9 update effective 05.05.2024 | 06.26.2025 |



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Chapter 4H USDA Liabilities and Debt Ratios

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4H.1 Monthly Housing Expense

Monthly housing expense is the sum of the following and is referred to as PITIA.

- Principal and interest on the first mortgage loan
- Subordinate financing payments on mortgages secured by the subject property
- Hazard insurance premiums
- Flood insurance premiums
- Mortgage insurance premiums
- Real estate taxes
- Home owners' association dues
- Leasehold payments
- Ground rent
- Special assessments with more than ten months remaining

The monthly housing expense is based on the qualifying payment and is the monthly housing expense used to calculate the DTI ratio.

4H.2 Qualifying Housing Payment

Generally, the principal and interest payment, based on the actual interest rate is used to determine the borrower's monthly housing expense.

See our Product Summaries for specific requirements on qualifying rates, formulas, and limitations.

4H.3 Debt-to-Income Ratios

Debt-to-income ratios compare the monthly housing expense and all debt payments to total monthly qualifying income.

Documentation must be provided to support a payment amount used for the Total Debt Ratio that is different than what is reflected on the credit report.



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See our Product Summaries for debt-to-income ratio limits.

4H.4 Monthly Obligations

The total monthly debt obligations considered is the sum of the monthly housing expense of the borrower's primary residence plus all other monthly expenses incurred by the borrower. Any additional debt obtained as a result of a recent inquiry on the credit report must be included in the monthly debt obligation.

Monthly expenses include:

- [Alimony and Child Support Payments](#)
- [Automobile Expense](#)
- [Authorized User Accounts](#)
- [Balloon or Deferred Payments](#)
- [Business Debt](#)
- [Conversion of a Primary Residence](#)
- [Co-signed Loans](#)
- [Court-ordered Assignment of Debt](#)
- [Home Equity Lines of Credit](#)
- [Installment Debt](#)
- [Lease Payments](#)
- [Non-borrowing Spouse Debt in Community Property States](#)
- [Previous Mortgage](#)
- [Revolving Charges/Lines of Credit](#)

4H.4(a) Alimony and Child Support Payments

When the borrower is required to pay alimony and/or child support payments under a divorce decree, separation agreement, or any other written legal agreement, and those payments will continue for more than ten (10) months, the payments must be considered in the DTI ratio. The alimony and child support payments may not be deducted from income. Voluntary payments do not need to be taken into consideration.



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Court-ordered child support may be excluded from the DTI ratio if the payment does not exceed 5% of the monthly repayment income.

One (1) of the following is required to document the payment and the number of remaining payments:

- A copy of a written legal agreement or court decree describing the payment terms for the obligation, the amount of the award and the period of time over which it will be received; or
- Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made.

Review of the application and loan file documentation may require additional validation to determine child support obligations.

4H.4(a)(i) Delinquent Child Support

The loan is ineligible if the borrower is delinquent in paying child support, unless one of the following is met:

- Borrower has an approved repayment agreement in place with three (3) timely payments made prior to closing;
- The arrearage is paid in full prior to closing; or
- A release of liability is documented.

4H.4(b) Automobile Expense

The full monthly payment for a car loan or lease payments must be included in DTI ratio. When an auto allowance is received, this payment is considered income.

A net auto expense is not permitted for DTI calculations.

4H.4(c) Authorized User Accounts

See Chapter 4E Selection and Validation of a Credit Score for authorized user accounts.



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4H.4(d) Balloon or Deferred Payments

Balloon or deferred payments are those payments that will require payment in full upon their due date and must have a payment included in the DTI ratio. If the payment is unknown, a monthly payment must be calculated using 5% of the outstanding balance.

If a balloon or deferred payment is due within 12 months of note date, the underwriter must evaluate the complete loan application to support borrower's repayment ability.

See Student Loans in the Installment Loan section below for deferred student loans.

4H.4(e) Business Debt

When a self-employed borrower indicates that certain liabilities are paid by his or her business, it must be confirmed that the obligation was paid from company funds for a minimum of 12 months (cancelled checks or bank statements).

4H.4(f) Conversion of a Primary Residence

If the borrower's current primary residence is being converted to a second home or investment property, an explanation may be required when the property being purchased is of lesser value or in the same geographic location.

This option may only be used, and the current residence be retained by the borrower if the current home no longer adequately meets the borrower's needs. Examples include, but are not limited to:

- Relocation due to a new job opportunity;
- Requires a larger home to provide for a growing family;
- Obtaining a divorce and the ex-spouse will retain the dwelling; and
- Is a non-occupying co-owner or co-borrower on another mortgage loan and wants to purchase their own dwelling.

Qualify the borrower based on the following:

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| Second Home | If the borrower's current primary residence is converting to a second home, the PITIA of the second home must be used in the monthly debt obligations. |
| Investment Property | If the borrower's current primary residence is converting to an investment property, the PITIA of the investment property must be used in the monthly debt obligations. Rental income may not be used for qualification. |

4H.4(g) Co-signed Loans

When a borrower co-signs for a loan to enable another party to obtain credit, but is not actually repaying the debt, the borrower has a contingent liability.

The contingent liability must be included in the DTI ratio, unless there is documentation to evidence the co-obligor has been making payments for a minimum of 12 consecutive months and the account is current with no history of delinquency during those 12 months.

Evidence such as cancelled checks, money orders, bank statements, or automated savings withdrawals will be accepted.

4H.4(h) Court-Ordered Assignment of Debt

Court-ordered debts must include the payment in the DTI ratio unless the borrower has a documented release of liability from the court or creditor. A copy of the court order assigning the debt is required.

Court-ordered debts with ten (10) or fewer payments remaining may be excluded if the payment does not exceed 5% of the monthly repayment income.

4H.4(i) Home Equity Lines of Credit

When the credit report shows a home equity line of credit (HELOC) with a balance and monthly payment, that payment must be considered part of the borrower's recurring monthly debt obligations. If a monthly payment is not reported, a copy of the borrower's monthly statement should be provided.



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If the HELOC does not require a payment and there is no recurring monthly debt obligation, no monthly payment needs be included in the recurring debt obligations.

4H.4(j) Installment Debt

Installment debt that is not secured by a financial asset, including student loans, automobile loans and timeshares, etc., must be included in the borrower's monthly debt obligations.

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| Installment Debt with Fewer than Ten (10) Payments Remaining | Installment debt with fewer than ten (10) months remaining may be excluded from the DTI if the monthly payment does not exceed 5% of the monthly repayment income. |
| Paydown Installment Debt | <p>Paying down installment debt to fewer than ten (10) months to qualify is permitted; but must meet the above guideline.</p> <p>Document funds came from an acceptable source and no new debt was incurred.</p> |
| Payoff Installment Debt for Qualification | <p>If an installment debt is paid off at closing, the creditor must provide a payoff statement, which same balance must be reflected as the payoff amount on the Closing Disclosure.</p> <p>Document funds came from an acceptable source and no new debt was incurred.</p> |
| Student Loans | <p>Regardless of payment status, use the following:</p> <ul style="list-style-type: none">• The payment reported on the credit report or the actual documented payment, when the payment amount is above zero; or• One half (.50%) percent of the outstanding loan balance documented on the credit report, or creditor verification, when the payment amount is zero. <p>Student loans in a forgiveness plan/program require a monthly payment to be included in the DTI ratio.</p> |



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4H.4(k) Lease Payments

Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease.

4H.4(l) Non-borrowing Spouse Debt in Community Property States

Non-borrowing spouse debt refers to debt owed by a spouse that are not owed by, or in the name of the borrower.

A non-borrowing spouse may be required to sign either the security instrument or documentation evidencing that he or she is relinquishing all rights to the property if required by state law in order to perfect a valid and enforceable first lien, as is the case in some community property states. If the non-borrowing spouse executes the security instrument, he or she is not considered a borrower for underwriting purposes and need not sign the loan application or Note.

In all other cases, the non-borrowing spouse must not be on the security instrument or take title to the subject property.

If the property is located in a community property state, or the borrower resides in a community property state, the following requirements must be complied with:

- A credit report for the non-borrowing spouse is required to determine any joint or individual debts and to determine the DTI ratio. The credit report for the non-borrowing spouse should not be a joint report, it must be obtained separately;
- Obtain and document authorization from the non-borrowing spouse to pull a separate credit report. If the non-borrowing spouse refuses to provide authorization for the credit report, the loan must be rejected;
- Even if the non-borrowing spouse does not have a social security number, the credit reporting company should verify that the non-borrowing spouse has no credit history and no public records against them;
- The debts of the non-borrowing spouse (provide documentation to validate) must be considered in the DTI ratios except for obligations specifically excluded by state law;

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- Calculate the monthly obligation of the non -borrowing spouse by using the greater of the monthly payment amount or 5% of outstanding balance of all debts and include in the DTI ratio calculation;
- All defaulted federal debt, open judgments, and liens, including those of the non -borrowing spouse, must be satisfied prior to closing;
- Disputed debts of the non-borrowing spouse need not be counted with acceptable documentation of the dispute. Credit history of the non-borrowing spouse is not considered a reason to deny a loan;
- The credit report is for the purpose of establishing debt only and is not submitted to GUS for the purpose of credit evaluation. The credit for the non-borrowing spouse may be traditional or non-traditional; and
- The loan file must reference the specific state law that justifies the exclusion of any debt from consideration.

| Known Community Property States | Community Property State Laws are Effective When | Include Debts in DTI | Exclude Debts from DTI if Acquired Prior to Marriage | Statutory Authority |
|---------------------------------|--|----------------------|--|--|
| Arizona | Married and domicile in same state | Yes | No | ARIZ. REV. STAT. ANN §25-13(A) |
| California | Married and domicile in same state | Yes | No | CAL FAM. CODE DIV. 4 Pt. 3 Ch. 2 §913(b)(1) and CAL FAM. CODE DIV. 4 Pt. 3 Ch. 2 §1612(a)(1) |
| Idaho | Married and domicile in same state | Yes | No | IDAHO CODE ANN. §§ 32-903 and 32-923(h) |
| Louisiana | Married and domicile in same | Yes | No | LA CIV. CODE ANN. Arts. 2523 and 3526(2) |

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|------------|------------------------------------|-----|-----|---|
| | state | | | |
| Nevada | Married and domicile in same state | Yes | Yes | NEV. REV. STAT. §123.130 |
| New Mexico | Married and domicile in same state | Yes | No | N.M. STAT. 40-3-9 |
| Texas | Married and domicile in same state | Yes | Yes | TEX. FAM. CODE ANN. §§ 3.001 and 4.003(1) |
| Washington | Married and domicile in same state | Yes | Yes | WASH. REV. CODE §26.16.010 |
| Wisconsin | Married and domicile in same state | Yes | Yes | WIS. STAT. §766.31(8) |

4H.4(m) Previous Mortgage

Previous mortgage liabilities disposed of through a sale, trade, or transfer without a release of liability will be included in the debt ratio unless evidence is provided to confirm the remaining party (or new owner) has been making timely payments for the previous 12 months prior to the application date.

The following must be provided:

- Divorce: Divorce or court-order ordering the former spouse to make the mortgage payments.



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- Assumption, Sold, Traded:
 - Copy of assumption agreement; and
 - Deed evidencing transfer of title.

If timely payments for the most recent 12-month period cannot be documented, the mortgage payment must be included in the borrower's recurring monthly debt obligations.

4H.4(n) Revolving Charges/Lines of Credit

Revolving 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.

Revolving accounts with no outstanding balance do not require an estimated payment to be included in the debt ratio.

| | |
|-----------------------------|---|
| No Payment on Credit Report | <ul style="list-style-type: none">• If the borrower provides a current statement reflecting the actual monthly payment, use that amount.• If a revolving debt is provided on the loan application without a monthly payment amount, use 5% of the outstanding balance as the monthly payment included in the DTI ratio. |
| Open 30-Day Charge Accounts | <p>The following is required for open 30-day charge accounts with account balances that do not reflect a monthly payment on the credit report, or 30-day accounts that reflects a monthly payment that is identical to the account balance.</p> <ul style="list-style-type: none">• Evidence that the borrower paid the outstanding balance in full on every 30-day account each month for the past 12 months. If there are late payments, use 5% of the outstanding balance as the monthly payment included in the DTI ratio.• 30-day accounts that are paid monthly are not included in the borrower's monthly debt obligations. |



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| | The credit report will be used to document that the borrower has paid the balance each month for the prior 12 months and to document the outstanding balance |
|--|--|

4H.5 Obligations Not Considered Debt

Obligations not considered include:

- Automatic deductions from savings when not associated with another type of obligation
- Charge-off accounts
- Childcare
- Collateralized loans secured by depository accounts
- Federal, state, and local taxes, if not delinquent and no payments are required
- Federal insurance Contributions Act (FICA) and other retirement contributions, such as 401(k) accounts
- Insurance, other than property insurance
- Medical collections
- Open accounts with zero balances
- Utilities
- Union dues
- Voluntary recurring debt or deductions, when not associated with another type of obligation.

All liabilities disclosed by the applicant should be listed in GUS. Liabilities may be omitted as permitted.

| Revision History | Date |
|---|------------|
| <ul style="list-style-type: none">• Updated Chart for Non-Borrowing Spouse in Community Property States with State Statute reference.• Update completed per USDA announcement 1.5.2024 in section titled Obligations not included in DTI Ratios to include: Any debt/liabilities disclosed by the applicant should be listed in GUS. The lender may omit liabilities as permitted. | 01.30.2024 |



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Chapter 4I USDA Employment and Income

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4I.1 Income Documentation

4I.1(a) IRS Form 4506-C

4I.1(a)(i) General Requirements

- *All adult household member(s) are required to complete, sign and date IRS Form 4506-C, authorizing the Client or its assigns, for the prior two (2) years prior to closing.*
 - Full time students age 18 and up that are not the borrower, co-borrower, or spouse of an applicant are not required to sign the 4506-C.
- IRS Form 4506-C can be used to obtain tax transcripts for multiple years or tax periods, but only one tax form number can be requested per IRS Form 4506-C.
- IRS Form 4506-C must not expire before a reasonable time to allow for execution.
- The signed Form 4506-C must include authorization for tax transcripts to coincide with the years of tax returns obtained for qualification.
- Signature Requirements:
 - If filing jointly, each borrower (taxpayer) must sign the same IRS form.
 - If separate filings, each borrower (taxpayer) must sign on separate forms.
 - The form must be signed exactly as the borrowers' name appears on the original return.
 - If a borrower's name changed, the borrower must sign with both the current name and changed name.

4I.1(a)(ii) At Closing Requirement

- *Form 4506-C for each adult household member must be signed at closing.*
- Form 4506-C for business return(s) must be signed at closing when the business returns are used for qualification.
- Form 4506-C must be an original signature and cannot be e-signed.

It is necessary to complete three (3) IRS Form 4506-Cs for a self-employed borrower whose income documentation consists of two (2) years individual income tax returns and two years business tax returns for two separate businesses. One (1) Form 4506-C will be required for the individual return and a separate Form 4506-C for each business return.



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4I.1(a)(iii) Completing IRS Form 4506-C

| Line # | | Individual Income Tax Returns | Business Income Tax Returns |
|---|---|--|--|
| 1-4. | Complete with appropriate borrower information. The address completed on the form must be the same as the address on the tax return even if not the borrower's current address. | | |
| 5. | a. IVES Participant name, address and SOR mailbox ID | | |
| | b. Customer File Number | | |
| 6. | Transcript Requested | Enter Form 1040 | Enter Form 1120, 1065, etc., as applicable |
| | a. Return Transcript | Check Box and/or 6c | |
| | b. Account Transcript | Leave Blank | |
| | c. Record of Account | Check Box and/or 6a | |
| 7. | Form W-2, Form 1099 series, Form 1098 series, or Form 5498 series transcript | Check Box 7 | Leave Blank |
| 8. | Year or period requested | Complete for the number of years required to document income | |
| <p>The IRS will process the request if the IRS Form 4506-C for the business includes the following:</p> <ul style="list-style-type: none">1120: Borrower must sign name with title and only the following titles are acceptable<ul style="list-style-type: none">PresidentVice PresidentSecretaryTreasurerAssistant TreasurerChief Accounting Officer1120S: Borrower must sign name with title and only the following titles are acceptable<ul style="list-style-type: none">PresidentVice PresidentSecretaryTreasurerManaging Member1065: Borrower must sign name with title and only the following titles are acceptable | | | |



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- Partner
- Limited Partner

4I.1(b) Tax Transcripts

Income and Wage or Tax Return Transcript(s) must be obtained for all borrowers who are party to the Note and adult members of the household prior to request for Conditional Commitment for Loan Note Guarantee. Tax transcripts are required for the previous two (2) years' corresponding to the income documentation in the loan file. This could include a "No Record" result when a member of the household did not file a tax return for the year(s) requested.

Business Tax Transcripts (1065, 1120, 1120S) are required on all loans if the borrower(s) owns more than 25% of the business.

When transcripts cannot be obtained from the IRS for a borrower or required household member, document the correspondence to and from the IRS in the loan file to support the omission. The loan file will be considered complete when the explanation is documented. Loan closings will not be delayed due to obstacles in obtaining the tax transcripts when the tax returns were filed timely.

- For Delegated Clients, tax transcripts that are not able to be obtained prior to closing for any reason will not delay the loan closing, however, the Delegated Client remains responsible for obtaining required tax transcripts, even if post-closing. All applicants must continue to be current on tax filings which is determined by the IRS, for overall USDA program eligibility.
- For Non-Delegated Clients, Newrez requires transcripts prior to the loan closing.

Information from the tax transcript and borrower-provided document must be compared and discrepancies explained and resolved with detailed comments provided.

- The rejection of the IRS not fulfilling the online request must be in the loan file.
- The borrower may order their own tax transcripts and provide them to Client. All schedules must be required by the borrower for the past two years tax returns were filed.

If a borrower is not required to file last years' tax return and the source of income cannot be validated through the IRS Form 4506-C process, documentation supporting the lack of filing tax returns must be provided. See IRS [Table 1-1.2011 Filing Requirements for Most Taxpayers](#) and [Chapter 6](#) Fraud for guidance when related to identify theft.



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4I.1(c) Paystubs

- The paystub must clearly identify the:
 - Borrower as the employee
 - Gross earnings for the current pay period and year-to-date earnings
 - Pay period
 - Employer name
 - Date issued
- Paystubs must be dated no earlier than 30 days prior to the loan application
- Paystubs must cover the most recent four (4) weeks
- If the borrower is paid hourly, the number of hours must be noted on the paystub
- Paystubs must be computer-generated or typed by the employer. If the employer does not provide a computer-generated or typed paystub, the most recent years' income tax returns or tax transcripts are required with a written verification of employment completed in its entirety
- Paystubs must not have any alterations
- The original source of the information must be a third party, such as the borrower's human resources department, personnel office, payroll department, company's payroll vendor, or supervisor
- Paystubs that are issued electronically, via e-mail or downloaded from the Internet are acceptable. Documents must clearly identify the employer's name and source of information - for example, by including the information in the Internet banner

4I.1(d) W-2 Form

- The W-2 must:
 - Clearly identify the borrower as the employee and the employer name
 - Be the employee copy provided by the employer
 - Be computer-generated or type by the employer
 - Not have any alterations
 - Be the original source of the information from a third-party, such as the borrower's human resources department, personnel, office, payroll department, company's payroll vendor, or supervisor
- The following may be used in lieu of the W-2 form provided the documentation reflects the complete income earned:
 - Year-end paystub(s) or military Leave and Earnings Statement to document year-end earnings;



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or

- IRS Wage and Income transcript(s).

4I.1(e) Written Verification of Employment (WVOE)

A written verification of employment must contain:

- Dates of employment
- Position
- Prospect of continued employment, when available
- Base pay amount and frequency. For employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week
- Year-to-date earnings
- Most recent one (1) or two (2)-years' earnings
- Additional salary information, which itemizes bonus, overtime, tip, or commission income, if applicable

Electronic verification systems are acceptable however the information received must contain the same level of information.

The borrower may not request completion of the written verification of employment directly from his or her employer.

4I.1(f) Verbal Confirmation of Employment

Verbal confirmation of the borrower's current employment status is required for each borrower.

If a verbal confirmation cannot be obtained, a written verification of employment must be used to confirm employment and must be completed within the same time frame as a verbal confirmation.

To comply with a verbal confirmation of employment requirement, independently obtain the phone number and address for the borrower's employer. This can be accomplished using a telephone book, directory assistance, Superpages.com, Yellowbook.com, Yellowpages.com, etc., or by contacting the applicable licensing bureau. In addition, the following must be met:

| Verbal Confirmation of Employment | |
|-----------------------------------|---|
| Wage Earner | A verbal, written or email confirmation of employment must be completed |

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| | <p>within ten (10) business days from the Note date (or funding date for escrow states) and documented with the following information:</p> <ul style="list-style-type: none"> • Name and title of the person who confirmed employment • Date of contact • Name and title of associate contacting the employer • Phone number and method and source used to obtain the phone number • Borrower's employment status <p>If using a third-party service to verify employment (e.g., The Work Number, Quick Confirm, LexisNexis, etc.) the following applies:</p> <ul style="list-style-type: none"> • Request to third-party must be within ten (10) business days of the Note date, and • Employment Verification between employer and third-party must be within 35 calendar days of the Note date |
| Self-Employed Borrower | <p>Verification of the existence of a self-employed borrower's business must be completed within 30 calendar days from the Note date (or funding date for escrow states).</p> <p>Verification of the existence of the business from a third party is required. A borrower's website is not acceptable as third-party verification. Acceptable third-party sources include, but are not limited to:</p> <ul style="list-style-type: none"> • CPA (must be arm's length), regulatory agency, or the applicable licensing agency, or • By verifying a phone listing and address for the borrower's business using a telephone book, the Internet, directory assistance, Better Business Bureau. <ul style="list-style-type: none"> ○ If using an Internet source, such as Whitepages.com, Yellowpages.com, the phone number must be called to ensure the business is still in existence. <p>Verification of current existence of the business obtained verbally from an acceptable third-party source must be documented and include all of the following:</p> |



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| | <ul style="list-style-type: none">• Name and address of business• Name of individual and entity contacted• Date of verification• Name and title of associate who completed the verification <p>Alternative documentation: Current and active business insurance policy or Errors and Omissions policy, documentation showing registration for remitting sales tax, supplier invoices, etc.</p> <p>Newrez will not accept a paystub or bank statements as alternative documentation to the VVOE.</p> |
|--|--|

4I.1(g) Tax Returns

Each tax return must be signed by the borrower unless transcripts are obtained that validate the unsigned.

The following standards apply with using Income Tax Returns to verify income.

| | |
|--|---|
| Individual Income Tax Returns (Form 1040) | <ul style="list-style-type: none">• Complete with all schedules and W-2s, 1099s, K-1s, etc.• Borrower's copy filed with the IRS |
| Business Income Tax Returns (Form 1120, 1120S, 1065) | <ul style="list-style-type: none">• Complete with all schedules and W-2s, 1099s, K-1s, etc.• Borrower's copy filed with the IRS |
| Amended Income Tax Returns Filed Prior to the Application Date | Amended tax returns filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the tax return was amended 60 days or less prior to the application, evidence of payment must also be provided. |
| Amended Income Tax Returns Filed After the Application Date | When amended tax returns are filed after the application date, due diligence must be exercised to determine the validity of the amended tax return. Examine the original tax return and the amended tax return for consistency with the previous filings to determine whether the use of the amended return is warranted. |

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| | <p>The following documentation should be reviewed when income from the amended return is required:</p> <ul style="list-style-type: none"> • A letter of explanation regarding the reason for the re-file • Evidence of filing • Payment and the ability to pay the tax if the check has not cancelled <p>The underwriter must provide justification and commentary regarding its use.</p> |
| IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns | If IRS Form 4868 Application for Automatic Extension of Time to File U.S. Individual Income Tax Return is filed, the total tax liability reported on IRS Form 4868 must be reviewed and compared with the borrower's tax liability from the previous two years as a measure of income source, stability, and continuance. If the estimated tax liability that is inconsistent with previous years, the current year tax return may be necessary. |
| Use of IRS Forms to Obtain Individual Income Tax Information | Tax Return Transcripts or Wage and Income Tax Transcripts may be used in lieu of obtaining the income tax returns if they contain all of the information that would be included on the tax return. In certain instances, copies of the actual returns, schedules, or forms may be needed because the tax transcripts will not provide the detail required to qualify the borrower. |

4I.2 Income Definitions

The USDA program is intended to assist very low, low-and moderate-income households; therefore, borrowers must fall at or below the established moderate-income level.

There are three (3) income definitions used in this chapter.

| | |
|---------------|---|
| Annual Income | <p>The income that is used to determine the borrower's eligibility for assistance.</p> <p>Annual income is defined as all amounts, monetary or not, that are not specifically excluded by regulations, which go to, or are received on behalf of, the borrowers</p> |
|---------------|---|



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| | or any other household member. |
| Adjusted Annual Income | Used to determine whether a household is income eligible for payment assistance. It is based on annual income and provides for deduction to account for varying household circumstances and expenses. |
| Repayment Income | Used to determine whether a borrower has the ability to make monthly loan payments. It is based only on the income attributable to parties to the Note and includes some income sources excluded for the purpose of adjusted income. |

4I.3 Annual Income

Annual income is the amount of income used to determine a borrower's eligibility for the USDA program. Annual income represents all income received for the previous 2 years by adult household members, that will reside in the home, not just those parties to the Note.

Current income and family circumstances should be used to estimate the household's annual income for the next 12-months unless there is verifiable evidence of a likely change in circumstances or historical data does not support current income. For annual income, consider income that is attributable to any household member.

If a member of the household that will make the dwelling their primary residence is temporarily absent, their income must be included.

4I.3(a) Calculation of Annual Income

The following types of income are used to determine Annual Household Income before deductions.

- The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, it will be included in the annual income calculation to determine household eligibility.
- Include the first \$480 of earned income from adult full time students who are not the borrower, co-borrower, or spouse of the borrower.
- The income of a borrower's spouse, unless the spouse has been living apart from the borrower for at least three (3) months (for reasons other than military or work assignment), or court proceeds for divorce or legal separation have begun.



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- Evidence to support living apart for three (3) months, may include but is not limited to, an apartment lease, bills, or bank statements, in their name alone delivered to a different address, etc. This applies to domestic partners, significant others, and fiancées that are currently living with the borrower as a household/family unit. This does not apply to adult dependents age 18 and up.
- An adult member that is currently unemployed but is seeking new employment must have their previous earnings included in the annual income. The previous earnings are not required to be included when there is documented evidence to support they are not seeking to be reemployed, such as a tendered resignation or, official termination from previous employer, or a signed statement from the adult household member that they do not plan to pursue new employment.
- Income verifications provided by the borrower that do not currently support historical earnings with the same employer (e.g., fewer hours worked, less overtime, less bonus, declining self-employment income, etc.) must be carefully reviewed to determine appropriate calculations
- Verified changes of circumstance that will affect the next 12 months of income must be considered and documented. Examples include but are not limited to pending retirement, resignation tendered, documented raise that will occur prior to loan closing, etc.
- When an income source will not be received for the entire year, the amount anticipated to be received within the ensuing 12 months must continue to be included in annual income unless excluded under 3555.152(b)(5). Examples include, but are not limited to, child support, alimony, maintenance, Social Security, etc. Annual income is the total of all income sources for a 12-month timeframe. Income calculations must state the income source, the number of months receipt remaining for the ensuing 12-month timeframe, and the total amount to be received.

The following Table represents examples of calculating annual income. Regardless of the method used, the loan file must contain documentation on how the income was calculated.

| Pay Frequency | Monthly Income |
|---------------|---|
| Hourly | $(\text{Hourly gross pay} \times \text{average \# hours worked/week} \times 52) \div 12 \text{ months}$ |
| Weekly | $(\text{Weekly gross pay} \times 52 \text{ pay periods}) \div 12 \text{ months}$ |
| Biweekly | $(\text{Biweekly gross pay} \times 26 \text{ pay periods}) \div 12 \text{ months}$ |
| Twice Monthly | $(\text{Twice monthly gross pay} \times 24 \text{ pay periods}) \div 12 \text{ months}$ |
| Monthly | Use monthly gross payment amount |
| Annually | $\text{Annual gross pay} \div 12 \text{ months}$ |



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| | |
|---------------------|---|
| Year-to-Date Income | $(\text{Gross earnings} \div \text{year-to-date earnings}) \times 365 \div 12 \text{ months}$ |
| Historical Income | Income reported on the previous year's tax return |

4I.4 Adjusted Annual Income/Qualifying Income

Qualifying Income is the Adjusted Annual Income compared to established Income Limits to determine participation in the program. Income for the previous 2 years from all household members (age 18 or older) residing in the home must be included in the household income to determine program eligibility.

The household income must not exceed the moderate-income limits established for the area in which they are financing a home.

Adjusted Annual Income and program eligibility can be determined at [USDA Single Family Housing Income Eligibility](#) webpage. The screen must be printed and be in the loan file.

Historical information may also be used to estimate annual income that is anticipated to be received for less than 12 months. For example, if one of the household members is a seasonal worker, the income attributable to that worker should be based upon past history, rather than annualizing current income.

Once the income source is verified, project the expected income from this source for the next 12 months. **This calculation is used only to determine the household eligibility for the USDA program.** This calculation does not necessarily represent stable and dependable income for qualifying the loan. This projection should be based on a comparison and analysis of the figures derived to establish earning trends and avoid underestimating annual income for the household. The calculation of annual income must be the most representative of income likely to be received during the next 12 months. Conservatively selecting the lowest projected income figure without analysis is not acceptable.

Example

Assume a family member who currently has no income, historically has seasonal income during the summer months and earnings on the average of \$4,000 during that time. Confirm with the borrower and employer that the same seasonable pattern is expected and use historical data to project the annual income for the coming 12 months.

If any adult member of the household is not currently employed but there is a recent history of employment,



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that person's income will be considered in the calculation of annual household income. If the person involved is not currently employed and does not intend to resume employment in the near future, or if interest assistance is involved, during the term of the Interest Assistance Agreement, the borrower(s) and the person involved must sign a statement to such. The statement will be filed in the permanent loan file.

41.4(a) Borrower Assets as Annual Income

Assets may also influence the calculation of annual income when qualifying the household for eligibility. Assets may also influence the underwriting determination when qualifying the loan.

For the purpose of calculating Annual Income, the assets of all household members must be considered.

Use caution to not overstate assets in the analysis of the documentation. Evidence of access to joint accounts from all parties is not required.

41.4(a)(i) Assets Considered in Annual Income

The following assets may be considered in the borrower's annual income:

- Amounts in trust accounts that are available to the household.
- Cash on hand and funds in savings or checking accounts.
- Equity in real property or other capital investments, other than the subject property.
- Lump sum receipts such as lottery winnings, capital gains, and inheritances.
- Personal property held as an investment.
- Sale of personal property: Any value in excess of the consideration received, for any business or household assets disposed of for less than fair market value during the two (2) years proceeding determination. The value of assets disposed of for less than fair market value shall not be considered if they were disposed of as a result of foreclosure, bankruptcy, or a divorce or separation agreement.
- Stocks, bonds, and other forms of capital investments that is accessible to the borrower without retiring or terminating employment.

| Assets Considered in Annual Income | |
|------------------------------------|---|
| Business Accounts | <ul style="list-style-type: none">• Most recent two (2) months bank statements, VOD, or evidence of the two-month average balance and current balance.• Verify the assets are maintained in a business account and not |

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| | |
|--|--|
| | <p>transferred between personal and business accounts.</p> <ul style="list-style-type: none"> • These accounts should function as two separate financial tools, one for personal and one for business. • If the assets are co-mingled from the business and personal bank accounts, the co-mingled assets would need to be included in the calculation of net family assets. • Use the lesser of the average of the two-month balance or current balance. |
| Cash-on-Hand | <ul style="list-style-type: none"> • Borrower must supply a letter of explanation to state how the funds were retained or saved (how much weekly/monthly/etc.). • Cash in hand cannot be considered for reserves. |
| Certificate of Deposit | <ul style="list-style-type: none"> • Most recent two (2) statements (monthly, quarterly, etc.) to evidence the account balance and early withdraw penalty, if applicable. • Use the lesser of the average two-month balance or the current balance, less applicable fees. |
| Depository Accounts | <ul style="list-style-type: none"> • Most recent two (2) months' bank statements, VOD, or acceptable evidence of two month average balance and current balance. • Use the lesser of the average two-month balance or the current balance, less applicable fees. Investigate additional deposits that are not attributed to wages or earnings. Ensure these additional deposits are not from undisclosed income sources. There is no tolerance or percentage of income that may utilized to disqualify deposits from further consideration. |
| Earnest Money | <ul style="list-style-type: none"> • Earnest money that has cleared a borrower's account may be entered in the "Other Credits" section of the "Transaction Details" GUS application page. • The amount of earnest money should not be reflected in the balance of any asset entered on the "Assets and Liabilities" application page. • Earnest money that will be returned to the borrower at loan closing is eligible to be included in the reserves. |
| Gift of Equity, Sweat Equity or Rent Credits | <ul style="list-style-type: none"> • These gifts or credits should be applied as a reduction to the purchase price of the dwelling Ensure the appraiser is aware of the gift and/or credit to allow them to properly complete the appraisal report, note the |

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| | <p>reduction, and support the appraised value compared to purchase price, if applicable.</p> <ul style="list-style-type: none"> The borrower may not receive cash back at loan closing for these gifts and/or credits. |
| Gift Funds | <p>Gift funds:</p> <ul style="list-style-type: none"> Are considered the borrower's own funds, therefore they are eligible to be returned to the borrower at loan closing, as applicable. May not be contributed from any source that has an interest in the sale of the property (seller, builder, real estate agent, etc.). Must be sourced: Gift letter to state the funds do not have to be repaid, evidence of funds from the party providing the gift, and evidence the funds were deposited into the borrower's account. Cash on hand is not an acceptable explanation for the source of funds. That will be used for funds to close may be entered in the "Other Credits" section of the "Transaction Details" GUS application page. The amount entered should not exceed the actual amount of funds required to close. Remaining gift funds not used for closing assistance may be entered in the "Asset and Liabilities" application page as "gift funds." If cash back is received at loan closing, it cannot exceed monies advanced by the borrower minus utilized gift funds. Are not eligible to be considered as reserves. |
| Household Assets: Cumulative net family assets | <ul style="list-style-type: none"> Cumulative (non-retirement) net family assets of \$50,000 or greater, must have those assets reviewed for annual income purposes. Most recent asset information available at the time of loan application should be obtained when calculating income from assets. Net family assets with actual earnings will use the stated rate of interest to calculate annual income. Net family assets that do not earn interest will use a current passbook savings rate (verified through the lender's personal banking rates, including on-line websites, etc.) to calculate annual income. |
| Lump Sums: Lottery Winnings, | <ul style="list-style-type: none"> Letter of explanation from borrower to document the source of the funds. One-time deposits will not require annual income consideration. Deposits from these sources that have not been retained for two (2) |

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| Inheritances | months are not eligible for reserves. |
| Personal Property | <ul style="list-style-type: none"> Personal property is not eligible to be used for cash reserves. Personal property that is sold with proceeds deposited in a liquid account may be considered for cash to close. If the proceeds have been retained for two (2) months, they may be considered for reserves. |
| Sales Proceeds | <ul style="list-style-type: none"> Closing Disclosure or acceptable alternative. Deposits from sales that have not been retained for two (2) months will not be eligible for reserves. |
| Stock, Bonds, Investments | <ul style="list-style-type: none"> Most recent two (2) months of statements (monthly or quarterly) to verify balance and amounts available for withdraw. Use the lessor of the average two-month balance or the current balance, less applicable fees. |

| Assets Not Considered in Annual Income |
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| <p>The following assets are not considered in the Annual Income calculation:</p> <ul style="list-style-type: none"> Interest in American Indian restricted land Cash on hand that will be used to reduce the amount of the loan The value of necessary items of personal property Assets that are part of the business, trade, or farming operation of any member of the household who is actively engaged in such operation Amounts in voluntary retirement plans such as individual retirement accounts (IRAs), 401(k) plans, and Keogh accounts (except at the time interest assistance is initially granted) The value of an irrevocable trust fund or any other trust over which no member of the household has control Cash value of life insurance policies Other amounts deemed by the Agency not to constitute net family assets Any asset that will be used in the subject property transaction |
| Market Cash Value |
| <p>Market value of an assets is its dollar value on the open market. The cash value of an asset is the market value less reasonable expenses to convert the asset to cash.</p> <p>Example</p> |

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| <p>\$10,000 CD</p> <p>\$10,000 market value</p> <p>\$200 penalty to withdraw the funds</p> <p>\$9,800 cash value</p> | |
| Method of Calculation | <p>Cash Value \$50,000 or Less</p> <p>If the cash value of the household's total assets is \$50,000 or less, the amount of asset income included in the annual income calculation is the actual interest/dividends earned.</p> |
| | <p>Cash Value Over \$50,000</p> <p>If the cash value of the household's total assets is more than \$50,000, the amount of asset include included in the annual income calculation is the greater of:</p> <ul style="list-style-type: none"> • The actual interest and dividend income earned. • An imputed income from assets that is calculated by multiplying the total cash value of the assets by a local savings rate. <p>Example</p> <ul style="list-style-type: none"> • CD for \$20,000 earning 6.8% or \$1360 in interest last year with a cash value after penalties is \$17,500. • Savings account with \$40,000 earning 4% annually. \$6,000 will be used for closing costs. The net value is \$34,000. Interest earned = \$1,360 • Checking account with a two-month average balance of \$3000 earning no interest. <p>The cash value of the assets is \$52,860 (\$17,500 + \$1360 + \$34,000).</p> <p>The actual interest earned is \$2,720.</p> <p>The imputed income = \$2,114.40 (\$52,860 x .04 (local savings rate)) The greater figure of \$2,720 will be used in annual income.</p> |

4I.4(b) Verification of Annual Income

The income from adult members of the household who will not be a party to the Note in addition to those who will be on the Note must be verified for the previous two (2) years. To validate income documentation



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and disclosure provided by the borrower's and other household members that will reside in the property, each adult member of the household must complete and execute IRS Form 4506-C. The information received from the IRS is not intended to document income, but to validate the income documentation and disclosures provided by the borrower(s) and adult members of the household. Refer to Section [4I.6](#) Repayment Income for documentation requirements.

| Annual Income Type | Documentation |
|--------------------------------|---|
| Adoption Assistance of Subsidy | If the income will be received for at least 12 months, include the first \$480 of adoption income or subsidy assistance for each grantee. |
| Automobile Allowance/Mileage | Include full amount documented on the paystub(s) as taxable gross earnings that will be received for at least 12 months. |
| Base Wages | <ul style="list-style-type: none"> • Include amounts received before deductions for payroll taxes, insurance, etc. Include amounts that will be received for at least 12 months. • Full time students age 18 and above that are not a borrower, co-borrower or spouse of a borrower will only have \$480 of their earnings included in the annual income calculation. These household members are not required to present income documentation. |
| Bonus, Overtime, Commission | Include amounts that will be received for at least 12 months. |
| Business Loss | Do not include if self-employed full or parttime loss business has closed. |
| Capital Gains | Include amounts that will be received in the ensuing 12 months. |
| Child Support | <ul style="list-style-type: none"> • Include amounts that will be received for at least 12 months. • Legally enforceable payments that have not been received may be excluded when payments are not received for an extended period of time and a reasonable effort has been made to collect them through the official entity responsible for enforcing such payments. |
| Contract/Employment Offer | Include amounts that will be received in the ensuing 12 months. |
| Depreciation/Depletion | Depreciation and/or depletion documented on acceptable IRS forms may be deducted. |
| Disability – Long Term | Include amounts that will be received in the ensuing 12 months. |
| Dividends | Include amounts that will be received for at least 12 months. |
| Earned Income Tax | Do not include |



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| Credit | |
| Employee Benefits/ Expense Allowance | Include amounts documented on the paystub(s) as taxable gross earnings that will be received for at least 12 months. |
| Employment Related Account (Non-self Employed Severance Package) | Include amounts that will be received in the ensuing 12 months. |
| Foreign Income | Include all wages, salaries, and additional income types that will be received for at least 12 months. |
| Foster Care | Do not include |
| GI Bill/Education Benefits | Do not include |
| Government Benefits | Include amounts that will be received for at least 12 months. |
| Housing Allowance | Include amounts that will be received for at least 12 months. |
| Housing Choice Voucher | Do not include |
| Interest | <ul style="list-style-type: none"> • Include amounts that will be received for at least 12 months. • Net family assets that do not exceed a cumulative total of \$50,000 are not required to be considered in the annual income calculation. |
| Live-in Aides | Do not include |
| Medical Reimbursement | Do not include |
| Military Income | <ul style="list-style-type: none"> • Include all wages and pay allowances that will be received for at least 12 months. • Hazardous duty pay and additional income sources may be excluded. |
| Mortgage Credit Certificates | Do not include |
| Mortgage Differential Payment | Include amounts that will be received in the ensuing 12 months. |
| Notes Receivable | Include amounts that will be received in the ensuing 12 months. |
| Part-time/Secondary Employment | <ul style="list-style-type: none"> • Include amounts that will be received for at least 12 months. • Evidence of resignation, termination, retirement, or relocation may result in the exclusion of this income type. |
| Pension | <ul style="list-style-type: none"> • Include amounts that will be received for at least 12 months. |



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| | <ul style="list-style-type: none"> Lump sum withdrawals or sporadic payments may be excluded. |
| Per Diem | Include amounts documented on the paystub(s) as taxable gross earnings that will be received for at least 12 months. |
| Rental Income | <ul style="list-style-type: none"> Include positive net rental income that will be received for at least 12 months. Negative net rental income is counted as zero in the annual income calculation. |
| Restricted Stock Units (RSU) | Include amounts listed as taxable income on the paystub(s) as gross earnings that will continue to be received for the next 12 months. |
| Retirement | <ul style="list-style-type: none"> Include amounts that will be received in the ensuing 12 months. Lump sum withdrawals or sporadic payments may be excluded. |
| Royalty Payments | Include amounts that will be received in the ensuing 12 months. |
| Schedule K-1 | <ul style="list-style-type: none"> Include amounts that will be received in the ensuing 12 months. Distributions of equipment, shares of real estate interest/ownership, non-monetary items, etc. are not included in the annual income. |
| Scholarships | Include funds that will be received for at least 12 months after deducting for tuition, fees, books, and equipment. |
| Seasonal Employment | <ul style="list-style-type: none"> Include amounts that will be received for at least 12 months. Evidence of resignation, termination, retirement, or relocation from these positions may result in the exclusion of this income. |
| Secondary Employment | Include amounts that will be received in the next 12 months. |
| Self-employment | <ul style="list-style-type: none"> Include gross income. Include zero as annual income for a business loss. |
| Separate Maintenance/Alimony | <ul style="list-style-type: none"> Include amounts that will be received for at least 12 months. Legally enforceable payments that have not been received may be excluded when: payments are not received for an extended period of time and a reasonable effort has been made to collect them through the official entity responsible for enforcing such payments. |
| Social Security Income | Include amounts that will be received for at least 12 months. |
| Student Loans | Do not include |
| Supplemental Nutrition Assistance Program (SNAP) | Do not include |



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| Temporary Leave | Include amounts that will be received in the ensuing 12 months. |
| Tips | Include amounts that will be received for at least 12 months. |
| Trust Income | Include amounts that will be received for at least 12 months. |
| Unemployment Income | <ul style="list-style-type: none">• Unemployment compensation must be computed as the estimated amount for the upcoming 12 months with consideration to the history of this income type for the previous 12 months.• Benefits received while seeking new full or part time employment that have ended are excluded. |
| Unreimbursed Employee or Business Expenses | Unreimbursed expenses may be deducted from annual income and adjusted annual income. |
| VA Benefits | Include amounts that will be received for at least 12 months. |
| Variable Income | Include amounts that will be received in the next 12 months. |
| Workers' Compensation | <ul style="list-style-type: none">• Include amounts that will be received for at least 12 months.• Lump sums or sporadic payments may be excluded. |

4I.5 Adjusted Annual Income

Adjusted Annual Income is the household's annual income minus certain qualified household deductions. Adjusted annual income must be compared with the moderate-income limit for the family's size to determine eligibility for a loan guarantee. Adjusted income is calculated by subtracting any of five (5) deductions below that apply to the household from annual income. Not all households are eligible for all deductions.

Available tax transcripts received prior to loan closing must be reviewed to support adjusted annual income limit.

The following deduction may be made from Annual Household Income to complete the calculation of Adjusted Annual Household Income. Calculations must be included on the Income Calculation Worksheet.

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| Dependents | <ul style="list-style-type: none">• A deduction from annual income of \$480 is made for each household member who qualifies as a dependent and will make the home their primary residence.• Dependents are members of the family who are:<ul style="list-style-type: none">○ Not the head of the household or spouse and 17 years old or younger.○ A person with a disability. |
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| | <ul style="list-style-type: none"> ○ Children of divorced parents even if the child lives with the family all or part of the time. ○ A full-time student. Documentation from the school indicating that the student is enrolled on a full-time basis is required for students who are 18 years of age or older. • Borrowers with shared custody may include their child(ren) with no documentation required. |
| Childcare Expenses | <ul style="list-style-type: none"> • To qualify for deduction, the childcare must enable a family member to work, to actively seek work, or to further a member's education as long as they are not reimbursed or paid by another source. The childcare provider cannot be a household member. The deduction cannot exceed the amount of income, including the value of any health benefits earned by the family member enabled to work. <p>Eligible Childcare Expenses</p> <ul style="list-style-type: none"> • Childcare expenses for the care of minor children age 12 and under. • Care is necessary to enable a family member to work, seek employment, or attend school. • Calculate anticipated childcare expenses for the ensuing 12 months. • Before and after-school care programs that enable the borrower or a member of their household to be employed or attend school to complete their education. <p>Documentation</p> <ul style="list-style-type: none"> • Individual income tax returns, receipts or third party verifications provided by a licensed childcare facility or provider on official letterhead that includes the name of the child enrolled, the date of enrollment, the monthly payment due, and payment history. • Relatives or non-licensed private individuals must provide the same information as a third party verification with evidence of payments made (e.g., canceled checks, money order receipts, bank statements, etc.). • Calculate the annual amount paid for eligible childcare. <p>Not eligible for deduction</p> |

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| | <ul style="list-style-type: none"> • Child support payments or private school tuition paid by a borrower. • Borrowers that have not yet placed their child(ren) into care. • Borrowers who cannot provide evidence to support payments, deposits, or registration fees are ineligible for this deduction. • Childcare expenses are not permitted: <ul style="list-style-type: none"> ○ If Childcare expense exceeds the earnings of the family member enabled to work are not permissible. ○ If another adult household member is available to care for the child. |
| Disability Expenses | <ul style="list-style-type: none"> • Deduction for eligible expenses cannot exceed 3% of the annual income. • Eligible Expenses <ul style="list-style-type: none"> ○ Allow the disabled individual or another household member to work. ○ Are non-reimbursable by insurance or other sources. ○ Do not exceed the income earned by the person who is working due to the care provided. <p>Examples include daily living assistance, wheelchairs, ramps, adaption needs, etc.</p> <p>Documentation</p> <ul style="list-style-type: none"> • Third party verifications for caregivers/agencies for the dates, costs, and fees; and • Receipts, itemized income tax returns, and other evidence to support the deductions. |
| Elderly Household Deduction | <ul style="list-style-type: none"> • A single \$400 deduction is allowed. • Borrower or co-borrower must be 62 years of age or older. • Certify date of birth on Form RD 3555-21 and the loan application. |
| Medical Expenses Elderly and Disabled Households | <ul style="list-style-type: none"> • Deduction for eligible expenses cannot exceed 3% of the annual income for the entire family. • The definition of an elderly family is a family composed of: <ul style="list-style-type: none"> ○ A person who is the head, spouse, or sole member of a household and who is 62 years of age or older, or who is disabled, and is a borrower or borrower; ○ Two or more persons who are living together, at least one of whom is age 62 or older, or disabled, and who is a borrower or borrower; or ○ Where the deceased borrower or spouse in a household was at least 62 years old or disabled, the surviving household member shall continue to be classified as an elderly household for the purpose of determining adjusted |

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| | <p>income, even though the surviving members may not meet the definition of an elderly family on their own, provided that they occupied the dwelling with the deceased family member at the time of the death;</p> <ul style="list-style-type: none"> ○ If one of the surviving family members is the spouse of the deceased family member, the family shall be classified as an elderly family only until the remarriage of the surviving spouse, and ○ At the time of the death of the deceased household member the dwelling was financed with a GRH loan. <p>Documentation</p> <ul style="list-style-type: none"> • Itemized tax return documents. • Receipts for insurance premiums, prescription, medical exams and services, dental and eye exams, eyeglasses, medical/health products, or apparatus, hearing aids, visiting or live-in care providers. |
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4I.6 Repayment Income

Repayment Income is the amount of the household's income that is being used to repay the mortgage loan debt. Qualifying ratios are calculated using repayment income. To determine repayment income, include only the income of the borrowers who will be parties to the Note.

A minimum history of two (2) years of receipt of income is recommended. Income that has been received for 12 to 24 months may be considered acceptable income, if there are demonstrated positive factors that reasonably justify the use of the shorter income history. There must be documented justification with a written analysis to mitigate the use of the shorter history.

The stability of employment and income and its likelihood of continuance should be factored into the underwriting decision when there are gaps of employment. A letter of explanation for any gaps of employment may be required. Borrowers re-entering the workforce after an absence to care for a family member or minor child, extended medical illness, or other reasonable circumstance, must be evaluated for stability of income and probability of continuance.

If a borrower does not meet the employment history recommendation for the two (2) years prior to the date of the loan application, the following are examples that may support an employment history of less than two (2)



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years.

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| Newly Employed | If a borrower was in school or in the military during any of this time, the borrower must provide evidence supporting this such as college transcripts or discharge papers. If the borrower has recently re-entered the workforce after an absence to care for a family member or minor child, extended medical illness, or other circumstance reasonable, the borrower must provide evidence. |
| Re-entering the Workforce | Borrowers who are re-entering the workforce after leaving a previous job to care for a child or family member, complete education, etc., will require a documented 12-month employment history prior to the absence from the workforce. |

Income from any source that cannot be verified, is not stable, or will not continue, must not be used in calculating the borrower's repayment income.

4I.6(a) Variable Income

All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received.

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| History of Receipt | One (1) or more years of receipt of variable income is required. |
| Income Trending | <p>A significant decrease or increase in earnings is defined as a 20% or greater variance in income from the previous 12 months.</p> <ul style="list-style-type: none">• When a borrower has experienced a significant decrease in income, the previous higher income level cannot be averaged for repayment purposes unless there is documentation of a one-time occurrence (e.g. injury) that prevented the borrower from working or earning full income for a period of time and proof that the borrower is back to the income amount that they previously earned and has stabilized. Focus on the most recent earnings and income that it is likely to be received at the level used for qualifying.• When a borrower has experienced a significant increase in |



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| | income and this income is used to qualify the borrower at the higher amount, sufficient documentation to confirm the increased income is stable and likely to continue at the level used for qualifying must be part of the written analysis of income. |
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41.6(b) Base Pay, Part-Time Employment, Bonus, Overtime, and Commission

41.6(b)(i) Documentation

Follow GUS or provide one (1) of the following to support the income:

- Written VOE and most recent paystub(s).
- Most recent four (4) weeks of paystub(s) and two (2) years' W-2s.

41.6(b)(ii) Part-Time Employment, Second-Job or Multiple-Job Employment

A second or part-time job refers to jobs taken in addition to regular employment to supplement the borrower's income. The income must have been received for at least one (1) year to include the income for qualification purposes. A borrower may have a history that includes different employers is acceptable as long as the income has been consistently received.

41.6(b)(iii) Bonus and Overtime

Bonus or overtime income is variable compensation paid in addition to an employee's straight salary or hourly wage. Bonus or overtime will be accepted if it has been received for at least one (1) year in the same or similar line of work.

Significant increases or decreases of 20% or greater in income from the previous 12 months must be analyzed and documented (paid once annually, seasonal, holiday, etc.) before considering the income stable and eligible for qualifying.

41.6(b)(iv) Commission Income

Commission income is variable income defined as a fee or percentage paid to an employee for performing a service and may be acceptable as stable income if the income has been received for at least one (1) year in the same or similar line of work.



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Significant increases or decreases of 20% or greater in income from the previous 12 months must be analyzed and documented (paid once annually, seasonal, holiday, etc.) before considering the income stable and eligible for qualifying.

4I.6(b)(v) Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Hazard or flight pay, rations, clothing allowance, quarters allowance and proficiency pay may be counted as income if the income has been received for at least one (1) year and is verified as regular and continuous.

Military Reservists who have not been called to active duty may use his or her military reserve income to qualify. In lieu of recent paystubs provide the most recent Leave and Earnings Statement(s).

4I.6(c) Self-Employed Income

A self-employed borrower is an individual who has 25% or greater ownership interest in a business or receives 1099s to document income. Some examples of self-employed individuals include contract workers, real estate agents, or individuals relying on investments as their primary source of income.

The following factors must be analyzed:

- The stability of the borrower's income
- The location and nature of the borrower's business
- The demand for the product or service offered by the business
- The financial strength of the business
- The ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested mortgage
- Applicants must not be delinquent on federal taxes as determined by the IRS.

4I.6(c)(i) Length of Self-Employment

A two (2) year history of self-employment earnings is required to demonstrate the likelihood that the income will continue to be received.

4I.6(c)(ii) Documentation

Provide all of the following:



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- Most recent two (2) years' individual income tax returns with all schedules;
- Most recent two (2) years' business income tax returns, except for sole proprietorships;
- Year-to-date profit and loss;
- After April 15, copy of filed extension with evidence of any tax payments made, in addition to W-2s for corporations; and
- Self-Employed Income Analysis.

4I.6(c)(iii) Calculation

An earnings trend over the most recent two years must be established and an average monthly income calculated based on the tax returns provided. The income analysis using one (1) of the following should be provided:

- Cash Flow Analysis (Fannie Mae Form 1084)
- Income Analysis (Freddie Mac Form 91)
- Newrez Income Calculation Worksheet
- Fannie Mae Comparative Income Analysis (Form 1088)
- Self-Employment Income Analysis tool/form provided by an MI company
- Comparable form

4I.6(c)(iv) Self-employed Income Loss from a Closed Business

Losses incurred from a self-employed business (full time or part-time) do not need to be included in the income calculation when all of the following is provided and satisfactory:

- Letter of explanation and documentation for following:
 - When the business was closed;
 - Circumstances regarding business closing;
 - How the business was closed; and
 - Evidence to support business has closed and ceased operations.

4I.6(d) Rental Income

Rental income may be considered stable and used for qualification if the rental income has been received for the most recent two (2) years. Rental income received for less than two (2) years may not be used for repayment income.

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| Documentation | Document rental income with all of the following: |
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| | <ul style="list-style-type: none"> • Most recent two (2) years tax returns, including Schedule E; • Copy of fully executed current lease agreement; and • Evidence of cash/check deposits, money order receipts, electronic payment receipt, etc. to document rents received for the last 30 days. |
| Rental Income Calculation | <p>Using the Schedule E to calculate net rental income (loss), any listed depreciation, interest, taxes, insurance, or homeowners' association dues must be added back in the cash flow. Non-recurring property expenses may be added back, if documented accordingly.</p> <p>The Schedule E Rental Income Calculator may be used to assist in calculating rental income when using Schedule E.</p> |
| Treatment of Income/Loss | <ul style="list-style-type: none"> • If the monthly rental income less the full PITIA is positive, it must be added to the total monthly income. • If the monthly rental income less the full PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations. • The full monthly payment for the borrower's primary residence must be counted as a monthly obligation. |

4I.7 Other Repayment Income Sources

- [Adoption Assistance or Subsidy](#)
- [Alimony, Child Support, and Separate Maintenance](#)
- [Cannabis Income](#)
- [Capital Gains](#)
- [Contract or Employment Offer](#)
- [Disability – Long Term](#)
- [Employee Fringe Benefits](#)
- [Employment by a Family-Owned Business](#)
- [Employment Related Asset Account](#)
- [Expense Allowance](#)
- [Foreign Income](#)
- [Guardianship/Conservatorship Income](#)
- [Housing or Parsonage Allowance](#)



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- [Housing Choice Voucher Program](#)
- [Interest and Dividend Income](#)
- [Hemp Income](#)
- [Mileage Reimbursement](#)
- [Mortgage Credit Certificates](#)
- [Nontaxable Income](#)
- [Notes Receivable](#)
- [Per Diem Income](#)
- [Public Assistance](#)
- [Restricted Stock Units \(RSU\)](#)
- [Retirement and Pension Income](#)
- [Royalty Payments](#)
- [Schedule K-1 Income](#)
- [Scholarships](#)
- [Seasonal Income](#)
- [Secondary Employment](#)
- [Social Security Income](#)
- [Temporary Leave](#)
- [Tip Income](#)
- [Trust Income](#)
- [Unemployment Income](#)
- [Unreimbursed Employee or Business Expenses](#)
- [VA Benefits](#)
- [Workers' Compensation](#)

4I.7(a) Adoption Assistance or Subsidy

Adoption assistance or subsidy payments will be considered provided the payment terms confirm that the income will continue for at least three (3) years from the date of the application.

Provide one (1) of the following:

- Benefit/Award letter to document the amount and duration of payments;



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- Online payment schedule from Agency, bank statements, etc.; or
- Most recent years' individual income tax returns or IRS tax transcripts.

4I.7(b) Alimony, Child Support, and Separate Maintenance

Alimony and child support payments will be considered provided the payment terms confirm that the income will continue for at least three (3) years from the date of the application.

The borrower's regular receipt of the full payment due and any limitations on the continuance of the income must be determined. If the age of the child is not clearly defined, additional confirmation must be obtained to document the age of the child and income continuance.

Income is considered stable if the income has been received for at least six (6) months for court-ordered payments or 12 months for voluntary payment agreements. Provide one (1) of the following:

- A copy of a written legal agreement or court decree, or voluntary payment agreement describing the payment terms for the alimony or child support, the amount of the award and the period of time over which it will be received; or
- Any applicable state law document that mandates alimony or child support, which must specify the conditions under which payments must be made.

Document receipt of alimony or child support with one (1) of the following:

- Court records or state agency records documenting the payments;
- Most recent individual income tax returns;
- Bank statements or deposit slips showing regular deposit of funds; or
- Cancelled checks.

Voluntary payments that meet the minimum history, but the payment amounts are not consistent must be averaged over the time of receipt. Payments received for less than six (6) months or less with zero received for any month is not permitted.

4I.7(c) Cannabis Income

Employment or ownership in a Cannabis business is not permitted.



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4I.7(d) Capital Gains

A capital gain is generally a one-time transaction, and, therefore, should not be considered in determining income. However, if the borrower has a constant turnover of assets that produces regular gains, the capital gain may be considered for qualifying income (e.g., a person who buys old automobiles, restores them, and sells them for profit).

The following must be provided:

- Most recent two (2) years' individual income tax returns; and
- Evidence of additional property or assets retained by the borrower through title, bank statements, etc.

Average the income over two (2) years. If the current year is 20% less than the prior year, the lesser of the current year must be averaged.

4I.7(e) Contract or Employment Offer

If a borrower has an employment contract, it may be considered for the purposes of determining stable income. The borrower must have a one (1) year history and may be met with a combination of employers, education, or military service. The one (1) history does not have to be with the same or current employer.

A borrower moving to a new employer (e.g., school district, same profession, etc.) with a contract to begin employment within 60 days of closing may be eligible provided the borrower has reserves available to cover all monthly debt obligations and the new mortgage payment until employment begins.

Document with one (1) of the following:

- Copy of signed employment contract/offer;
- Paystub(s) of current/former employer to confirm employment and income history; or
- Written verification of employment.

4I.7(f) Disability – Long Term

Long-term disability payments (workers' compensation, Veterans disability compensation benefits, etc.) may be treated as acceptable, stable income, unless the terms of the disability policy specifically limit the stability or continuity of the benefit payments. Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not



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considered a defined expiration date. Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower be questioned.

Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified and disinterested party) to determine:

- The borrower's current eligibility for the disability benefits;
- The amount and frequency of the disability payments; and
- If there is a contractually established termination or modification date.

Receipt of the disability benefits must be documented with one (1) of the following:

- Most recent bank statement(s); or
- Most recent individual income tax return.

4I.7(g) Employee Fringe Benefits

Employee fringe benefits will be considered stable income for a borrower who has been receiving the income for the most recent year and it is likely to continue for the next three (3) years.

Provide the contract/agreement from employer to state terms and duration of payments and one (1) of the following:

- Most recent paystub(s);
- Written verification of employment; or
- Most recent years' individual income tax returns or IRS tax transcripts.

4I.7(h) Employment by a Family-Owned Business

A borrower employed by a family member or employed by a family-owned business, is eligible.

It is recommended that the following is obtained:

- Most recent computer-generated paystub. If the paystub is not computer-generated, the accountant must provide a signed payroll ledger;
- Most recent two (2) years' individual income tax returns with all schedules; and
- Most recent two (2) years' W-2s.

Additional documentation is required to document that the borrower is not self-employed, such as a letter



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from the business accountant confirming borrower's percentage of interest in the business, individual income tax returns, corporate tax returns, etc.

4I.7(i) Employment Related Asset Account

An income stream from a non-self-employed severance package. A history of receipt is not required. The borrower must be receiving the income as of the application date.

All of the following is required to document that the borrower is currently receiving the income, the amount of income received each month, and if the contract has a termination or modification date.

All of the following is required:

- Contract/agreement from the employer stating the terms and duration of the payments;
- Benefit/Award verification letter, IRS 1099s, evidence of current receipt, bank statements, etc.; and
- Most recent individual income tax returns or IRS tax transcripts with all schedules.

4I.7(j) Expense Allowance

Expense account payments, including auto allowance, will be considered stable income for a borrower who has been receiving the income for the most recent two (2) years. If there is a monthly debt associated with the income, include the full debt in the DTI ratio.

Provide one (1) of the following:

- Most recent paystub(s);
- Contract/agreement from employer stating the terms and duration of payments; and
- Most recent individual income tax returns or IRS tax transcripts with all schedules.

4I.7(k) Foreign Income

Foreign income is income that is earned by a borrower (U.S. and non -U.S. citizens) employed by a foreign corporation or a foreign government and paid in foreign currency.

Provide all of the following:

- Written VOE and most recent paystub(s); and
- Most recent two (2) years' individual income tax returns or IRS tax transcripts.



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All income must be translated into U.S. currency. Foreign income that is not reported on U.S. individual income tax returns is not eligible for use as qualifying income.

4I.7(l) Guardianship/Conservatorship Income

Guardianship/Conservatorship income (other than foster care) will be considered effective income provided the payment terms confirm that the income will continue for at least 12 months.

Income is considered stable if the income has been received with a minimum of one (1) payment documented.

Document receipt of guardianship/conservatorship income with one (1) of the following:

- Court order, legal documents, or other supplemental information;
- Online payment schedule from the agency, bank statements, etc.; or
- Individual income tax returns or IRS tax transcripts.

4I.7(m) Housing or Parsonage Allowance

Housing allowance will be considered stable income for a borrower who has been receiving the income for the most recent one (1) year and it is likely to continue for the next three (3) years.

Provide the contract/agreement from the employer to state terms and duration of payments and one (1) of the following:

- Written VOE and most recent paystub(s); or
- Most recent paystub(s) and one years' individual income tax returns or IRS tax transcripts.

Include the allowance in the qualifying income. Do not offset the mortgage payment with the amount of the allowance.

4I.7(n) Housing Choice Voucher Program

Housing Choice Vouchers will be considered stable income. A copy of the benefit or award letter is required to verify the subsidy amount.



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4I.7(o) Interest and Dividend Income

Interest and dividend income is variable income that may be used to qualify if the income has been received for the most recent two (2) years. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset.

Evidence of sufficient assets after closing to support continuance of the interest and/or dividend for the next three (3) years from the date of the application.

Provide all of the following:

- Most recent account statements including the balance, rate of interest and payment amounts/continuance; and
- Most recent two (2) years' individual income tax returns with all schedules.

The income must be averaged over that last two (2) years.

4I.7(p) Hemp Income

Hemp income is eligible in all states except the following:

- Washington, D.C.
- Idaho
- Mississippi

4I.7(q) Mileage Reimbursement

Reimbursement for mileage will be considered effective income with a one (1) year history of taxable income shown on the:

- Most recent paystub(s); or
- Most recent individual income tax return(s) or IRS tax transcripts..

If a mileage deduction is claimed on the individual income tax return, the calculated amount will be added to repayment income. Must follow IRS guidance to calculate the amount.

4I.7(r) Mortgage Credit Certificates

State and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their



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authority to issue mortgage revenue bonds. MCCs enable an eligible first-time home buyer to obtain a mortgage secured by their primary residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments. The issuing agency determines the amount of the tax credit. No portion of the MCC is included in the annual income calculation.

The amount of the MCC tax credit must be used to offset the mortgage payment. All of the following is required:

- Copy of the Mortgage Credit Certificate and must show the rate of credit allowed.
- Lender certification that the borrower completed and processed all necessary documents in order to receive the credit.

Mortgage credit certificate payments are only allowed if the employer sends the funds to the borrower. The employer may not pay the mortgage lender directly.

Self-employed borrowers may not use an MCC for qualification.

For refinance transactions, an MCC may remain in place as long as there is confirmation from the MCC provider that the MCC remains in effect for the new mortgage. Copies of the MCC documents, including reissue certification, must be in the loan file.

As the originating/participating lender, you must comply with all IRS reporting requirements for mortgage loans originated and closed with Mortgage Credit Certificates.

4I.7(s) Nontaxable Income

Generally, income is taxable unless it is specifically exempted by law. Nontaxable income may be shown on the borrower's tax return but is not taxed. Verify and document that the source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

If the income is verified as nontaxable, and the income and its tax-exempt status is likely to continue, the income must be grossed-up only if needed to qualify the borrowers. Otherwise, the income may or may not be grossed-up. Develop an "adjusted gross income" for the borrower using 25%. If the borrower is not required to file an individual income tax return, the nontaxable income may be grossed up by 15%.



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Filing requirements for most taxpayers can be found on the [IRS](#) website in addition to the attached [Social Security Benefits Worksheet](#) to determine amount of benefits that are nontaxable.

The following income types are generally non-taxable, or a portion of the income is nontaxable. This list is not all-inclusive.

- Child support income
- Disability income
- Foster care income
- Government assistance programs
- Military allowance
- Parsonage income
- Retirement, pension, annuity income, or IRA distributions
- Social security income
- Supplemental social security income
- Unemployment compensation
- VA benefits

4I.7(t) Notes Receivable

Note receivable income will be considered stable income for a borrower who has been receiving the income at least one (1) year.

Provide all of the following:

- Copy of the Note to establish the amount and length of time of payment; and
- Most recent individual income tax returns documenting receipt of the income.

4I.7(u) Per Diem Income

Per diem pay will be considered stable income for a borrower who has been receiving the income for the most recent two (2) years and it is likely to continue for the next three (3) years.

Provide the contract/agreement from the employer to state terms and duration of payments and one (1) of the following:

- Written VOE and most recent paystub(s); or
- Most recent paystub(s) and two (2) years' individual income tax returns or IRS tax transcripts.



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4I.7(v) Public Assistance

Public assistance (e.g., Temporary Assistance for Needy Families (TANF), etc.) may be considered as acceptable income provided the income is likely to continue for the next three (3) years from the date of the application. See Seasonal Unemployment section for details regarding the use of unemployment benefits.

Provide Benefit/Award documentation to document:

- The borrower is currently receiving the income; and
- The amount of income being received.

4I.7(w) Restricted Stock Units (RSU)

Restricted stock units (RSU) is compensation offered by an employer to an employee in the form of company stock. The employee does not receive the stock immediately, but instead receives it according to a vesting plan and distribution schedule after achieving requirement performance milestones or upon remaining with the employer for a particular length of time. The RSUs are assigned a fair market value when they vest. Upon vesting, they are considered income, and a portion of the shares are withheld to pay income taxes. The employee receives the remaining shares and can sell them at any time.

A two (2) year consecutive history of receipt and confirmation that the income will continue for at least three (3) years from the date of the application is required.

Provide all of the following:

- RSU account statements or award letters;
- Most recent paystub(s), written verification of employment, or other documentation from the employer to support previous and future payments; and
- Most recent two (2) years W-2s.

4I.7(x) Retirement and Pension Income

Retirement (401K or IRA) and pension monthly distributions require evidence of continuance for three (3) years from the date of closing. The borrower must have unrestricted access without penalty to the accounts. No history of receipt is required.

The following must be documented:



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- The borrower is currently receiving the income; and
- The amount of the income received each month.

Any of the following may be provided to document receipt of the income:

- Most recent individual income tax return with all schedules; or
- Benefit/Award verification letter, retirement documents, IRS 1099, evidence of current receipt, or bank statements, etc.

4I.7(y) Royalty Income

Royalty income must have been received for the most recent two (2) years. Confirm the amount, frequency, and duration of the payments with all of the following:

- Royalty contract or agreement; and
- Most recent individual income tax returns.

4I.7(z) Schedule K-1

For borrowers with less than 25% ownership in a business, Schedule K-1 income may be considered if the income has been received for the most recent two (2) years. The business must have adequate liquidity to support the withdrawal of earnings. The Schedule K-1 may provide confirmation through “guaranteed payments to the partner.”

All of the following is required:

- Most recent two (2) years’ individual income tax returns; and
- Most recent two (2) years’ Schedule K-1s.

4I.7(aa) Scholarships

Any scholarship funds remaining after the deduction of tuition, fees, books, and equipment may be considered acceptable income provided the income is likely to continue for the next three (3) years from the date of the application and has been received for the most recent two (2) years.

Provide all of the following:

- Award letter to document the benefit/scholarship amount or tuition assistance; and
- Evidence to support the deductions required used to determine any repayment amount.



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4I.7(bb) Seasonal Income

Seasonal part-time or seasonal second job employment refers to employment that is not year round, regardless of the number of hours per week the borrower works on the job.

Seasonal employment income may be considered effective income if the borrower has worked in the same job or same line of seasonal work for the past two (2) years and is likely to be rehired for the next season.

Provide written confirmation from the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season and one (1) of the following:

- Written VOE and most recent paystub(s);
- Most recent paystub(s) and two years' W-2s; or
- Most recent paystub(s) and two years' individual income tax returns.

In addition:

- If the borrower is not currently earning income, the employer must provide verification that the borrower is still an employee with an anticipated return to work date.
- For seasonal employees with unemployment income, unemployment income for the past two (2) years must be documented and there must be reasonable assurance that this income will continue. See below for Unemployment Income requirements and documentation.
- Seasonal income must be averaged over the past two (2) years. If income received cannot meet these requirements, it should only be considered a compensating factor.

4I.7(cc) Secondary Employment

When considering secondary employment, the borrower must have a one-year history of working both their primary and secondary employment concurrently.

One (1) of the following is required:

- Most recent paystub(s);
- Most recent W-2s;
- Written verification of employment; or
- Individual income tax returns or IRS tax transcripts.



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4I.7(dd) Social Security Income

Social security income for retirement or long-term disability will not have a defined expiration date and therefore is expected to continue. However, if the social security benefits are not for retirement or long-term disability, confirm that the remaining term is expected to continue for the next three years from the date of the closing. Documentation concerning the nature of the disability may not be requested or the medical condition of the borrower be questioned.

- Benefits received by the borrower on behalf of an adult household member may be used when there is evidence, they are the legal guardian for the non -borrower adult household member.
- Benefits received on behalf of minors (funds intended for their support) may be utilized for repayment income, if the income is expected to be received for at least three years into the mortgage.

Provide all of the following:

- Social Security Administration benefit letter; and
- Legal guardianship/payee status for adult household members, if applicable.

4I.7(ee) Temporary Leave

Temporary leave from work is generally short term in duration and for reasons of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or the borrower's employer.

If a borrower is currently receiving short-term disability benefits that will decrease to a lesser amount within the next three (3) years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income.

During a temporary leave, a borrower's income may be reduced and/or completely interrupted. It must be determined that during and after temporary leave, the borrower has the capacity to repay the mortgage and all other monthly obligations.

All of the following is required:

- Verification of pre-leave employment and income history in accordance with standard guidelines;
- No evidence or information from employer indicating borrower does not have the right to return to work after leave period;



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- Borrower's written confirmation of intent to return to work;
- Agreed-upon date of return evidenced by documentation generated by the employer and provided by the borrower or employer (or third party service designated by employer);
- Age of documentation compliance requirements not required;
- Verbal Verification of Employment; the borrower is considered employed if the employer confirms the borrower is currently on temporary leave;
- Amount and duration of borrower's temporary leave income; and
- All available liquid assets used to supplement the reduced income for the duration of leave must be verified.

Provide the Benefit Statement/Contract and one (1) of the following:

- Most recent paystub(s); or
- Written verification of employment;

| | |
|--|---|
| Borrower Returning to Work Prior to the First Mortgage Payment | Use the monthly pre-leave income |
| Borrower Returning to Work After the First Mortgage Payment | Use current income being received (which may be zero (0)): <ul style="list-style-type: none">• Supplement with available liquid (non-retirement) reserves.• Total qualifying income may not exceed the gross monthly income received upon return to work.• Assets required to support the payment may not be counted towards available reserves. |
| Supplemental Income Amount | <p>Supplemental Income Amount = Available liquid reserves divided by the number of months of supplemental income:</p> <p>Available liquid reserves: subtract funds need to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.</p> <p>Number of months supplemental income: the number of</p> |



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| | months from the first mortgage payment date to the date the borrower will begin receiving his or her regular employment income. |
| Qualifying Income | Total qualifying income = supplemental income plus the temporary leave income. |

4I.7(ff) Tip Income

Tip income is considered compensation in addition to an employee's regular wages and must be received for the past one (1) year. Provide any of the following:

- Most recent paystub(s) and two (2) years' W-2s;
- Written verification of employment; or
- Most recent two (2) years' W-2s or most recent two (2) years' individual income tax returns with IRS Form 4137, Social Security Medicare Tax on Unreported Tip Income, to verify tips not reported by the employer.

A significant decrease or increase in earnings is defined as a 20% or greater variance in income from the previous 12 months and must be considered stable to use the income.

4I.7(gg) Trust Income

Trust income may be considered if it has been received for the most recent six (6) months and will continue for at least three (3) years.

All of the following is required:

- A copy of the Trust Agreement or Trustee Statement to document balance, monthly payments, term of payments, mode of payment delivery (revocable or irrevocable), etc.; and
- Evidence of receipt with bank statement(s), deposit slips, trust account statements, or equivalent.

4I.7(hh) Unemployment Income

Income is generally associated with seasonal layoffs and expected to recur. See Seasonal Income for additional information on seasonal employees.

Provide all of the following:



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- Most recent two (2) year's individual income tax returns with all schedules; and
- Most recent two (2) years' 1099s or equivalent to evidence compensation.

Unemployment benefits are not permitted when the sole source of income.

4I.7(ii) Unreimbursed Employee or Business Expenses

The amount(s) of unreimbursed employee or business expenses deducted from both the annual income and repayment income.

One (1) of the following is required:

- IRS Form 2106, Schedule A, Schedule C, or equivalent IRS filed form; or
- Federal individual income tax returns or IRS tax transcripts with all schedules.

4I.7(jj) VA Benefits

VA Benefits income may be used to qualify with verification that the income can be expected to continue for a minimum of three (3) years from the date of the loan application.

Benefits received by the borrower on behalf of an adult household member may be used when there is evidence that they are the legal guardian for the non-borrower adult household member.

The following must be documented:

- The borrower is currently receiving the income; and
- The amount of the income received each month.

Provide all of the following:

- Veterans Affairs benefit statement and evidence of receipt of the income; and
- Legal guardianship/payee status for adult household members, if applicable.

VA education benefits are not an eligible source of income.

4I.7(kk) Workers' Compensation

Workers' compensation will be considered acceptable income if it has been received for the most recent six (6) months.



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Provide all of the following:

- Award letter or settlement statement to state the amount and duration of the payments;
- Earnings statement/paystubs; and
- Written verification of employment.

4I.8 Unacceptable Sources of Income

The following are not permitted as repayment income:

- Boarder income
- Earned income tax credit
- Foster care income
- Income derived from business activity that may be permitted by State law but is prohibited by Federal law
- Income derived from farm income when the property is being used for a specific purpose, such as a vineyard or bottling barns
- Income derived from gambling
- Income derived from the subject property with land being leased to another party
- Income determined to be temporary or one-time in nature
- **Income or employment from Cannabis business**
 - Income received for a live-in aid
 - Lump sum payments of lottery earnings that are not on-going
 - Lump sum payments such as inheritances, lawsuit settlements, or capital gains
 - Medical reimbursement
 - Mortgage interest differential (MID) payments
 - Non-incidental income received from farming/agricultural use of a property
 - Nonrecurring or sporadic income
 - Non-vested stock options
 - Reimbursement for the cost of medical expense for any family member
 - Rental income received from the borrower's single family primary residence or second home
 - Retained earnings in a company
 - Student financial aid received for tuition, fees, books, equipment, materials, transportation
 - Supplemental Nutrition Assistance Program (SNAP)
 - Taxable forms of income not declared on individual income tax returns



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- Trailing co-borrower income
- Unverifiable income
- VA education benefits

| Revision History | Date |
|--|------------|
| <p>Tax Transcript Section Updated to remove prior guideline:</p> <p>However, a “failure to file” tax returns by a borrower, when legally required to do so and by the due date established by the IRS, is not an eligible explanation to forego obtaining tax transcripts,</p> <p>Replace with following and overlay for non-delegated clients per USDA</p> <p>Procedure notice: 05.06.2024:</p> <ul style="list-style-type: none">• For Delegated Clients, tax transcripts that are not able to be obtained prior to closing for any reason will not delay the loan closing, however, the Delegated Client remains responsible for obtaining required tax transcripts, even if post-closing. All applicants must continue to be current on tax filings which is determined by the IRS, for overall USDA program eligibility. <p>For Non-Delegated Clients, Newrez requires transcripts prior to the loan closing.</p> | 01.30.2025 |
| <p>Cannabis Business added to both income sections to identify overlay for employment ownership is not permitted:</p> <ul style="list-style-type: none">• (1) Other Sources of Income and• (2) Unacceptable Sources of income <p>Modified Hemp Income to remove content regarding Marijuana restrictions</p> | 02.27.2025 |
| Removed link to Marijuana Income | 03.27.2025 |



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Chapter 4J USDA Appraisal Requirements

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4J.1 Overview

Only loans secured by properties located in areas designated by USDA as rural are eligible to receive a loan guarantee. An area's rural designation is determined by USDA and may be changed as a result of periodic review or after the decennial census of population. USDA conducts reviews every five (5) years to identify areas that no longer qualify as rural. In areas experiencing rapid growth, and in eligible communities within Metropolitan Statistical Areas (MSAs), reviews take place every three (3) years.

4J.2 Appraiser Requirements

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

Appraiser must be state-licensed or state-certified appraiser, active and in good standing on the ASC registry as of the effective date of the appraisal report. The appraiser must be state-certified when preparing an appraisal for properties with a value greater than or equal to \$1 million.

Verification must be provided by one (1) of the following:

- UCDP clearance
- A copy of the National Registry Appraiser Report at <http://www.asc.gov/>
- A copy of the appraiser's current license (preferred documentation)

The appraiser must:

- Comply with the independent appraiser requirements specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, and the Office of Thrift Supervision.
- Comply with real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform or Recovery and Enforcement Act of 1989.
- Be experienced in the appraisal of properties similar to the type being appraised. Be actively engaged in appraisal work.
- Must not be an interested party in the subject transaction.
- Subscribe to a code of ethics that is at least as strict as the requirements set forth in the Ethics Rule of the Uniform Standards of Professional Appraisal Practice (USPAP)
- Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation. Comply with the Appraiser Independence Requirements (AIR).



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4J.3 Appraiser Trainees or Licensees

The appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation. Appraiser trainees or licensees may not sign the appraisal report.

A trainee or licensee may assist in any part of the appraisal, but the opinions and analysis must be performed by the appraiser. A trainee or licensee may accompany the appraiser on the observations but may not perform the observations in place of the appraiser.

The appraiser must select the comparable properties and perform all critical analyses contained in the appraisal report as well as the Market Conditions Addendum to the appraisal form. The appraiser must also inspect the subject property and at least the exterior of the comparable properties.

4J.4 Discontinuance of Appraiser Services

Client must inform Newrez immediately if, for any cause, it discontinues using the services of any appraiser who has made appraisals for loans offered for sale to Newrez.

At any time, Newrez may elect not to purchase loans secured by a subject property appraised by a particular appraiser. Newrez will notify Client of its election, and following such notification, Newrez will have no obligation to purchase loans on properties evaluated by that appraiser, even if the loans have been registered or locked.

4J.5 Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- Creation of comparable sales by combining vacant land sales with the contract price of a home that has been built or will be built on the land.
- Development of a valuation conclusion based either partially or completely on the sex, race, color, religion, handicap, national origin, familial status, or other protected classes of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property.
- Development of or reporting an opinion of market value that is not supportable by market data or is misleading.
- Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited.
- Development on an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific

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result, or the occurrence of a subsequent event in order to receive compensation and/or employment for performing the appraisal and/or in anticipation of receiving future assignments.

- Development of and reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of Professional.
- Appraisal Practice (USPAP) in place as the effective date of the appraisal.
- Failure to comment on negative factors with respect to the subject neighborhood, subject property, or proximity of the subject property to adverse influence.
- Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales.
- Failure to use comparable sales that are most locationally and physically similar to the subject property. Failure to make adjustments when they are clearly indicated.
- Misrepresentation of the physical characteristics of this subject property, improvements, or comparable sales. Not supporting adjustments in the sales comparison approach.
- Selection and use of inappropriate comparable sales.
- Use of comparable sales in the valuation process where the appraiser has not personally inspected the exterior of the comparable property. Use of adjustments to the comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales.
- Use of data, particularly comparable sales data, provided by parties who have a financial interest in the sale or financing of the subject property without the appraiser's verification of the information from a disinterested source.

4J.6 Appraisal Report Forms and Exhibits

The appraisal report must be prepared and signed by an approved appraiser. The appraisal report must be on the current version of the appropriate appraisal form, and include any information, either as an attachment or addendum to the appraisal report form, needed to support the opinion of market value.

4J.6(a) List of Appraisal Report Forms

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| Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70) | <ul style="list-style-type: none"> • Use for appraisals of one-unit properties, units in PUDs, (including a one-unit property with an accessory dwelling unit) based on interior and exterior property inspections. • The appraisal report must be UAD compliant. |
| Individual Condominium Unit Appraisal Report (Fannie Mae Form | <ul style="list-style-type: none"> • Use for appraisals of one-unit properties in condominium projects. An interior and exterior property inspection is required. • The appraisal report must be UAD compliant. |



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| 1073/Freddie Mac Form 465) | |
| Manufactured Home Appraisal Report (Fannie Mae Form 1004C/Freddie Mac Form 70B) | Use for appraisals of one-unit manufactured homes, including those located in a condominium or PUD project. An interior and exterior property inspection is required. |
| Appraisal Update/Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442) | <ul style="list-style-type: none">• The Appraisal Update and/or Completion Report is used for all appraisal reports.• The appraisal report may be updated only once.• The appraisal report may be expired at the time the appraisal update is required.• When performing an appraisal update, the original appraiser is expected to research, verify, and analyze current market data, and to perform at least an exterior-only inspection of the subject property. However, the use of a substitute appraiser to perform the appraisal update is acceptable. The substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the effective date of the appraisal report. In addition, the loan file must contain a note explaining why the original appraiser was not used.• The type of inspection required is dependent on the nature of the appraisal conditions or changes to the subject property.• If the appraisal is completed "as is," an interior inspection is not required unless there are known any changes to the subject property that would have an adverse effect on condition or marketability. At a minimum, a front photograph of the subject property is required. Additional photographs of any factors that affect the marketability or value should be provided if not already part of the report being updated.• If the appraisal is subject to completion per plans and specifications, an interior and exterior inspection is required. Interior and exterior photographs are required.• If the appraisal is subject to repairs that affect safety, soundness or habitability, an interior and exterior inspection is required if repairs are required for the interior of the dwelling. Exterior and interior photographs are required. Otherwise, an exterior-only inspection |



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| | with exterior photographs is required. |
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4J.7 Appraiser Certifications and Limiting Condition

Each appraisal report form includes an appraiser's certification (and, if applicable, a trainee appraiser's certification) and a statement of assumptions and limiting conditions. Appraisers may not add limiting conditions.

The appraiser may not make changes or deletions to the existing certifications; however, the appraiser may make additional certifications that can be included on a separate page or form. Acceptable additional certifications might include:

- Those required by state law.
- Those related to the appraiser's continuing education or membership in an appraisal organization.
- Those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and shortage of an appraisal and the information on which it is based.
- Any additional certifications must be reviewed to ensure they do not conflict with those policies or standard certifications on the appraisal report form. The appraiser's certification #23 is an acknowledgment by the appraiser that certain parties to a mortgage transaction that are not the lender/client and/or intended user may rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

The following additional notice or statement when appraisers believe the lender/client is the only intended user is acceptable:

"The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the state scope of work, purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market value. No additional intended users are identified by the appraiser."

4J.8 Appraisal Attachments

The appraisal attachments must be prepared and signed (if applicable) by an approved appraiser. The appraisal attachments must be on the current version.

| Attachments | URAR | Condo |
|-------------|------|-------|
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| | Forms 1004/70 | Forms 1073/465 |
|---|------------------|-------------------|
| <p>Exterior photographs-clear, descriptive photographs showing the front, back and street scene of the subject property and the front of each comparable sale.</p> <p>Original photographs, electronic images, copies from MLS, or copies from appraiser's files.</p> <p>Photographs of comparable rentals utilized in Form 1025 are not required.</p> | X | X |
| <p>Interior photographs must include the following: kitchen, all bathrooms, main living area, examples of any physical deterioration, examples of recent property updates.</p> <p>Basements, including all finished and unfinished rooms..</p> <p>Attic and/or crawl space when it can be safely accessed without disturbing or moving items that obstruct access or visibility;</p> <p>Comparable sales, listings and/or pending sales utilized in the valuation analysis must include at least a front view of each comparable utilized;</p> <p>The HUD Data Plate and HUD Certification Label(s) for manufactured homes.</p> <p>Interior photographs on proposed or under construction properties may be taken by the appraiser at time of final inspection.</p> | X | X |
| Interior building sketch and calculations (required on Form 1004/70) if floor plan is atypical or functionally obsolete, thus limiting the market appeal) | NA | X |
| Exterior building sketch and calculation | X | NA |
| Street map showing the location of the subject property and comparable sales | X | X |
| Common areas and shared amenities | NA | X |
| Condominium projects should include photographs of the common areas and shared amenities | NA | x |

4J.9 Transferred Appraisals

Transferred appraisal reports are not permitted if the appraisal report was not ordered through a Newrez approved AMC under Collateral Valuation department supervision.



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Transferred appraisals are permitted for Delegated Clients. The Delegated Client remains responsible for compliance with all Appraisal Independence Rules (AIR) standards.

The original lender must email the following documentation to the Appraisal Support team and identify the need for a transferred appraisal to CorrespondentUnderwritingSupport@NewRez.com:

- Color PDF of the appraisal
- Appraiser Independence Certification
- Submission Summary Report (SSR)
- Original appraisal invoice submitted when the appraisal was completed for the original lender
- Signed and dated Transfer Letter from the original lender to NewRez releasing the appraisal

You will be notified of the acceptance of the existing appraisal or the need for a new appraisal.

4J.10 Electronically Transmitted Appraisal Reports

Electronically transmitted appraisal reports are acceptable provided the appraisal report:

- Adequately identifies the appraiser.
- Is created by the appraiser identified on the appraisal report.
- Includes a reproduced signature of the appraiser whose name appears on the report.
- Is the unaltered report submitted by the appraiser.
- Photographs of the subject property and comparable sales are clear.
- The appraiser electronically transmits the electronic appraisal or inspection report directly to Client or any third party specifically authorized by Client, as applicable.

Electronically transmitted appraisal reports must comply with Electronic Verification requirements and must be in a standard format as outlined in Required Appraisal Forms.

4J.11 Appraisal Review

The Client must analyze the:

- Current contract for sale for purchase money transactions;
- Current offering or listing sale for both purchase and refinance transactions when the home was listed for sale;
- Comparable sales for both purchase and refinance transactions; and
- Current ownership for the subject property.



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In addition, the Client is responsible for validating that:

- The property meets Newrez eligibility criteria; and
- The appraiser has provided an accurate and reliable opinion of value that reflect the market value, condition, and marketability of the subject property in compliance with Newrez requirements.

4J.12 Site Section

The property site should be of a size, shape, and topography generally acceptable in its market area. It must have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the subject property.

4J.12(a) Subject Property Zoning

The subject property must comply with applicable zoning and restrictions. If an existing property does not comply with all current zoning ordinances but is acceptable by the local zoning authority, the appraiser must report the property as legal non-conforming use. The appraisal must reflect any adverse effect of the legal non-conforming use on the value and marketability of the property.

4J.12(b) Highest and Best Use

Properties must represent the highest and best use for the site. If current improvements do not represent the highest and best use of the property, the property is unacceptable. If the current improvements clearly do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report.

The appraiser determines highest and best use of a site as reasonable and probable use that supports the highest present value. For improvement to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible and must provide more profit than any other use of the site would generate.

The appraiser's highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognized that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements contribute to the value of the subject reports so that its value is greater than the estimated vacant site value, the appraiser should consider the existing



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use as reasonable and report it as the highest and best use.

4J.12(c) Multiple Parcel Requirements

The subject property may consist of more than one (1) adjoining parcel subject to all of the following requirements:

- Each parcel must be conveyed in its entirety;
- Each parcel must have the same basic zoning (for example; residential, agricultural);
- Only one parcel may have a dwelling unit (limited nonresidential improvements such as a garage are acceptable). An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable;
- The mortgage must be a valid first lien on each parcel; and
- Two separate deeds are not permitted .

Parcels must be adjoined to each other, with the following exception:

- Parcels are divided by a road; and
- Parcel without a residence is non buildable (such as waterfront properties where the parcel without the residence provides access to the water). The entire property will contain only one (1) dwelling but may have non-residential, non- income producing buildings, such as a garage. Loan file must contain evidence from the local municipality that the lot is non-buildable. The appraiser may not supply evidence.

4J.12(d) Adjoining Properties

The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

4J.12(e) Site Utilities

The utilities serving the subject property must be supported by adequate utilities and water and wastewater disposal systems and meet community standards.

4J.12(f) Off-site Improvements

Off-site improvements include, but are not limited to, streets, alleys, sidewalks, curbs, gutters, and streetlights. The subject property should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by the area residents. If a property fronts on a street that is not typical of those found in the community, the appraiser must address the effect of that location on the value and marketability of the subject property.



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The presence of sidewalks, curbs and gutters, streetlights, and alleys depends on local custom. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the value and marketability of the subject property.

4J.12(g) Access to Property

Streets and roads must be hard surfaced or all-weather surfaced. An all-weather surface is a road surface over which emergency and the area's typical passenger vehicles can pass at all times. A publicly maintained road is automatically assumed to meet this requirement.

4J.12(h) Community Owned or Privately Maintained Streets

Private roads or streets are acceptable provided each property has vehicular or pedestrian access. Private roads or streets must be protected by permanent recorded easement (non-exclusive and non-revocable easement without trespass from the property to a public street) or the street must be maintained by a homeowner's association (HOA).

Shared driveways must also meet these requirements requiring a permanent recorded easement for ingress and egress. This agreement must be binding to successors and title. A copy of a title report may be used to evidence the easement. Private streets must have a permanently recorded easement or be owned and maintained by a HOA.

4J.12(i) Topography

The appraiser must report any danger due to topographic conditions (e.g., earth and mud slides from adjoining properties, falling rocks, and avalanches) to the subject property or the adjoining land.

The subject property must be inspected by a qualified individual or entity if:

- The purchase contract indicates, or the appraiser observes any dampness because of a foundation issue or surface; and
- If the appraiser notes surface and subsurface water that is not diverted from the dwelling.

4J.12(j) On Site Hazards and Nuisances

On site hazards and nuisances refer to conditions that may endanger the health and safety of the occupants or the structural integrity or marketability of the property. The subject property must be free of known hazards that may have adverse effects on the health and safety of the occupants.



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4J.12(k) Land Subsidence and Sinkholes

Land subsidence refers to the lowering of the land-surface elevation from changes that take place underground, including damage caused by sinkholes.

The danger of ground subsidence may be encountered where buildings are constructed on uncontrolled fill or unsuitable soil containing foreign matter such as a high percentage of organic material, areas of mining activity or extraction of subsurface minerals, or where the subsurface is unstable and subject to slippage or expansion. Typical signs include fissures or cracks in the terrain, damaged foundations, sinkholes, or settlement problems.

4J.12(l) Oil or Gas Wells

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| Operating for Proposed Construction | The dwelling unit must be located more than 75 feet of an operating oil or gas well. |
| Abandoned Well | <p>If the property contains any abandoned gas or oil wells, the underwriter must obtain a letter from the local jurisdiction or appropriate state agency stating that the subject well was permanently abandoned in a safe manner.</p> <p>If the property contains any abandoned petroleum product wells, a qualified petroleum engineer must inspect the property and assess the risk, and that the appropriate state authorities have concurred on clearance recommendations.</p> <p>The appraiser must assess any impact that the location of the well has on the value and marketability of the property.</p> |

4J.12(m) Hydrogen Sulfide Gas Wells (Sour Gas Wells)

Hydrogen sulfide gas emitted from petroleum product wells is toxic and extremely hazardous. Minimum clearance from sour gas wells may be established only after a petroleum engineer has assessed the risk and state authorities have concurred on clearance recommendations for petroleum industry regulation and for public health and safety.

The appraiser may only complete an appraisal on a property if the underwriter has obtained an inspection by a qualified individual or entity and provides evidence that the minimum clearance has been established.



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4J.12(n) Slush Pits

A slush pit refers to a basin in which drilling "mud" is mixed and circulated during drilling to lubricate and cool the drill bit and to flush away rock cuttings.

If the property has a slush pit, the appraisal must be made subject to the removal of all unstable and toxic materials and the site made safe.

4J.12(o) Soil Contamination

Soil contamination refers to the presence of manufactured chemicals or other alterations to the natural soil environment.

Conditions that indicate sild contamination include the existence of underground storage tanks used for heating oil, pools of liquid, pits, ponds, lagoons, stressed vegetation, stained soils or pavement, drums, or odors.

4J.12(p) Residential Underground Storage Tanks

The appraiser must note any readily observable surface evidence of residential underground storage tanks, such as fill pipes, pumps, ventilation caps, etc. If there is readily observable evidence of leakage or on-site contamination, the appraiser must require further inspection.

4J.12(q) Mineral, Oil and Gas Reservations or Leases

The appraiser must analyze and report the degree to which the residential benefits may be impaired, or the property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

The appraiser should consider the following:

- The rights granted by the reservation or lease causes an infringement on the property rights of the fee owner; and
- The hazards, nuisances, or damages that may arise or accrue to the subject property from exercise of reservation or lease privileges on neighboring properties.

4J.12(r) Flood Zones

The appraisal must indicate the FEMA zone designation, the map panel number and map date. If the property is located within a Special Flood Hazard Area (SFHA), a copy of the flood map panel must be attached to the appraisal report.



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If the property is not shown on any map, the appraisal indicates “not mapped.” The appraiser must quantify the effect on value, if any, for properties situated within a designated SFHA.

A flood zone determination must be obtained independent of any assessment made by the appraiser to cover Life of Loan Flood Certification.

The subject property is not eligible if:

- A residential building and related improvements to the property are located within SFHA Zone A, a Special Flood Zone Area, or Zone V, a Coastal High Hazard Area, and insurance under the National Flood Insurance Program (NFIP) is not available in the community; or
- The improvements are, or are proposed to be, located within a Coastal Barrier Resource System (BCRS).

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| New Construction | If any portion of the dwelling, related structures, or equipment essential to the value of the property and subject to flood damage is located within an SFHA, the property is not eligible unless one (1) of the following occurs: <ul style="list-style-type: none">• A FEMA final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) is obtained that removes the property from SFHA; or• A FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33), prepared by a licensed engineer or surveyor, is obtained. The elevation certificate must document that the lowest floor including the basement, and all related improvements/equipment essential to the value of the property, is built at or above the 100-year flood elevation in compliance with FHIP criteria, and insurance under NFIP is obtained. |
| Existing Construction | When any portion of the residential improvements is determined to be located within an SFHA, insurance under FHIP must be obtained. |
| Condominiums | The homeowners' association (HOA) must obtain insurance under the NFIP on buildings located within the SFHA. The flood insurance coverage must protect the interest of the borrowers who hold title to the individual unit, as well as the common areas of the condo project. |
| Manufactured Housing | The finished grade level beneath the manufactured home must be at or above the 100-year return frequency flood elevation. If any portion of the dwelling, related structures, or equipment essential to the property value and subject to flood damage for both new and existing manufactured homes are located within an SFHA, the property is not eligible unless one (1) of the |



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| | <p>following is obtained:</p> <ul style="list-style-type: none">• A FEMA issued LOMA or LOMR that removed the property from the SFHA; and• A FEMA National Flood Insurance Program (NFIP) Elevation Certificate (FEMA Form 086-0-33) prepared by a licensed engineer or surveyor stating that the finished grade beneath the manufactured home is at or above the 100-year frequency flood elevation, and insurance under the NFIP is obtained. |
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4J.12(s) Coastal Barrier Resources Systems (CBRS)

Properties located in a Coastal Barrier Resources System (CBRS) are not eligible.

4J.12(t) Lava Zones

The appraisal must indicate if the subject property is located in a Lava Flow Hazard Zone and provide the Zone Number. Lava Zones 1 and 2 are ineligible.

4J.12(u) Excess and Surplus Land

Excess land refers to land that is not needed to serve or support the existing improvement. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land may have the potential to be sold separately.

Surplus land refers to land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off. Surplus land does not have an independent highest and best use and may or may not contribute to the value of the improved parcels.

The appraisal must indicate the highest and best use analysis in the appraisal report to support the appraiser's conclusion of the existence of excess land. The appraiser must include surplus land in the valuation.

If the subject of an appraisal contains two (2) or more legally conforming platted lots under one (1) legal description and ownership, and the second vacant lot is capable of being divided and/or developed as a separate parcel where such a division will not result in a non-conformity in zoning regulations for the remaining improved lot, the second vacant lot is excess land. The value of the second lot must be excluded from the final value conclusion of the appraisal and the appraiser must provide a value of only the principal site and improvements under a hypothetical condition.



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4J.12(v) Externalities

Externalities refer to off-site conditions that affect a property's value. Externalities include heavy traffic, airport noise and hazards, special airport hazards, proximity to high pressure gas liens, overhead electric power transmission lines and local distribution lines, smoke, fumes, and other offensive or noxious odors, and stationary storage tanks.

The appraiser must report the presence of externalities and consider how externalities affect the marketability and value of the property, report the issues and the market's reaction, and address any positive or negative effects on the value of the subject property.

The underwriter must review the appraisal report and determine if there are any positive or negative effects on the value of the subject property due to any externalities as reported by the appraiser.

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| Heavy Traffic | The appraiser must analyze and report if close proximity to heavily traveled roadways or railways has an effect on the marketability and value of a site because of excess noise and safety issues. |
| Airport Noise and Hazards | The appraiser must: <ul style="list-style-type: none">• Identify if the property is affected by noise and hazards of low flying aircraft because it is near an airport;• Review airport contour maps and analyze accordingly; and• Determine and report the marketability of the property based on this analysis. |
| Special Airport Hazards | For properties located in Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields the following applies: <ul style="list-style-type: none">• Existing Dwellings: The borrower must acknowledge the hazard.• New Construction: The property is ineligible. Properties located in Accident Potential Zone 1 (APZ 1) at military airfields may be eligible if it is determined that the property complies with Department of Defense guidelines. |
| Proximity to High Pressure Gas Lines | The appraiser must identify if the dwelling or related property improvement is near high-pressure gas or liquid petroleum pipelines or other volatile and explosive products, both above ground and subsurface and determine and report marketability based on this analysis. |



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| | The subject property cannot be located less than ten (10) feet from the nearest boundary of the pipeline easement. |
| Overhead Electric Power Transmission and Local Distribution Lines | <p>Overhead electric power transmission lines refer to electric lines that supply power from generation stations to local distribution lines. Local distribution lines refer to electric lines that commonly supply power to residential housing developments, similar facilities, and individual properties.</p> <p>The appraiser must note and comment on the effect on marketability resulting from the proximity to such site hazards and nuisances and must determine if the guidelines for encroachments apply.</p> <p>If the dwelling or related improvements are located within the easement area or appear to be located within an unsafe distance of any power line or tower, a certification must be obtained from the appropriate utility company or local regulatory agency stating that the relationship between the improvements and local distribution lines conforms to local standards and is safe.</p> |
| Smoke, Fumes, and Offensive or Noxious Odors | The appraiser considers the effect of the of any of these conditions that exist and do not threaten the occupants or marketability. |
| Stationary Storage Tanks | Any above ground stationary storage tanks within 300 feet of the subject property line with a capacity of 1,000 gallons or more of flammable or explosive material are ineligible. |

4J.13 Improvements

The appraisal must provide a clear, detailed, and accurate description of the improvements. The description must be as specific as possible, commenting on such things as needed repairs, additional features, and modernization, and should provide supporting addenda, if necessary. If the subject has an accessory dwelling unit, the appraisal should describe it.

4J.13(a) Access to Living Unit

The living unit should be accessible without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit.

For an attached dwelling, the access may be by means of alley, easement, common area, or passage through the dwelling.



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There must be an emergency release latch for at least one (1) window in each bedroom where security bars are present.

The property is ineligible if access to the living unit is not provided without passing through any other living unit or access to the rear yard is not provided without passing through any other living unit.

4J.13(a) Non-Standard House Styles

Non-standard house style refers to unique properties in the market area, including log houses, earth sheltered housing, dome houses, houses with lower-than-normal ceiling heights, and other houses that in the appraiser's opinion, are unique.

The non-standard house style appears structurally sound and readily marketable and must apply appropriate techniques for analysis and evaluation. In order for such a property to be fully marketable, the appraiser must demonstrate that it is located in an area of similar types of construction and blend in with the landscape.

4J.13(b) Accessory Dwelling Unit (ADU)

An accessory dwelling unit refers to a habitable living unit added to, created within, or detached from a primary single-family dwelling, which together constitute a single interest in real estate. It is a separate additional living unit, including kitchen, sleeping, and bathroom facilities.

A single-family residential property with an ADU remains a one-unit property. For any property with two (2) or more units, a separate additional dwelling unit must be considered as an additional unit. More than one (1) ADU located on the subject property is ineligible.

An Accessory Dwelling Unit:

- Is usually subordinate in size, location, and appearance to the primary dwelling unit;
- May or may not have separately metered utilities or separate means of ingress or egress;
- Must not include the living area of the ADU in the calculation of the gross living area (GLA) of the primary dwelling; and
- Should support household members and not create potential rental income.

4J.13(c) Additional Manufactured Home on Property

When the primary dwelling is stick-built, a manufactured home on the lot may be considered an ADU and be given value if it meets the highest and best use and all manufactured housing requirements. See Chapter



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4D Property Types.

Value may be given to a manufactured home on the property that physically or legally may not be used as a dwelling and does not pose any health and safety issues by its continued presence as a storage unit.

4J.13(d) Gross Living Area

The most common comparison for one-unit properties is the above-grade gross living area. The appraiser must be consistent when calculating and reporting the finished above-grade room count and the square footage of gross living area that is above-grade.

When any part of a finished level is below grade, the appraiser must report all of that level as below-grade finished area and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area.

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| Additions and Converted Space | <p>Room additions and garage conversions should be included in the GLA of the dwelling, provided that the addition or conversion space:</p> <ul style="list-style-type: none">• Is accessible from the interior of the main dwelling in a functional manner;• Has a permanent and sufficient heat source; and• Was built in keeping with the design, appeal, and quality of construction of the main dwelling. <p>Room additions and garage conversions that do not meet the criteria listed above must be addressed as a separate line item in the sales grid, not in the GLA. Any impact of inferior quality garage conversions and room additions on marketability as well as contributory value should be discussed.</p> |
| Partially Below-Grade Habitable Space | <p>Partially Below-Grade Habitable Space refers to living area constructed partially below grade but has the full utility of GLA.</p> <p>The appraiser must report the design and measurements of the subject property, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has on the analysis.</p> |

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| | Regardless of the description of the rooms, bedrooms, or baths as above grade or below grade, the appraiser must analyze all components of the subject property in the valuation process. |
| Bedrooms | A room that cannot accommodate ingress or egress in the event of an emergency cannot be considered as a bedroom, regardless of location above or below grade. There must be an emergency release latch for at least one (1) window in each bedroom where security bars are present. |

4J.13(e) Appliances

Real property refers to the interests, benefits, and rights inherent in the ownership of physical real estate.

Personal property refers to tangible property, other than real property, such as cars, recreational vehicles, stamps, coins, or other collectibles. The value of personal property must not be included in the appraisal.

Cabinets and built-in appliances that are considered real property must be present and operational.

4J.13(f) Swimming Pools

Empty or non-functioning swimming pools/spas may be acceptable if one (1) of the following is met:

- The swimming pool/spa is secured by a cover that would be sufficiently sturdy to prevent a person from falling in the pool or through the cover;
- The swimming pool/spa has been filled with dirt;
- A fence surrounds the swimming pool/spa; and
- In addition, the appraiser must comment on the effect on the property's marketability and must not present a health or safety issue.

4J.13(g) Mechanical Components and Utilities

Mechanical systems must:

- Have reasonable future utility, durability, and economy;
- Be safe to operate;
- Be protected from destructive elements; and
- Have adequate capacity.

If the utilities are off at the time of the inspection, the appraiser must ask to have them turned on. However, if it is not feasible to have the utilities turned on, then the appraisal must be completed without the utilities



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turned on or the mechanical systems functioning.

If the utilities are not on at the time of observation and the systems could not be operated, the appraisal must:

- Be subject to re-observation;
- Upon further observation, determine if the systems are in proper working order once the utilities are restored; and
- Be completed under the extraordinary assumption that utilities and mechanical systems, and appliances are in working order.

If systems could not be operated due to weather conditions, the appraisal report must clearly note this. The systems should not be operated if doing so may damage equipment or when outside temperature will not allow the system to operate.

Electrical, plumbing, or heating/cooling certifications may be required when the appraiser cannot determine if one (1) or all of these systems are working properly.

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| Heating and Cooling Systems | <p>The appraiser must examine the heating system to determine if it is adequate for healthful and comfortable living conditions, regardless of the heating system must be adequate for healthful and comfortable living conditions, regardless of design, fuel, or heat source.</p> <p>The permanently installed heating system must:</p> <ul style="list-style-type: none">• Automatically heat the living areas of the house to a minimum of 50 degrees Fahrenheit in all GLAs, as well as in non-GLAs containing building or system components subject to failure or damage due to freezing;• Provide healthful and comfortable heat or is not safe to operate;• Rely upon a fuel source that is readily obtainable within the subject's geographic area;• Have market acceptance within the subject's marketplace; and• Operate without human intervention for extended periods of time. <p>Central air conditioning is not required but, if installed, must be operational. If the air conditioning system is not operational, the appraiser must indicate the level of deferred maintenance, analyze, and report the effect on marketability, and include the cost to cure.</p> |
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| Electrical System | The electrical system must be adequate to support the typical functions performed in the dwelling without disruption, including appliances adequate for the type and size of the dwelling. |
| Plumbing System | The plumbing system must function to supply water pressure, flow, and waste removal. |
| Hot Water Heater | The appraiser must turn on the hot water heater to ensure that the water heater is operating properly. |

4J.13(h) Roof

The roof covering must prevent entrance of moisture or provide reasonable future utility, durability, and economy of maintenance and does not have a remaining physical life of at least two (2) years. If the roof has less than two (2) years of remaining life a professional roofer must inspect it.

When the appraiser is unable to view the roof, the appraiser must explain why the roof is unobservable and report the results of the assessment of the underside of the roof, the attic, and the ceilings.

Based on the information provided by the appraiser, the underwriter will determine whether a roofing inspection is required.

4J.13(i) Structural Conditions

The appraiser must perform a visual observation of the foundation and structure of the improvements and report those results. If the appraiser notes any structural issues, the appraiser must address the nature of the deficiency and require inspection.

Confirm that the structure of the property is serviceable for the life of the mortgage. All foundations must be serviceable for the life of the mortgage and be adequate to withstand all normal loads imposed.

4J.13(j) Attic

The appraiser must observe the interiors of all attic spaces. The appraiser is not required to disturb insulation, move personal items, furniture, equipment, or debris that obstructs access or visibility. If unable to safely view the area, the appraiser must reschedule a time when a complete visual observation can be performed or complete the appraisal subject to the inspection.

If access through a scuttle is limited and the appraiser cannot fully enter the attic, the insertion of at least the head and shoulder is acceptable. If there is no access or scuttle, the appraiser must report the lack of



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accessibility to the area. There is no requirement to cut open walls, ceilings, or floors.

If there is evidence of a deficient condition (such as a water-stained ceiling, insufficient ventilation, or smell of mold), reinspection and repairs may be necessary.

4J.13(k) Foundation

The appraiser must examine the foundation for evidence of safety or structural deficiencies that may require repair. The appraiser must describe any deficiencies and report necessary repairs, alterations or required inspections.

For manufactured housing, the appraisal must be conditioned upon the certification of an engineer or architect that the foundation follows the [Permanent Foundations Guide for Manufactured Housing](#) (PFGMH).

4J.13(l) Basement

The basement must be free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the structure.

4J.13(m) Sump Pumps

The sump pump must be properly functioning.

The underwriter must:

- Require a qualified third party perform an inspection;
- Require any necessary repairs to the foundation be repaired;
- Confirm the structure of the property will be serviceable for the life of the mortgage; and
- Confirm that all foundations will be serviceable for the life of the mortgage and adequate to withstand all normal loads.

4J.13(n) Crawl Space

The appraiser must visually observe all areas of the crawl space and the crawl space. If access through a scuttle is limited and the appraiser cannot fully enter the crawl space, the insertion of at least the head and shoulder is acceptable.

4J.13(o) Leased Equipment, Components and Mechanical Systems

The value of leased mechanical systems and components must not be included in the appraised value. This



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includes furnaces, water heaters, fuel, or propane storage tanks, solar or wind systems (including power purchase agreements), and other mechanical systems and components that are not owned by the borrower.

Ensure that the property value does not include the value of any equipment, including an energy system, which is not fully owned by the borrower. The terms of any leased equipment must be reviewed to ensure they do not contain any Legal Restrictions on Conveyance.

4J.13(p) Addition without Permits

If the appraiser identifies addition(s) that do not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

4J.13(q) Properties with Outbuildings

For a property to be deemed as eligible collateral, it cannot be used as a farm or may not be improved with farm service buildings. A farm service is considered a building to be any structures used in farming operation, which may include buildings to house workers, livestock, machinery, or crops. Service buildings can include, but are not limited to, livestock barns and shelters, machinery and storage buildings, buildings and facilities for crop storage and special purpose buildings such as grain silos.

If the property was previously or currently used as a farm, it is deemed ineligible. In addition, whether or not the appraiser has valued any of the above-mentioned service buildings, the property is deemed ineligible.

4J.13(r) Utility Services

Utility services refer to those services consumed by the public such as individual electric, water, natural gas, sewage, and telephone. If utilities are not located on easements that have been permanently dedicated to the local government or appropriate public utility body, it must be confirmed that this information is recorded on the deed record.

The utilities must be located on easements that have been permanently dedicated to the local government or appropriate public utility body, including any of the following:

- The subject property is an attached, detached or manufactured single family dwelling and the utilities are not independent for each living unit (not including ADUs);
- The utilities are not located on easements that have been permanently dedicated to the local government or appropriate public utility body;



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- The property contains multiple living units under a single mortgage or ownership (two- to four-family properties) that utilize common services, such as water, sewer, gas, and electricity and is served by one (1) meter in jurisdictions that allow single meter rental properties if separate utility service shut-offs are not provided for each;
- If other facilities are not independent for each living unit, except common services such as laundry, storage space or heating, which may be provided in two- to four-living unit buildings under a single mortgage;
- The property contains living units under separate ownership and part of a larger planned community, that utilize common utility services provided from the main to the building line when protected by an easement or covenant and maintenance agreement, if individual utilities serving a living unit pass over, under, or through another living unit without provision for repair and maintenance of utilities without trespass on adjoining properties, or legal provision for permanent right of access for maintenance and repair of utilities; or
- If a single drain line in the building serves more than one (1) unit, and the building drain clean-outs are not accessible from the exterior.

Whenever possible, connection should be made to a public or community water or sewage system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing on-site systems are acceptable provided they are functioning properly and meet the requirements of the local health department.

4J.14 Environmental Hazards

Loans secured by properties affected by environmental hazards may be acceptable if the effect of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and the appraiser reflects any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazards.

In some circumstances, a particular environmental hazard may have a significant effect on the value of the subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data available, such as sales, contract sales, or active listings that are available to reflect the effect of the hazard. In such cases, the loan is not eligible.

4J.15 Infestation, Dampness, Settlement

If the appraiser indicates evidence of wood boring insects, dampness or abnormal settlement, the appraiser must comment on the effect on the subject property's marketability and value. Provide either satisfactory



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evidence that the condition was corrected or a professionally prepared report, indicating that the condition does not pose any threat of structural damage.

4J.16 Water and Wastewater Disposal Systems

The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards. Public water and wastewater disposal systems are presumed to meet state and local requirements with no additional documentation or inspections.

Private well and wastewater systems that meet the following requirements and do not require additional inspections other than water purity tests as discussed in this section.

4J.16(a) Individual Water Supply System (Well)

When an Individual Water Supply System is present, ensure that the water quality meets the requirements of the health authority with jurisdiction.

If there are no local (or state) water quality standards, then water quality must meet the standards set by the EPA, as presented in the *National Primary Drinking Water* regulations in 40 CFR §§ 141 and 142.

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| Well Water Testing Requirements | <p>A well water test is required for, but not limited to, the following properties:</p> <ul style="list-style-type: none">• Newly constructed;• Where an appraiser has reported deficiencies with a well or the well water;• Where water is reported to be unsafe or known to be unsafe;• Located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous waste; and• Where the distance between the well and septic system is less than 100 feet. <p>All testing must be performed by a disinterested third party. This includes the collection and transport of the water sample collected at the water supply source. The sample must be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. The borrower/owner or other interested party cannot collect and/or transport the sample.</p> |
| Required Documentation | A valid water test from the local health authority or a lab qualified to |



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| | conduct water testing in the jurisdictional state or local authority must be obtained. Water analysis report must be no greater than 180 days old as of the Note date. |
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4J.16(b) Minimum Property Requirements for Existing and New Construction

| Individual Water Supply for Minimum Property Requirements for Existing Construction | |
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| 1 | Property line: 10 feet |
| 2 | Septic tank: 50 feet |
| 3 | Drain field: 100 feet |
| 4 | Septic tank drain field reduced to 75 feet is allowed by local authority |
| 5 | If the subject property line is adjacent to residential property, the local well distance requirements apply. If the subject property is adjacent to non -residential property or roadway, there needs to be a separation distance of at least 10 feet from the property line. |
| Water Wells Minimum Property Standards for New Construction 24 CFR § 200.926d(f)(1) | |
| 1 | Lead-free piping |
| 2 | If no local chemical and bacteriological water standards; state standards apply |
| 3 | Connection of public water whenever possible |
| 4 | Wells must deliver a continuous water flow of five (5) gallons per minute over at least a four-hour period |
| Water Wells Minimum Property Standards for Existing Construction | |
| 1 | Existing wells must deliver a continuous water flow at a minimum of three (3) gallons per minute |
| 2 | No exposure to environmental contamination |
| 3 | Continuing supply of safe and potable water |
| 4 | Domestic hot water |
| 5 | Water quality must meet requirement of local jurisdictional or the EPA if no local standard |

4J.16(c) Individually Privately Owned Shared Well

If the subject property is served by a shared well or off-site facility, ensure the private system will provide a continuous and adequate supply of safe and potable water.

The following requirements must also be met:

- Serves properties that cannot feasibly be connected to an acceptable public or community water supply system;



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- Has a valve on each dwelling service line as it leaves the well so that water may be shut off to each served dwelling unit without interrupting service to the other properties;
- Is capable of providing a continuous supply of water to all dwelling units so that each existing construction property simultaneously will be assured of at least three (3) gallons per minute (five (5) gallons per minute for proposed construction) over a continuous four-hour period (the well itself may have a lesser yield if pressurized storage is provided in an amount that will make 720 gallons of water available to each connected existing dwelling during a continuous four-hour period or 1,200 gallons of water available to each proposed dwelling unit during construction during a continuous four-hour period. The shared well system yield must be demonstrated by a certified pumping test or other means acceptable to all agreeing parties);
- Provides safe and potable water. An inspection is required under the same circumstances as an individual well. This may be evidenced by a letter from the health authority having jurisdiction or, in the absence of local health department standards, by a certified water quality analysis demonstrating that the well water complies with the ERA's National Interim Primary Drinking Water Regulations; and
- The well must have an agreement that meets the following requirements:
 - Is binding upon all signatory parties and their successors in title;
 - Is recorded or will be recorded no later than the closing date; and
 - Makes provisions for maintenance and repair of the system and the sharing of costs to do so. These provisions must include a permanent easement that allows access for maintenance and repair.

For both new and existing construction properties, the underwriter must ensure that the shared well agreement complies with the guidance provided in the following table.

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| 1 | Require that the agreement be binding upon signatory parties and their successors in title, recorded in local deed records when executed and recorded, and reflects joinder by any lender holding a mortgage on any property connected to the shared well. |
| 2 | Permit well water sampling and testing by the local authority ant the request of any party at any time. |
| 3 | Require that corrective measures be implemented if testing reveals a significant water quality deficiency, but only with the consent of a majority of all parties. |
| 4 | Ensure continuity of water service to "supplied" parties if the "supplying" party has no further need for the shared well system. "Supplied" parties normally should assume all costs for their continuing water supply. |
| 5 | Prohibit well water usage by a party for other than bona fide domestic purposes. |
| 6 | Prohibit connection of any additional living unit to the shared well system without: |

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| | <ul style="list-style-type: none"> • The consent of all parties; • The appropriate amendment of the agreement; and • Compliance with #3. |
| 7 | Prohibit any party from locating or relocating any element of an individual sewage disposal system within 75 feet (100 feet for proposed construction) of the shared well. |
| 8 | Establish assessments for all elements of the system, ensuring access and necessary working space for system operation, maintenance, improvement, inspection, and testing. |
| 9 | Specify that no party may install landscaping or improvements that will impair use of the easements. |
| 10 | Specify that any removal and replacement of preexisting site improvements, necessary for system operation, maintenance, replacement, improvement, inspection, or testing, will be at the cost of their owner, except for costs to remove and replace common boundary fencing or walls, which must be shared equally between or among parties. |
| 11 | Permit an agreement amendment to ensure equitable readjustment of shared costs when there may be significant changes in well pump energy rates or the occupancy or use of an involved property. |
| 12 | Require the consent of a majority of all parties upon cost sharing, except in emergencies, before actions are taken for system maintenance, replacement, or improvement. |
| 13 | Require that any necessary replacement or improvement of a system elements) will at least restore original system performance. |
| 14 | Specify required cost sharing for: <ul style="list-style-type: none"> • The energy supply for the well pump; • System maintenance, including repairs, testing, inspection, and disinfection; • System component replacement due to wear, obsolescence, incrustation, or corrosion; and • System improvement to increase the service life of a material or component to restore well yield or to provide necessary system protection. |
| 15 | Specify that no party is responsible for unilaterally incurred shared well debts of another party, except for correction of emergency situations. Emergency correction costs must be equally shared. |
| 16 | Require that each party be responsible for: <ul style="list-style-type: none"> • Prompt repair of any detected leak in this water service line or plumbing system; • Repair costs to correct system damage caused by a resident or guest at their property; and • Necessary repair or replacement of the service line connecting the system to the dwelling. |



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| 17 | Require equal sharing of repair costs for damage caused by persons other than a resident or guest at a property sharing the well. |
| 18 | Ensure equal sharing of costs for abandoning all or part of the shared system so that contamination of ground water or other hazards will be avoided. |
| 19 | Ensure prompt collection from all parties and prompt payment of system operations, maintenance, replacement, or improvement costs. |
| 20 | Ensure prompt collection from all parties and prompt payment of system operations, maintenance, replacement, or improvement costs. |
| 21 | Specify that the recorded agreement may not be amended during the term of a federally insured or-guaranteed mortgage on any property served, except as provided in items #5 and #11 above. |
| 22 | Provide for binding arbitration of any dispute or impasse between parties with regard to the system or terms of agreement. Binding arbitration must be through the American Arbitration Association or a similar body and may be initiated at any time by any party to the agreement. parties to the agreement must equally share arbitration costs. |

4J.16(d) Community Owned Water System

If the property is served by a community water system operated by a private corporation or nonprofit property owner's association, the following must be met:

- The system and the water supply meet all applicable federal, state, and local requirements;
- The system has the capacity to provide a sufficient water supply during periods of peak demand; and
- The system is operated under a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

4J.16(e) Individual Water Systems in Hawaii and the Western Pacific Region

Due to the limited regulation provided by local ordinances and/or regulations of each jurisdiction in Hawaii and the Western Pacific Region regarding individual water systems (IWS) including rain water catchment systems, UADA has determined that an IWS is considered an eligible water system if all of the following conditions are met:

- The property is located in Hawaii or the Western Pacific Region;
- Property does not have an available affordable connection to a public or private community water system;
- The alternative water supply system, rain water catchment system, complies with and/or is not prohibited by ordinances and/or regulations of the local jurisdiction in which the property is located;



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- Water quality tests are not required if the state or local authority does not have specific requirements and EPA testing is not available;
- Reliance upon the rainwater catchment system, does not diminish the marketability or value of the property within its marketplace. The system must be typical for the area as described by the appraiser; and
- The borrower is required to acknowledge and certify of their responsibility to maintain the rain catchment system.

4J.16(f) Sewage Systems

A sewage system refers to wastewater systems designed to treat and dispose of effluent on the same property that produces the wastewater. When the onsite sewage disposal system is not sufficient and an off-site system is available, connection to the off-site sewage system is required.

The appraiser must inspect the onsite sewage system and require an inspection to ensure that the system is in good working order if there are signs of system failure. The appraiser must report the availability of public sewer.

The underwriter must confirm that a connection is made to a public or community sewage disposal system whenever feasible and available at a reasonable cost. If connection costs to the public or community system are not reasonable, the existing sewage systems is acceptable.

When the sewage system is not sufficient and an off-site system is available, connection to the off-site system must be confirmed. When the sewage system is not sufficient, and an off-site system is not available, the property must be rejected unless the onsite sewage disposals system is repaired or replaced and complies with local health department standards.

The following is required for all sewage systems:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is located entirely on the subject property. If any part of the system is located on an adjacent property (for example leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner's permitted use; and
- Is operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health.

4J.16(g) Properties Located in a Special Flood Hazard Area

Existing dwellings and newly constructed dwellings located within the Special Flood Hazard Area (SFHA),



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which are not served by public sewer systems and have on-site septic or sewage treatment systems must have a drinking water supply which is protected from cross contamination from the onsite septic/sewage treatment during flooding. A subject property serviced by an onsite septic or sewage treatment system is eligible, provided one (1) of the following can be met:

- The subject property is served by a publicly provided water supply;
- The subject property is serviced by a private drinking water well/supply with a fitted sanitary well cap which prevents backflow floodwater from entering the drinking supply well; or
- The subject property is served by a private drinking water well/supply whose opening is located above the base flood elevation of the SFHA. Documentation, such as an elevation certificate, is required to verify this type of property.

4J.16(h) Community Owned Wastewater Systems

If the property is served by a community wastewater system operated by a private corporation or nonprofit property owner's association, ensure that the system:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is licensed, operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health; and
- Is subject to a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

4J.17 Development of Market Value

Market Value refers to the most probable price which a property should bring in a competitive and open market under all condition requisite to a for sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

There are three (3) valuation approaches:

- Sales comparison approach
- Income approach



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- Cost approach

The appraiser must consider and attempt all approaches to value and must develop and reconcile each approach that is relevant and obtain credible and verifiable data to support the application of the three (3) approaches to value.

4J.17(a) Sales Comparison Approach

The sales comparison approach is required for all appraisals.

If the data from the market area is insufficient to support some of these requirements, the appraiser must provide the best information available and include an explanation of the issue, the data available, the conclusions reached, and the steps taken to attempt to meet these guidelines.

The appraisal report must include as many comparable properties are necessary to support the analysis and conclusion. At a minimum, the appraisal report must include:

- The most recent and relevant sales, preferably within the last six (6) months;
- At least three (3) sales that closed no longer than 12 months prior to the effective date of the appraisal; and
- Additional support by including more sales, offerings, offerings under contract, or relevant sales that closed more than 12 months prior to the effective date of the appraisal.

The appraiser must research, report, and analyze the prior three (3) year sales history of the subject property and prior 12-month sales history of the comparable sales.

4J.17(a)(i) Comparable Sales Selection

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| Property Characteristics | Comparable sales should be selected based on similar location and physical characteristics, not sales price. Comparable sale selection must be based on properties having the same or similar location characteristics, physical characteristics, and the priority of the market assigns to each factor. |
| Transaction of Characteristics | An arm's length transaction refers to a transaction between unrelated parties and meet the requirements of market value. The appraiser must utilize arm's length transactions for comparable sales |



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| | <p>except when there is evidence that REO sales or short sale/pre-foreclosure sales (PFS) are so prevalent that normal arm's length transactions are not present or supported by the market trend.</p> <p>A transaction involving a foreclosure transfer to a lender is not evidence of the market value and is not a valid type of comparable sale.</p> <p>The common types of property transfers listed below require investigation and analysis to ensure that they meet the definition of an arm's length transaction:</p> <ul style="list-style-type: none">• REO sale• Transfer from lender to new owner• Short sale/PFS Estate sale• Court ordered sale• Relocation sale• Flip transactions |
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4J.17(a)(ii) Comparable Sales Inside and Outside Established Subdivision or Projects

For properties located in established subdivisions or for units in established condominium, or PUD projects, comparable sales from within the subject property's subdivision or project should be used if the project has resale activity.

Arm's length resale activity from within the subdivision or project is the best indicator of value for properties in the subdivision or project. If comparable sales located outside of the subject neighborhood are used, an explanation with the analysis is required.

4J.17(a)(iii) Comparable Sales Inside and Outside New Subdivisions or Projects

For properties located in new subdivisions or for units in new (or recently converted) condominium or PUD projects, the comparable sales from within the subject subdivision or project as well as in the general market area should be used.

Whenever possible, at least one (1) comparable sale from the subject subdivision or project and at least one (1) comparable sale from outside the subject subdivision or project or subdivision should be used so that this market acceptance may be directly compared.



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4J.17(a)(iv) Sales Concessions

Adjustments to the comparable sales must be made for special or creative financing or sales concessions. No adjustment is necessary for those costs, which are normally paid sellers as a result of tradition or law in a market area; those costs are readily identifiable since the seller pays these costs in all sales transactions. Special or creative financing adjustment can be made to the comparable sale by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction.

Adjustments are not calculated on a dollar-for-dollar cost of the financing or sales concessions. However, the dollar amount of any adjustment should approximate the market's reaction to the sales concessions based on the appraiser's analysis of observable and supportable market trends and expectations. The adjustment should reflect the difference between the sales price with the sales concession and what the property would have sold for without the concessions under typical market conditions.

All comparable sales transactions must be verified for sales concessions and reported in the appraisal. The appraisal must clearly state how and to what extent the sale was verified. If the sale cannot be verified with someone who has first-hand knowledge of the transaction (buyers, sellers, real estate agents involved in the transaction, or one (1) of their representatives), the appraiser must report the lack of verification.

Market-based adjustments must be made to the comparable sales for any sales or financing concessions that may have affected the sales price. The sales concessions of the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. The appraiser must include an explanation of the effect of the sales concessions on the sale price of the comparable.

4J.17(a)(v) Bracketing

Bracketing refers to selecting comparable sales with features that are superior or inferior to the subject.

Comparable sales must be selected based on the principal of substitution. Comparable sales should not be chosen only because their prices bracket a desired or estimated value.

To determine the best comparable sales, the appraiser must use bracketing techniques when possible and appropriate.



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4J.17(a)(vi) Adjustments

The following are the preferred underwriting guidelines for line item, net, and gross adjustments:

- 10% line item adjustments
- 15% net adjustments
- 25% gross adjustments

4J.17(a)(vii) Market Condition (Time) Adjustments

Market condition adjustments refer to adjustments made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal.

The comparable sales may be adjusted if they were contracted for sale during a market period different from that of the date of the valuation. If a market-to-market (time) adjustment is warranted, it must be applied to the date of contract rather than the date of closing or deed recordation.

The appraisal report must provide a summary comment and support for all conclusions relating to the trend of the current market.

An analysis of market trends for at least the past 12 to 24 months preceding the effective date of the appraisal is necessary in order to establish a benchmark for reporting present market conditions.

4J.17(a)(viii) Changing Markets

The final conclusion must be based on the reconciliation of all data.

| | |
|--------------------|--|
| Increasing Markets | In an increasing market, positive market condition adjustment should be applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison. |
| Declining Markets | <p>A declining market refers to any neighborhood, market area or region that demonstrates a decline in prices or deterioration in other market conditions as evidence by an oversupply of existing inventory and extended marketing times. A trend in the housing market is identifiable when it extends for a period of at least six (6) months or two (2) quarters prior to the effective date of the appraisal.</p> <p>In a declining market, negative market condition adjustments should be</p> |



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| | applied if there is sufficient proof of the trend from a credible source based on a thorough analysis of specific market trends and as evidenced by a sale and resale comparison. |
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The appraiser must report market conditions and determine when housing trends are increasing, stable or declining and provide a summary comment as to the continuance of the current trend or if the trend is changing and provide support for all conclusions. If the appraiser bases the adjustment on a published source, the appraiser must include a copy, which must be included in the addendum.

The appraiser must include an absorption rate analysis, at least two (2) comparable sales that closed within 90 days prior to the effective date of the appraisal, a minimum of two (2) active listings or pending sales on the SCA Grid (in addition to at least three (3) settled sales). If the appraiser cannot comply with these requirements due to a lack of market data, a detailed explanation is required to support the market trend conclusion and include all data and analysis used to identify the current forecasted market.

For active listings or pending sales, the appraiser must:

- Ensure they are market-tested and have reasonable market exposure to avoid the use of overpriced properties as comparable sales;
- Use the actual contract purchase price, or, when not available, adjust comparable properties to reflect listing to sales price ratios;
- Include the original list price, any revised list prices, and calculate the total Days on Market (DOM);
- The appraiser must provide an explanation for the DOM that does not approximate periods reported in the "Neighborhood" section of the appraisal;
- Reconcile the adjusted values of active listings or pending sales with the adjusted values of the closed sales provided; and
- If the adjusted values of the closed comparable sales are higher than the adjusted values of the active listings or pending sales, determine if a market condition is appropriate.

4J.17(a)(ix) Effective Age and Remaining Economic Life

The effective age reflects the condition of a property relative to similar competitive properties. The effective age may be greater than, less than, or equal to the actual age. Any significant differences between the actual and effective ages requires an explanation.



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The remaining economic life must be stated as a single number or as a range for all property types, including condominiums. The appraiser must provide an explanation if the remaining economic life is less than 30 years. The mortgage term must be less than or equal to the remaining economic life of the property.

4J.17(b) Cost Approach

The appraiser may use any of the creditable and recognized methods to complete the cost approach (unit in place, segregated costs, price per unit, detailed builder's cost method, or any other creditable source that can be duplicated).

If the appraiser uses cost estimates provided by the contractor or builder, the cost estimates must be reasonable and independently verified. The appraiser must estimate the site value. Acceptable methodology used to estimate land value includes sales comparisons, allocation, and extraction.

4J.17(c) Income Approach

The appraiser should apply the income approach to a single-family property when there is evidence of recently rented and then sold data pairs. The appraiser must verify if the subject or the comparable rentals and sales are subject to rent control restriction. If comparable sales do not have rent control restrictions like the subject, an appropriate adjustment should be applied.

4J.17(d) Final Reconciliation and Conclusion

The underwriter must review the appraisal and ensure that it is complete, accurate, and provides a credible analysis of the marketability and value of the property.

The appraiser must sign the certification of the appraisal and perform all parts of the analysis and reconciliation.

The appraiser must select the comparable sales and perform all critical analyses contained in the appraisal report as well as the Market Conditions Addendum to the appraisal form. The appraiser must also inspect the subject property and at least the exterior of the comparable sales.

If another appraiser or trainee appraiser aided or participated in the preparation of the appraisal, the appraiser must disclose the name and role in developing the appraisal report.



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4J.17(e) Reconsideration of Value

The underwriter may request a reconsideration of value when the appraiser did not consider information that was relevant on the effective date of the appraisal. The underwriter must provide the appraiser with all relevant data that is necessary for a reconsideration of value.

The appraiser may charge an additional fee if the relevant data was not available on the effective date of the appraisal. If the unavailability of data is not the fault of the borrower, the borrower may not pay the additional costs. The effective date of the appraisal is the date the appraiser inspected the property.

4J.18 Leasehold Interest

The appraiser must be provided with a copy of the lease. The appraiser must analyze and report:

- The terms of the ground lease, including the amount of the ground rent.
- The term of the lease.
- If the lease is renewable.
- If the lessee has the right of redemption (the right to obtain a fee simple title). If the ground rent can increase or decrease over the life of the lease term.

4J.19 Mixed-Use Properties

Mixed-use properties are eligible when:

- A minimum of 51% of the entire building square footage is for residential use; and
- The commercial use will not affect the health and safety of the occupants.

4J.20 Manufactured Housing

At least two (2) of the comparable sales must be manufactured homes (combining land and some sales is not acceptable).

For new construction manufactured homes:

- Cost approach to value analysis must be completed for new construction units and be cited in the reconciliation discussion section (appraiser to provide name of cost service and reference page numbers (if using paper version) of cost tables or factors. If the retail purchase price, including delivery, installation, and set up costs are available, the appraiser may use this information (copy of invoice(s) showing all costs) and be appended to the report.
- Appraisal must be conditioned upon the certification of the engineer or architect that the manufactured home foundation is in compliance with PFGMH.
- Appraiser must report the information on the data plate within the appraisal, including the



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manufacturer name, serial number, model, and date of manufacture, as well as wind, roof load, and thermal zone maps.

- Property tax estimates must be based on the land and improvements.

4J.21 Property Assessed Clean Energy (PACE)

For purchase transactions, the appraiser must review the sales contract and property tax records and report the outstanding amount of the PACE obligation(s) and the valuation impact of the PACE-related improvements.

See Chapter [4C](#) FHA Financing, [4C.3](#) Property Assessed Clean Energy (PACE) for requirements when a PACE or PACE-like loan exists.

| Revision History | Dates |
|--|------------|
| Removed requirements titled Uniform Collateral Data Portal (UCDP) Compliance, former Ch C4J.6 as USDA does not require | 02.27.2025 |



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Chapter 6A Fraud

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NewRez; its investors and Clients can experience substantial losses if either fraud or misrepresentation occurs on a loan. Fraud can occur with any type of loan. A common definition of fraud is an act of intentional misrepresentation, concealment, or omission of the truth for the purpose of deception or manipulation with the intent of securing something by taking unfair advantage of another. NewRez has a Zero Tolerance Policy on matters relating to fraud or misrepresentation.

NewRez utilizes several tools to combat fraud and reduce repurchase risk. The Data Verify DRIVE report is obtained on all loan applications, this tool detects fraud based on historical patterns of fraudulent and legitimate loans. The data determines the likelihood that a loan may result in a fraud driven loss based on misrepresentation or inconsistencies in the loan file.

The DRIVE summary returns a risk score and fraud alerts based on proprietary data related to income, employment, occupancy, undisclosed debt, identity, and third parties. Action is not required based on the fraud score alone, rather, it is required based on the severity of the fraud alert.

The Clear tool may also be used to mitigate fraud when the DRIVE report indicates an alert with elevated risk.

Today, most individuals have access to a personal computer and the Internet. With a simple click of a mouse, one can quickly and easily find personal information on an individual or a company, including financial statements, real property information, court records, and a myriad of other data. With the purchase of software, a scanner, and a color printer, a thief can create documents and provide supporting information to create identities, employer documentation, appraisals, and a credit history to support a mortgage request.

Fraud perpetrators seek the path of least resistance, targeting those lenders with the weakest controls for detecting and preventing fraud. Financial institutions that fail to ensure adequate internal controls, fraud detection tools, staff training, business partner due diligence and quality control reviews risk becoming targets for organized mortgage fraud rings. High incidence of fraud in a financial institution's portfolio risks the company's reputation, raises its costs to sell in the secondary market, and could ultimately impact its viability. Financial institutions are obligated to their borrowers, shareholders, investors, and the industry to manage fraud effectively.

Mortgage fraud is a serious issue for financial institutions. Institutions may recover only portion of a mortgage if the property value is inflated or if the mortgage was provided to an unqualified borrower. High foreclosure costs, including unpaid back taxes and interest, liens for unpaid homeowner dues, brokers' commissions, reappraisals, rehabilitation costs, attorneys' fees, and other related expenses plague the industry. Foreclosure attorneys' fees in particular can be substantial.

Refer to the Fraud Prevention Policy on the Policies and Procedures Intranet page.



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6A.1 Types of Fraud

A loan file can contain warning signs that point to irregularities in the information submitted by the borrower or other parties involved in the transaction. This information may not seem unusual when viewed separately, but a comparison may indicate a pattern of deception.

Typically, there are two types and basic motives for mortgage fraud; Fraud for Property and Fraud for Profit.

6A.1 (a) Fraud for Property

The borrower or other interested party misrepresents or omits information with the intent to deceive or mislead the lender into extending credit that would not likely be offered if the true facts were known or to obtain more favorable terms on the loan (but not to encumber intentionally and significantly over-encumber the property). However; there is intent to repay the loan as agreed. Participants usually involve the borrower and borrower's family members.

6A.1 (b) Fraud for Profit

The borrower or other interested party enters into a transaction with the primary intention of creating inappropriate and significant financial gain (beyond just getting better pricing and terms for the loan), to the detriment of the lender. The borrower or other interested party does not intend that the loan be repaid as agreed, or the property has been significantly and intentionally overvalued and over encumbered or the lender's collateral interest in the subject property has been intentionally impaired or undermined. Participants may include multiple parties including the borrower, real estate agent, appraiser, loan officer, loan processor, underwriter, lender, closing attorney, or property management company.

6A.2 Fraud Indicators or Red Flags

The presence of one or more fraud indicators, or red flags, is not absolute proof of a fraudulent loan, but when viewed as a whole, a pattern of deception may begin to emerge. NewRez Clients can use the Red Flag Checklist, found on the Correspondent Lending website.

To determine if a loan is fraudulent, NewRez strongly encourages a review of all loan types for document-specific loan fraud indicators, or red flags that can identify irregularities in the information submitted by a borrower or other parties in the transaction.

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6A.2 (a) Affinity Fraud

Affinity fraud (similar to investment club schemes explained above) exploits the trust and friendship that exist in groups of people who have something in common. The fraudsters who promote affinity frauds frequently are or pretend to be, members of the group, often preying on their own community of friends, family, and co-workers. Affinity fraud has been found in many different types of groups such as religious, military, ethnic, professional, workplace, elderly, and fitness/gym. Investment property schemes often take root from affinity groups. With affinity fraud, there is an immediate level of trust within the group. Some members may have invested and made high returns, becoming advocates for the scheme. Loyalty to the group may deter members from reporting schemes or monetary losses to authorities.

6A.2 (b) Air Loans

An air loan is a loan to a straw or nonexistent buyer, on a nonexistent property. An example of an air loan would be a correspondent invents borrowers and properties, establishes accounts for payments, and maintains custodial accounts for escrows. They may set up an office with a bank of telephones, each one used as the employer, appraiser, credit agency, etc., for verification purposes.

- Air loans typically involve straw buyers - refer to straw buyer red flags;
- Unable to independently validate chain of title;
- Mortgage payments are made by an entity other than the borrower; and
- No real estate agent is employed (fictitious transaction).

6A.2 (c) Builder Bailout

A “builder bailout” occurs when the builder or developer moves property quickly in a depressed real estate market. Potential indicators of builder bailouts include the following:

- The builder is willing to “do anything” to sell the property;
- Builder’s marketing material advertises rent credit to investors and/or payment credit;
- The borrower is barely qualified or unqualified;
- The sales price and appraised value are inflated;
- No-money-down sales are included;
- “Silent” or “concealed” second mortgages are involved;
- Significant incentives and/or concessions are offered;
- Sales price adjusted upwards;
- Questionable source of funds;



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- Reference to unexplained payouts, inflated commissions or secondary financing on the Closing Disclosure or purchase contract; and
- Parties to the transaction are affiliated.

6A.2 (d) Buy and Bail

The borrower is current on the mortgage, but the value of the home has fallen below the amount owed. The borrower continues to make payments on the home, while applying for a purchase money mortgage on another home that has been priced in alignment with today's prices. After the new property has been obtained, the buy and bail borrower will allow the first home to go to foreclosure.

Red flags common to this type of fraud are:

- The borrower will be a first time property owner (renting out the original property);
- The borrower has minimal or no equity in the original property;
- Inability to validate lease terms with the purported tenant; and
- Purported tenant has a pre-existing relationship with the homeowner.

6A.2 (e) Cash-Out Purchases

A cash-out purchase typically involves one closing and occurs when properties have been on the market an extended length of time and a desperate property seller is unable to find a qualified buyer. The property seller may be offered a way out of the situation with an offer that exceeds the selling price of the property and an agreement to make a refund to the buyer after closing. The appraisal is inflated, and a straw buyer is used to purchase the property. The loan often goes into early payment default and ends in a foreclosure.

The following red flags may indicate a cash-out purchase:

- The home may have been on the market for an extended period of time;
- The appraisal may include red flags symptomatic of an inflated value;
- The preliminary Closing Disclosure may already indicate a portion of the net proceeds going back to the borrower; and
- Many of the same flags that accompany a traditional flip also apply: straw buyer, false source of funds, and false occupancy.

6A.2 (f) Condominium Conversion Bailouts

This type of fraud commonly involves multiple parties who create and promote incentive packages;

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which are deliberately concealed from lenders. Inflated property values may also be part of this type of fraud, along with the masking of illegitimate cash disbursements on the settlement statement or failure to disclose them at all. As a condition of the sale, the buyer executes a purchase contract detailing the incentive package, which often includes substantial cash back to the borrower.

Red flags common to condominium conversion bailouts are:

- Out of state borrowers with strong credit scores;
- Excessive real estate fees;
- Large non-lien disbursements on the Closing Disclosure; and
- Large number of condominium conversions in a particular area.

6A.2 (g) Double Escrows

Double escrow transactions are not illegal, however, they are considered high risk since they are often associated with no-money-down purchase transactions, and/or inflated property values. Double escrows are one of the methods used to avoid down payment requirements. Parties involved in property flipping schemes often use double escrows in the original acquisition of the property.

Example of typical Double Escrow

A buyer's offer is accepted to purchase a property for \$150,000. Before escrow closes, the buyer acts as the seller of the property and opens a second escrow using a "straw buyer" who purchases the same property for \$185,000. The straw buyer obtains a 90% LTV loan. With the proceeds from the second escrow transaction, the first escrow closes concurrently with the second escrow, resulting in no exchange of money.

6A.2 (h) Equity Skimming

Equity skimming involves investment property. The owner/investor collects the monthly rents and fails to make the mortgage payments. The investor usually obtains the property through a purchase transaction or an assumption.

- If obtained through a purchase transaction, the investor generally executes a second trust deed to the property seller as the down payment, resulting in no cash investment in the property.
- Once the property is assumed, the investor profits by collecting rents for the time it takes the lien holder to complete the foreclosure process. Investors using this method frequently obtain several properties within a short period. The investor makes mortgage payments (while



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acquiring other properties using the same scheme) before finally defaulting on the mortgage payments.

6A.2 (i) Foreclosure Bailout

A foreclosure bailout may be a refinance or purchase transaction when the true purpose of the loan is to bail out the property owner from an existing lien that is in foreclosure. These transactions can be structured as a refinance or a purchase. When structured as a refinance, title is transferred (or gifted) to a friend or family member who applies for a loan in his/her own name. When structured as a purchase, the borrower acts as a “straw buyer” for the true owners of the property. In this case, the sales price and appraisal may be inflated to support an artificially low LTV.

6A.2 (i)(i) Purchase Transaction

Indicators of a foreclosure bailout purchase transaction are:

- Existing loan or lien on title is presently in default;
- Borrower’s mortgage loan is not rated on the credit report;
- Gift equity or non-arm’s length purchase transaction;
- The borrower is unable to clearly document the source of funds to close;
- An “investment company” is somehow involved in the transaction; and
- There is an “unreasonable” proposed occupancy (e.g., commuting distance) on the subject property.

6A.2 (i)(ii) Refinance

Indicators of a foreclosure bailout refinance transaction are:

- Borrower cannot verify “equitable interest”;
- The mortgage loan on title is not in the borrower’s name; and
- The property is not in the borrower’s name.

6A.2 (j) Identity Theft

Identity fraud is the act of unlawfully using one or more pieces of another individual’s personal identifying information. When identity theft is recognized during the mortgage loan process, it is recommended that third party documentation, such as a police report, letter from the borrower, previous year, and current year tax returns & W-2s and a letter from the IRS be provided to substantiate the fraud claim. In most instances, this involves the use of another person’s Social Security number (SSN)



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or use of a fraudulent SSN.

Red flags associated with identity theft are:

- SSN issued recently or death claim filed under Social Security;
- Borrower's name is not associated with SSN;
- The number of years employed is greater than the issue date of the SSN;
- Employment and/or addresses on credit report do not match borrower's application;
- Credit patterns are inconsistent with income, assets, age, and education;
- Tax Identification numbers instead of Social Security numbers are used; and
- Borrower lives out of the area and does not appear, based on the credit report, to have any tie to the area in which the subject property is located.

Another form of identity theft involves Tax Return Fraud, which is the use of another person's name and SSN to file a tax return and obtain tax refund.

6A.2 (k) Foreclosure Rescue

A foreclosure specialist promises to assist the defaulted borrower in avoiding foreclosure. The specialist usually charges the borrower an up-front fee (HUD-approved counseling agencies do not charge) for services that are not delivered. These frauds usually further encumber the property and/or result in the homeowners losing title. The frauds always ultimately force the borrower into foreclosure status, but sometimes delay the servicer's ability to accomplish the foreclosure, through elaborate bankruptcy filings. Below are common red flags.

The borrower or current owner was:

- Advised by a foreclosure specialist to avoid contact with their servicer;
- Has paid someone to negotiate with the servicer on his or her behalf;
- States that they are sending their mortgage payments to a third party;
- Receives a purchase offer that is greater than the listing price;
- States that they will be renting back from new owner; and
- Quit-claimed (any portion of) title to a third party at the advice of a foreclosure specialist.

6A.2 (l) Investment Club Schemes

Investment club schemes (also referred to as chunking) involve property sales pitched as investment opportunities to consumers who are promised improbably high returns and low risks. In some cases, the

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perpetrators charge membership fees to the victim-purchasers. In other cases, the victim-purchasers may not even realize that they will be personally responsible for repayment of the mortgages. In the initial phases of an investment club scheme, victim-purchasers may receive some of the promised financial benefit, as the perpetrator uses money received from new victim-purchasers to pay initial club members in order to elude detection and attract new investors. Typically, the fraud perpetrator purchases distressed properties at low prices, paying an appraiser to illegally inflate the value in order to deceive lenders into financing at, or above 100% of the value. The perpetrator convinces the purchaser that no (or minimal) down payment, cash incentives and/or a guaranteed return on their investment justify the sales price. As with flipping schemes, the perpetrator profits from the difference between the price at which the perpetrator purchased the property and the new (inflated) loan amount. Frequently, perpetrators of these frauds market to purchasers who are distant from the properties, to facilitate deception about the condition and value of the properties.

Red flags common to this type of fraud are:

- No real estate agent is employed (club recruits buyers and/or non-arm's length transaction);
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price;
- Borrower may have paid a membership fee to participate in the club;
- First-time landlord, non-savvy investors;
- Property seller offers to manage these rental properties;
- Borrower may have been told that the property seller or the club would make mortgage payments;
- Borrower purchased multiple properties simultaneously, but did not disclose other loans in process to their lender (also known as shot gunning), watch for credit inquiries;
- The appraised value is fraudulently inflated (See appraisal red flags in this section);
- The borrower's signature may vary throughout the file; and
- Multiple mortgage inquiries: the perpetrator guides the borrower to apply simultaneously for purchase money mortgages for multiple properties, withholding information about the other purchases from each lender.

6A.2 (m) Power of Attorney

Because the use of a Power of Attorney (POA) means the principal will not actually sign the loan documents, there is a risk that the principal may not be aware of the loan transaction or that the principal is a fictitious person. If any wrongdoing is suspected, investigate the circumstances to ensure use of the POA is legitimate before proceeding with the loan. The Settlement Agent must not act as the attorney-in-fact or sign documents on behalf of any party to the transaction. For specific POA requirements, refer to Chapter 8 Delivery/Funding Options.



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6A.2 (n) Property Flips

A transaction in which a property is purchased and resold quickly for a significant profit is commonly referred to as a flip. Property flipping becomes illegal when a home is purchased and resold within a short period at an artificially inflated value. The flip typically involves a fraudulent appraisal, which may falsely indicate that renovations were made to the home. Properties targeted for property flips generally include properties that can be acquired at lower prices than other properties in the same neighborhood and often include real estate owned (REO) properties, properties subject to a short sale, other distressed properties, or newly constructed properties where the builder or developer must liquidate housing inventory quickly. A property involved in a flip may be resold on the same day or within days, weeks, or months of the purchase. In some cases, the seller of the property flip never holds title to the property, but instead sells or assigns their interest in a contract to purchase the property to a third party.

Property flips are not inherently illegal, and not all transactions involving a rapid purchase and resale are improper. Legitimate property flips are acceptable transactions. Some indications of property flips that may be legitimate include:

- Sales of properties by a Government Sponsored Enterprise (GSE) state or federally chartered financial institution, mortgage insurer, or federal state or local government agency;
- Property sales by employers or relocation agencies related to employee relocations; and
- Sales of properties that have been substantially improved by bona fide and verified renovations since the property was acquired by the property seller in which any increase in sales price over the property seller's acquisition costs is representative of the market given the improvements to the house.

Red flags common to property flipping are:

- Ownership changes two or more times in a brief period;
- Appreciation of the subject property exceeds that in the normal marketplace;
- The property seller recently acquired the property for a significantly lower price or there have been several transfers of the property according to the real estate tax assessment record;
- No real estate agent is employed (non-arm's length transaction);
- Property was recently in foreclosure, or acquired at REO sale at a much lower sales price;
- Parties to the transaction are affiliated or related by birth or marriage;
- Owner listed on appraisal and/or title may not match the property seller on the sales contract;
- A quitclaim deed is used right before or right after closing;
- Sales contract has unusually large earnest money deposit held by property seller;
- Unusual fees or credits are found on the Closing Disclosure;



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- Title commitment references other deeds to be recorded simultaneously;
- Property seller is a corporation (i.e., LLC); and
- Comparable sales or listings used in the appraisal report are properties involving the same property seller and/or real estate broker as the subject property in an attempt to create an artificially inflated market.

6A.2 (o) Purchase Disguised as Refinance

This scheme is often used to disguise the borrower's equity contribution in the transaction, inflate the property value and close the loan as a refinance, providing cash out to the fraudster.

The following red flags may be present:

- Borrower does not hold title on the commitment;
- Recent transfers of the subject property - may have been flipped; and
- Multiple investment properties purchased within a short time frame.

6A.2 (p) Rental Property

6A.2 (p)(i) Income

Red Flags related to income include:

- Tax returns not signed or dated address discrepancies within the file discrepancies on a lease;
- Paid preparer signs taxpayer's copy of tax returns;
- Applicant reports substantial income but has not cash in the bank;
- Excessive number of AUS submissions;
- A purchaser of an investment property does not own a residence;
- The rental income per the IRS tax transcripts deviates significantly from the other rental income documentation; and
- Borrower claims rental income on the loan application but amount conflicts with obtained documentation and/or the IRS tax transcripts.

6A.2 (p)(ii) Occupancy

Red Flags related to occupancy include:



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| | |
|------------------------|--|
| Purchase Transactions | <ul style="list-style-type: none">• Real estate listed on application, yet applicant is a renter;• Borrower intends to lease current residence;• Significant or unrealistic commute distance;• Borrower is downgrading from a larger or more expensive house;• Sales contract is subject to an existing lease;• Occupancy affidavits reflect applicant does not intent to occupy; and• New homeowner's insurance is a rental policy (declarations page). |
| Refinance Transactions | <ul style="list-style-type: none">• Rental property listed on application is more expensive than subject property;• Different mailing address on applicant's bank statements, pay advices, etc.;• Different address reported on credit report;• Significant or unrealistic commute distance;• Appraisal reflects vacant or tenant occupancy;• Occupancy affidavits reflect applicant does not intend to occupy;• Homeowner's insurance is a rental policy (declarations page); and• Reverse directory does not disclose subject property address. |

6A.2 (q) Short Sale Fraud

The borrower deliberately withholds mortgage payments, forcing the loan into default so that an accomplice can submit a straw short-sale offer at a purchase price less than the borrower's loan balance. The borrower deceives the servicer into believing that the straw short-sale offer is legitimate.

Red flags common to this type of fraud are:

- Sudden default, no workout discussions, and immediate offer at short sale price;
- Ambiguous or conflicting reasons for default;
- The mortgage delinquency is inconsistent with the borrower's spending, savings, and other credit patterns;
- Short sale offer is from a related party;
- Short sale offering price is less than current market; and
- Cash back at closing to the delinquent borrower, or other disbursements that have not been expressly approved by the servicer (sometimes disguised as repairs or other payouts).



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6A.2 (r) Shot Gunning

Shot gunning occurs when a fraud perpetrator simultaneously secures loans from multiple lenders but does not disclose any of the other applications in process to the individual lender. Shot gunning can accompany several of the schemes covered in this section, such as property flipping and investment club schemes. In those cases, the perpetrator would not qualify for multiple purchase money mortgages and applies with various lenders but does not reveal the other applications to any given lender. Each lender simultaneously funds what it believes to be the only new mortgage loan. Until the loan closes, the only clues of this activity are credit bureau reported mortgage inquiries, which can be explained by the borrower as price and term comparison -shopping.

6A.2 (s) Straw Borrower

A straw buyer is a person used to buy property in order to conceal the actual owner. The straw buyer does not intend to occupy the property or make payments and often deeds the property to the other individual immediately after closing. The straw buyer is usually compensated.

Participants in a straw borrower situation:

- Act as a substitute for the actual borrower;
- Use a quitclaim deed either immediately before or soon after closing the loan;
- Represent investment property as owner-occupied or a second home; and
- Sign on the actual borrower's behalf.

Red flags common to transactions with straw buyers are as follows:

- First-time home buyer, with substantial increase in housing expense;
- Buyer does not intend to occupy - unrealistic commute, size, or condition of property, etc.;
- No real estate agent is employed (non-arm's length transaction);
- Power of Attorney may be used;
- Boilerplate contract with limited insertions, not reflective of a true negotiation;
- Income, savings and/or credit patterns are inconsistent with the borrower's overall profile;
- High LTV, limited reserves and/or property seller-paid concessions;
- Inconsistent signatures throughout the file; and
- Use of gift funds for down payment and/or closing costs, minimum borrower contribution.



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6A.3 Risk Mitigation

For all loan types and loan programs, a thorough review of specific loan documentation is essential to determine the validity of the information provided by the borrower and parties to the transaction.

6A.3 (a) Loan Application

Review the loan application for the following red flags:

- Inconsistent Social Security numbers from document to document;
- Invalid or recently issued Social Security number;
- Unsigned, undated, outdated and/or incomplete application;
- Compare borrower's names and address with property seller's names and address (could be a straw buyer);
- Inadequate documentation to support required owner occupancy;
- Borrower's signature is inconsistent throughout the loan file;
- Borrower is buying investment property, but does not own current residence;
- Borrower is buying investment property as an out-of-state investor;
- Number of years on the job/in that profession is inconsistent with borrower's age, years of education, borrower profile or type of employment;
- Employer's telephone number is a cell phone;
- Employer's address is a Post Office Box;
- Employer/company name is similar to the borrower name;
- Significant increase or unrealistic change commuting distance;
- New housing not large enough to accommodate all occupants;
- Buyer is downgrading from larger to smaller home;
- Buyer currently resides in property and is purchasing it from the landlord;
- Buyer intends to rent/sell current residence with no documentation;
- Down payment is other than cash;
- Borrower/co-borrower working for same employer, or is an employee of the property seller;
- Same telephone number for home and business (may be self-employed);
- High income borrower has little or no personal property or minimal liquid assets;
- New housing expense exceeds 150% of current housing expense;
- Assets are not consistent with borrower's income;
- Inappropriate salary with respect to loan amount;
- Significant or contradictory changes from handwritten to typed loan application; and
- Application retaken for a borrower where misrepresentations were identified, such as under-reported income to the IRS, fraudulent W-2, etc.



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6A.3 (b) Occupancy

For owner-occupied transactions containing address discrepancies; or red flags present that would imply occupancy other than indicated, the loan file must contain acceptable documentation to justify proceeding with the transaction. Documentation must be scrutinized to ensure reasonableness of the owner-occupancy status in order to proceed with the transaction.

Review the loan file for the following red flags:

| | |
|-----------------------|---|
| Purchase Transactions | <ul style="list-style-type: none">• A previous mortgage transaction within the past 12 months was also the purchase of a primary residence;• Hazard insurance policy indicates investment property when application states owner-occupied;• The mailing address on the insurance policy is different from the subject property, when the subject is represented as a primary residence;• Value of current residence exceeds subject property value when subject property is to be owner occupied and current residence is to be investment property;• Commute distance from work and subject owner occupied property is excessive (acceptable explanation may be a virtual office);• Application is for a second home in area not typical for second home properties and/or not reasonable distance from current owner-occupied property;• The borrower profile does not make sense for occupancy in subject property (i.e., elderly borrower moving from current residence of many years to a much larger home);• There are duplicate applications with conflicting occupancy information;• Borrower owns numerous properties or has multiple mortgages shown on credit report and purchase of new primary residence appears unreasonable;• Request is for a second home, yet borrower already has a second home;• Purchases of a second home in the same location as the principal or current second home residence or investment property owned;• New housing square footage/bedroom count is insufficient to |
|-----------------------|---|



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| | |
|------------------------|---|
| | <p>accommodate; and</p> <ul style="list-style-type: none">• Primary residence purchase with a non-occupant co-borrower receiving an automated underwriting decision when income from non-occupant co-borrower is not included in the analysis and loan is restructured as an investment property with the primary borrower occupying one of the units. |
| Refinance Transactions | <ul style="list-style-type: none">• Different address for paystubs, bank statements, or other financial documents when the loan is a refinance of an owner occupied property;• Application is a refinance of the primary residence, but the home telephone number does not match the subject address Appraisal occupancy is different from the loan application (Appraisal indicates property is tenant occupied, but is stated as primary on the application); and• Title commitment does not show homestead exemption on an owner occupied refinance. |

6A.3 (c) Social Security Numbers

For loans that receive Social Security number verification messages from AUS, validate the accuracy of the Social Security number by providing a copy of the verification provided from the Social Security Administration using Form SSA-89. Verification can also be obtained using the Form SSA -89 through third party vendors (e.g., Fraud Guard, Equifax Verification Services or LandSafe) to satisfy this verification requirement. A copy of the Social Security validation must be included in the loan file for purchase.

Review Social Security numbers for the following red flags:

- Inconsistent social security numbers provided during processing and underwriting the loan
- Invalid numbers listed below (as of June 2009)
 - The first three digits are 000;
 - The second two digits are 00;
 - The last four digits are 0000;
 - The first three digits are 666;
 - The first three digits are 773 through 899;
 - The first three digits are 90 through 999 (only issued occasionally);
 - Zeros in positions 4 and 5;



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- Leading number of 74 or 79; and
- Leading numbers of 8 or 9.

NOTE: Effective June 25, 2011, the Social Security Administration began using a randomized approach of assigning Social Security numbers. It will no longer be possible to determine the place or approximate date of issuance simply by examining a number. The only way to conclusively determine if an SSN assigned after June 25, 2011 has been issued will be using a service that makes a direct inquiry into the Social Security Administration databases and systems.

6A.3 (d) Borrower Contact

- Phone number is invalid or has been disconnected;
- Employer states the borrower does not work there or is out of the country for some time;
- Caller gives information that is inconsistent with the application;
- Borrower calls frequently for an application status;
- Inconsistent language/ability to communicate;
- E-mail address is inconsistent with the borrower or borrower's employer; and
- Borrower discloses and unauthorized third party.

6A.3 (e) Credit Report

Review the credit report for the following red flags:

- Credit report "warning" messages must be carefully reviewed;
- Credit report lists an Also Known As (AKA) or Doing Business As (DBA) or name variances;
- Credit report is run with a U.S. address for a borrower who lives outside of the U.S.;
- Nicknames that are unrelated to the borrower's name;
- Age of accounts is inconsistent with the borrower's age;
- Address history on in-house credit is inconsistent;
- Trade lines were opened at the same time or opened recently;
- Recently added as authorized user on several trade lines or numerous authorized user accounts;
- Pattern of delinquencies that are inconsistent with credit explanations;
- Undisclosed bankruptcies, foreclosures, or debts;
- Greater number of authorized user trade lines than traditional trade lines;
- Contains authorized user accounts with trade line information inconsistent with the borrowers other accounts;
- Recently originated loan has been refinanced;
- All accounts have been recently paid in full;



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- Disputed accounts appear on the credit report (possible credit doctoring);
- Open credit obligation listed on the application but does not appear on the credit report;
- Employment information and history varies from loan application and/or VOE;
- High income borrower or borrower is over 25 years old lacks established credit or has inappropriate accounts;
- Other sources show a variance in employment or residence data;
- Social Security number is invalid, issued before the borrower was born, issued to a minor, is attributed to a deceased individual or the numbers vary, or the SSN differs from the SSN on the loan application;
- Borrower has multiple Social Security numbers;
- Multiple inquiries in a short time frame; and
- Recent (within two weeks) nonbank inquiries.

6A.3 (f) Verifications of Rent

Review verifications of rent for the following red flags:

- Lease period dates on the VOR do not correspond to the dates on the application;
- Last name of the landlord on the lease is the same as the borrower;
- The landlord shares the same address as the borrower;
- The landlord's telephone number on the lease is invalid;
- Rent on lease does not match the amount disclosed on the application Schedule E lists additional properties that are not on the loan application VOR is not in the name of the borrower; and
- Any visible sign that suggests the document has been altered.

6A.3 (g) Assets

Review the asset documentation (bank statements, verification of deposit) for the following red flags:

- Excessive balance in checking versus savings account;
- Bank statements mailed to address other than the borrower's residence, such as a Post Office Box or relative's address;
- Other names on the account with no explanation of why or backup documentation;
- Check Social Security number against 1003, W-2s, 1040s;
- Savings account with average two month balance exactly equal to present balance (no interest accumulation);
- Prepared/signed by originator before or on the same date as completed/signed by depository;



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- Large balances although the borrower has little or no interest income on tax returns;
- Account balance is significantly higher than the average balance or no average balance indicated on the Verification of Employment;
- Regular payroll deposits that do not agree with reported income;
- Deposits that exceed the borrower's normal take-home pay;
- Account numbers are inconsistent with the application;
- **Transactions do not add up to equal the ending balance;**
- **Borrower-provided online bank statement with no URL;**
- Cash in bank not sufficient to close escrow;
- New bank account opened within the past month;
- Bank statements are from an unfamiliar financial institution, have suspicious logo or do not identify the name or address of the financial institution;
- Round dollar amounts, especially on interest-bearing accounts;
- Borrower has no bank account or bank account is not in borrower's name;
- Significant changes in balance from prior two months of date of verification;
- Gift is given by current or former occupant/owner of the subject property;
- Type or handwriting identical throughout;
- Document is not folded;
- High income borrower with little or no cash;
- Evidence of ink eradicator or use of "white -out", or other alterations made to the document;
- Account was opened on a non-business day;
- VOD completed on a non-business day; and
- Addressed to a specific individual at the depository institution.

6A.3 (h) Verification of Employment (VOE)

Review the Verification of Employment for the following red flags:

- Verification form is forwarded to a Post Office Box (may be acceptable with independent verification) Income is out of line with the borrower's occupation;
- Property seller's address is the same as the employer's;
- Year-to-date and/or past years income says See "W-2s and Paystubs;"
- VOE is prepared/signed by originator on the same date as completed/signed by employer;
- VOE is prepared by someone other than a representative of a payroll or human resources department or has a generic job title such as secretary, manager, or general manager;
- Person verifying employment appears to be a relative of the borrower (i.e., same last name);
- Illegible phone number or name of person signing the document;
- Signature on the VOE reflects the same name as the borrower or other party affiliated with the



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transaction;

- The date the VOE was signed is not reasonable for processing time (i.e., VOE mailed out of state is signed the day after it was printed);
- Salary is displayed in round dollar amounts;
- VOE shows a company car allowance, yet applications shows an auto loan;
- Employer uses mail drop or Post Office Box or personal residence for business address;
- Borrower's profession changed from previous to current employer;
- Dates of employment on the VOE do not match dates on the application;
- Inappropriate verification sources (such as, secretary or relative) were used;
- Amount of overtime equals or exceeds base pay;
- Handwriting or type is inconsistent throughout the VOE;
- Document is not folded (never mailed);
- Evidence of ink eradicator ("white out") or other alterations appears on VOE Name of employer is similar to name of borrower;
- No employer address on VOE;
- No indication the VOE was mailed or faxed to the employer;
- Faxed VOE has unknown fax number (number other than employer);
- Business phone number is determined to be a cell phone and not appropriate for size of the company; and
- Type or handwriting is not identical throughout.

6A.3 (i) Paystub

Review pay stubs for the following red flags:

- Company name not imprinted;
- Employer's address is missing, is a Post Office Box, or is different than provided by borrower;
- Name of employer is similar to the borrower's name;
- Employee or address name not printed;
- Handwritten;
- Contains misspellings;
- Round dollar amounts;
- Year-to-date totals are not accurate from paycheck to paycheck;
- Date of pay period missing and/or inconsistent pay periods;
- No withholding;
- No check issue date;
- Lacks current income breakdown or year-to-date;
- Incorrect or inconsistent Social Security/Medicare deductions for level required;



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- Tax deduction not detailed (Social Security, Medicare, etc.);
- Pay stub numbers are in sequential order or show the same check number repeatedly;
- Evidence of ink eradicator (white out) or other alterations;
- Employee or employer name does not match the W-2, personal tax return or the loan application;
- Social Security number differs from W-2 or personal tax return or other documentation; and
- Payroll deductions reveal additional liabilities not disclosed on loan application.

6A.3 (j) W-2 Statement

Review the W-2(s) for the following red flags:

- Invalid Employer Identification Number (format should be xxxxxxxxx);
- Employer Identification number same as borrower's Social Security number;
- Different type size or font within the form;
- Handwritten;
- Faxed document;
- Inconsistencies in name spelling, address, employer's address, social security number, etc.;
- Reported income does not match income reported on loan application or on the VOE;
- Evidence of ink eradicator ("white out") or other alterations;
- Incorrect withholding amounts (FICA and Medicare wages/taxes and local taxes exceed ceilings/set percentages);
- Taxes paid are lower compared to income stated on W-2;
- Round dollar amounts;
- No address or it is an incorrect address for the employee or employer;
- Incorrect form provided; and
- The borrower should provide "Copy C," unless the closing is prior to April 15.

6A.3 (k) Tax Returns

- Verification form is forwarded to a Post Office Box (may be acceptable with independent verification);
- Income is out of line with the borrower's occupation;
- Year-to -date and/or past years income says (See "W-2s and Paystubs");
- VOE is prepared/signed by originator on the same date as completed/signed by employer;
- VOE is prepared by someone other than a representative of a payroll or human resources department or has a generic job title such as secretary, manager, or general manager;
- Person verifying employment appears to be a relative of the borrower (i.e., same last name);



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- Illegible phone number or name of person signing the document;
- Signature on the VOE reflects the same name as the borrower or other party affiliated with the transaction;
- The date the VOE was signed is not reasonable for processing time (i.e., VOE mailed out of state is signed the day after it was printed);
- Salary is displayed in round dollar amounts;
- VOE shows a company car allowance, yet applications shows an auto loan;
- Employer uses mail drop or Post Office Box or personal residence for business address;
- Borrower's profession changed from previous to current employer;
- Dates of employment on the VOE do not match dates on the application Inappropriate verification sources (such as, secretary or relative) were used;
- Amount of overtime equals or exceeds base pay;
- Handwriting or type is inconsistent throughout the VOE;
- Document is not folded (never mailed);
- Evidence of ink eradicator ("white out") or other alterations appears on VOE;
- Name of employer is similar to name of borrower;
- No employer address on VOE;
- No indication the VOE was mailed or faxed to the employer;
- Faxed VOE has unknown fax number (number other than employer);
- Business phone number is determined to be a cell phone and not appropriate for size of the company; and
- Type or handwriting is not identical throughout.

6A.3 (I) Phantom Employment, Credit, Income

Phantom employment or income occurs when the credit file is developed through fraudulent means. The following scenarios describe common methods of falsifying employment or income:

- A co-worker or superior completes a VOE with false information;
- A co-worker or superior acts as an authorized signer on a VOE;
- Verified employment is not consistent with employment reference on the credit report;
- The borrower may rent a post office box or provide another address for his/her employer. When the VOE is mailed to the false address, someone who has been instructed on what information to provide to the requesting party then completes it;
- The borrower provides false telephone numbers for those lenders that perform telephone verifications;
- The borrower provides false tax returns, W-2s, and paystubs, all of which may be easily obtained through interested parties to the transaction;



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- The borrower may use a fraudulent Social Security number on the original credit application. When the credit report is generated, it will reflect no credit, thereby effectively hiding the borrower's poor credit history; and
- The borrower may assume the identity of someone else.

6A.3 (m) Cancelled Checks

Review cancelled checks submitted as documentation for the following red flags:

- Encoding numbers are missing;
- Encoding numbers inconsistent with the date and amount of the check;
- Misalignment in type or variation in font type;
- Check numbers and dates are not in numerical and chronological order;
- Bank account numbers on the checks are inconsistent with the application and asset verification;
- Any visible sign that suggests the document may have been altered or falsified including, but not limited to, misaligned text, variation in font type, or signs of information that has been cut and pasted;
- Earnest money deposit check is written on account that the application does not list;
- Money orders or several checks were used for deposit and they are not in sequential order; and
- Check is dated prior to the sales contract execution date.

6A.3 (n) Appraisal

Review the appraisal for the following red flags:

- Ordered by a party to the transaction other than the loan originator (such as a realtor, property seller, borrower);
- Property seller's name does not match the name on the title preliminary report or purchase agreement;
- Borrower is not listed as the owner (non-borrowing owner);
- Ordered before sales contract written;
- Photos do not match property description;
- Photos of property taken from odd angles;
- Photos show a For Sale sign in the yard for a refinance or a For Rent sign in the yard for a purchase;
- Subject property has significant deferred maintenance;
- Comparable sales not verified as recorded (data source MLS, sales office);



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- Comparable sales have prior sales within the last 12 months with substantially different value;
- All comparable sales are within the same neighborhood/subdivision and/or the same builder on new construction;
- Comparable sales are older than six months in a market that has a faster marketing time;
- All comparable sales are sourced from private sale transaction versus property sold through Multiple Listing Service (MLS), Clerks office; etc.;
- Comparable sales are more than one mile away from subject property in an area where there are sufficient comparable sales closer to the subject property;
- All comparable sales are adjusted in the same direction;
- Overall adjustments are in excess of 25% without reasonable explanation;
- Appraiser is on the exclusionary; the appraisal is not acceptable;
- Appraiser name is the same as or similar to other parties engaged in the transaction;
- Appraiser comments that the property has been listed for sale within the last 90 days
- Appraiser used incorrect, outdated, or obsolete form;
- Income approach not used on tenant occupied properties;
- Tenant is shown as the occupant on an owner-occupied loan;
- Occupant is shown as tenant or unknown on a primary or secondary home property;
- Property ownership has been transferred within the last 120 days;
- The property has been sold one or more times in the last 12 months;
- The property's history shows recent sales within the year for a lower price; and
- Out of area or non-local appraiser.

6A.3 (o) Sales Contract

Review the sales contract for the following red flags:

- The borrower is not shown as the purchaser of the subject property;
- Names are deleted from or added to the contract;
- The property seller is a party related to the transaction such as the realtor, employer, appraiser or relative;
- Earnest money deposit consists of the entire down payment or is a large amount not customary with the size of the purchase;
- Earnest money deposit is placed directly with the property seller and represents the entire down payment for the loan;
- There is no earnest money deposit in the sales contract;
- The earnest money deposit on the sales contract does not match the earnest money deposit on the loan application;
- Earnest money deposit with a realtor who does not sign the contract and acknowledges receipt



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of funds;

- Earnest money is deposited with unknown third party outside of the transaction;
- Earnest money check is dated prior to the sales contract or much later than the sales contract date;
- Sales price is substantially below or significantly higher than what is typical for the market;
- There is no realtor involved;
- Name and address on the earnest money deposit check do not match the borrower/buyer;
- Purchase contract indicates it has been assigned or is contingent upon another party (i.e., property seller) purchasing the subject property first, such as the property seller;
- Property seller or buyer is a corporation;
- Property seller's name on the sales contract is not the owner's name on the appraisal;
- Property seller's name on the sales contract is not the owner of the property per the title commitment;
- The buyer's name on the sales contract is not the proposed insured per the title commitment;
- Property seller's name listed on the contract is not consistent throughout or is not the same as the signature;
- Sales contract references an addendum, but the addendum was not provided;
- Sales contract is dated after the date of the appraisal or after the date of the loan application;
- Sales contract has no date;
- Property seller concessions/contributions appear excessive and/or property seller is paying all of buyer's closing costs;
- Property seller concessions/contributions do not match the details of transaction on the application;
- Comments in appraisal indicate sales price is unreasonable for subject property; and
- Comments in appraisal indicate that sale of property is not an arm's length transaction.

6A.3 (p) Closing Disclosure

Review the Closing Disclosure for the following red flags:

- Mortgage being paid off is not listed on application or credit report;
- Mortgage being paid off is not the mortgage of the borrower or the property seller;
- Mortgages identified on the title commitment are not paid off;
- Property seller's name on Closing Disclosure is not consistent with property seller on sales contract, title commitment or appraisal;
- Property seller changes on day of escrow or in closing process;
- No money due from buyer;
- Cash proceeds back to buyer on a purchase transaction;



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- Property seller from the buyer with no earnest money deposit placed in escrow with the title agency;
- Excessive sales concessions;
- Discrepancies between the Closing Disclosure and the escrow instructions such as different property seller name or variations in fees and/or payoffs;
- No real estate commission paid, yet realtor is identified on sales contract;
- Real estate commission paid when no realtor involved per sales contract;
- Difference in sales price listed on sales contract and Closing Disclosure;
- Funds being disbursed to parties that were not identified as parties to the transaction;
- Funds being disbursed to unidentified parties with name of party receiving funds not identified on Closing Disclosure;
- Closing Disclosure indicates funds are being disbursed to a simultaneous escrow for the same property;
- Earnest money deposit is excessive and is placed with property seller not passing through the escrow account with the closing agent;
- Earnest money deposit with property seller represents entire borrower contribution to the transaction;
- Earnest money deposit does not match the earnest money deposit on the sales contract and/or the application;
- Title agency or closing attorney submits multiple Closing Disclosures for approval and review with information on payoffs, property seller, monies due from buyer changing in various Closing Disclosures;
- Property seller contributions or property seller concessions are on Closing Disclosure that are not in sales contract or on the application;
- Property seller is a corporation; and
- Borrower has owned the property for a short period of time and is requesting cash-out of the transaction.

6A.3 (q) Preliminary Title Report

Review the Preliminary Title Report for the following red flags:

- Prepared for or mailed to a party other than the originator;
- Title work is prepared by a title company that is not closing the transaction;
- Title company changes during the application process;
- Title commitment references other deeds to be recorded simultaneously;
- Delinquent property taxes tax liens or judgments on property;
- Notice of default/foreclosure recorded;



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- Ownership of property has changed more than once in the last 120 days;
- Property seller not on title (could indicate a double escrow);
- Borrower is not on title when transaction is a refinance;
- Buyer is not listed as proposed insured;
- Property seller is only on the title by rights under contract on a purchase transaction;
- Realtor, appraiser, or other interested parties are in the chain of title;
- Mortgages are being paid off that are not on the application or credit report; and
- Property mortgage history indicates significant differences in lien amounts.

6A.3 (r) Escrow/Closing Instructions

Review the Escrow/Closing Instructions for the following red flags:

- Reference to another (double) escrow/sale;
- Power of Attorney being used with no explanation;
- Unusual amendments to the original transaction;
- Related parties in the transaction;
- Demands being paid to undisclosed third party;
- Cash is being paid to outside escrow to the property seller;
- Odd amounts being paid as a deposit/down payment;
- Buyer is required to use a specific escrow company; and
- Borrower has right of assignment.



Newrez Disaster Policy

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Newrez Disaster Policy

Chapter 7A Overview

Newrez Disaster policy is initiated when a Federal Emergency Management Agency (FEMA) Presidentially Declared Major Disaster Area (PDMDA) is issued in response to a natural disaster event, such as a hurricane, tornado, wildfire, or flood that caused widespread damage and disruption to the community.

Under the FEMA PDMDA, designated disaster areas are identified by state and counties and by the type of government disaster assistance provided. When loans secured by properties located in designated counties that have been authorized for Individual Assistance, certain property inspection and income validation requirements are required to validate that condition or marketability of subject property or borrower income have not been negatively impacted by the disaster event. This must be verified prior to closing or purchasing the loan.

The Correspondent Client must ensure that the property continues to meet the collateral requirements set forth above and under the No Adverse Origination Circumstances section in the Correspondent Operations Guide, Chapter [1C](#), Representations, Warranties, and Covenants.

7A.1 Definitions

1. Declaration Date

The Declaration Date is the date in which the President declare an area a FEMA Major Disaster Declaration

2. Incident Period

The Incident Period is the time interval during which the disaster-causing incident occurs.

A FEMA Disaster Notification with the affected counties will be published by FEMA at <http://www.fema.gov/disasters>



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- The property is considered potentially impacted for 90 days from the Incident Period END date or date to which FEMA may extend the expiration of the disaster.
- The disaster “Declaration Date” is the date in which FEMA announces a Major Disaster Declaration and any aid has been made available.

7A.2 FEMA Presidentially Declared Major Disaster Areas

- If the subject property is in a county where a Major Disaster Declaration with Individual Assistance has been issued, an acceptable recertification of value and property inspection (see below) is required prior to closing the loan.
- If the property is in a county where a Disaster Declaration with Public Assistance or an Emergency Declaration has been issued, or the property is within proximity to a Federally declared disaster areas, no additional action is required.
- Revalidation of employment and income may be required, as per guidance below.

Newrez does not require a specific form or damage inspection report. Inspections must be performed by a certified appraiser, qualified professional (e.g., home inspector, engineer, etc.) or disaster inspection company. Inspections for FHA loans must be performed by the original FHA appraiser or approved FHA roster appraiser. Below are recommended options to certify the property condition:

- *Disaster Area Inspection Report (DAIR)*
- *Desktop Underwriter Property Inspection Report (Form 2075)*
- *Appraisal Update and/or Completion Report (Form 1004D/442)*

All federally declared disaster areas with Incident End Dates within the past 12 months can be found on the [FEMA Disaster website](#).

7A.3 Conventional Conforming Inspection Requirements

7A.3(a) Appraisals Completed Prior to Incident Start or End Date

One of the following is required:



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- A Correspondent client certification, with photos, which represents and warrants that the property has not sustained damage and that the subject property is in marketable condition with no required repairs or adverse conditions. **This Correspondent Client certification option is not eligible for Cash-out refinances.**
- A Disaster Inspection Report with photos evidencing the property is free from damage and the disaster had no effect on the value or marketability is required. If the Disaster Inspection Report or Attestation reveals more than minor cosmetic damage, a new interior and exterior appraisal report is required, and all damage must be repaired prior to closing and purchase by Newrez. Below are recommended forms to certify the property condition:
 - Disaster Area Inspection Report (DAIR)
 - Desktop Underwriter Property Inspection Report ([Form 2075](#))
 - Appraisal Update and/or Completion Report (Form 1004D/442)
 - A letter on the appraiser's letterhead bearing an original signature

If the property inspection reveals more than minor cosmetic damage, a new interior appraisal is required, and all damage must be repaired prior to closing and/or purchase by Newrez.

7A.4 Appraisals Completed after the Incident Date

| Appraisal Date | Appraisal Type | Requirements |
|--|---|--|
| After the "Incident Period" end date | Standard (Full) appraisal | An additional subsequent inspection is not required unless otherwise noted by the appraiser. |
| The "Incident Period" is within 90 days of initial application date and within 90 days of disaster expiration date | Appraisal Waiver, ACE, or another reduced appraisal type (per DU/LPA) | Exterior inspection with photos evidencing the property is free from damage and the disaster had no effect on the value or marketability. If the property inspection reveals more than minor cosmetic damage, a new |



Newrez Disaster Policy

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| | | interior appraisal is required, and all damage must be repaired prior to closing and/or purchase by Newrez. |
| Recommended forms to certify the property condition: <ul style="list-style-type: none">• Disaster Area Inspection Report (DAIR)• Desktop Underwriter Property Inspection Report (<u>Form 2075</u>)• Appraisal Update and/or Completion Report (Form 1004D/442)• A letter on the appraiser's letterhead bearing an original signature | | |

Minor cosmetic damage is defined as damage that would not warrant an insurance claim and so minor as not to impact the safety, soundness, structural integrity, security, or preservation of the property. Minor cosmetic damage examples include but are not limited to:

- Landscaping damage
- Cracked or damaged exit doors
- Marred paint surfaces
- Cracked window glass

7A.5 FHA Inspection Requirements

Pending mortgage closings or endorsement in a declared disaster require a damage inspection that identifies and quantifies any dwelling damage.

The damage inspection report must be completed by an FHA Roster Appraiser even if the inspection shows no damage to the property. If the original appraiser is not available, another FHA Roster Appraiser may complete the disaster inspection. The original appraisal report must be provided to the appraiser completing the damage inspection report and be able to certify that his or her personal inspection of the building revealed no indications of significant disaster related damages.

- The report must be dated after the earlier of the Incident Period end date or 14 days from the Incident Period start date;
- The appraiser may, at their discretion, perform a Remote Observation of the Property;



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- If the effective date of the appraisal is on or after the date required above for an inspection, a separate damage inspection report is not required;
- The appraiser is not required to ensure utilities are on at the time of this inspection if they have not yet been restored for the area.
- All damages must be repaired by licensed contractors or per local jurisdictional requirements. All damages, regardless of amount, must be repaired and the property restored to pre-loss condition with applicable documentation.

Newrez and FHA do not require a specific form or damage inspection report. Below are recommended forms to certify the property condition:

- Disaster Area Inspection Report (DAIR)
- *Desktop Underwriter Property Inspection Report (Form 2075)*
- *Appraisal Update and/or Completion Report (Form 1004D/442)*
- A letter on the appraiser's letterhead bearing an original signature

Refer to our Product Summaries for possible exceptions to the Disaster Policy.

| | |
|---|---|
| Appraisal completed on or prior to the disaster “Incident Period” end date | <p>The original appraiser or another FHA Roster Appraiser must re-inspect the property and include the following:</p> <ul style="list-style-type: none">• Interior and Exterior inspection with photos, dated after the earlier of the Incident Period end date or 14 days from the Incident Period start date;• A statement as to the dwelling habitability;• Property is free from damage and has not sustained any flooding and/or windstorm damage; and• A statement as to whether sustained damage is above or below \$5000. <p>If the re-inspection indicates damage below \$5000 and the property is habitable, one of the following must be met prior to closing:</p> <ul style="list-style-type: none">• A re-inspection showing that repairs have been completed, or• Established repair escrow (Refer to Newrez’s Escrow Holdback policy). |
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Newrez Disaster Policy

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| | <p>If the re-inspection indicates damage above \$5000 or the property is not habitable, the following must be met prior to closing the loan:</p> <ul style="list-style-type: none"> • An interior and exterior re-inspection showing that the repairs have been completed, and • Appraiser must state that the property is habitable. |
| Appraisal completed after the “Incident Period” end date (or 14 days from the Incident Period start date, whichever is earlier), up to the expiration date of the disaster (90 days from the end of the “Incident Period”) | <p>Full appraisal with interior and exterior inspection is required. The appraiser must address the physical condition of the site and improvements as well as the impact of any damages to the property value and marketability if the inspection occurs within 90 days of the incident end period.</p> <p>The appraiser must include the following:</p> <ul style="list-style-type: none"> • Interior and Exterior inspection with photos, • A statement as to the dwelling habitability, • Property is free from damage and has not sustained any flooding and/or windstorm damage, and • A statement as to whether sustained damage is above or below \$5000. <p>If the damage exists and is below \$5000 and the property is habitable, one (1) of the following must be met prior to closing the loan:</p> <ul style="list-style-type: none"> • A re-inspection showing that repairs have been completed, or • Establish repair escrow (Refer to Newrez’s Escrow Holdback policy). <p>If damage exists and is above \$5000 or the property is not habitable, the following must be met prior to closing the loan:</p> <ul style="list-style-type: none"> • An interior and exterior re-inspection showing that the repairs have been completed, and • Appraiser states that the property is habitable. |
| Loans Pending Mortgage Endorsement | <p>The appraiser must complete an exterior inspection with photos.</p> <p>If damage exists and is below \$5000 and the property is habitable, one of the following must be met prior to closing the loan:</p> |



Newrez Disaster Policy

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| | <ul style="list-style-type: none">• A re-inspection showing that repairs have been completed, or• Establish repair escrow (Refer to Newrez’s Escrow Holdback policy). <p>If damage exists and is above \$5000 or the property is not habitable, the following must be met prior to closing the loan:</p> <ul style="list-style-type: none">• An interior and exterior re-inspection showing that the repairs have been completed, and• Appraiser states that the property is habitable. |
| FHA Streamline Refinance (No appraisal) | No inspection required. |
| Appraisal completed with Remote Observation | <p>Remote Observation is a technology-based method that allows the Appraiser to directly observe the Property characteristics, concurrently and in coordination with another individual at the Property. The technology must provide data capture of the observation and include metadata with geocoding for location confirmation</p> <p>Required Analysis and Reporting:</p> <p>All required visual exhibits and photography images for the applicable scope of work must be included. A Remote Observation option is only available in connection with:</p> <ul style="list-style-type: none">• Damage inspections in a Presidentially-Declared Major Disaster Area or• Completing the Certification of Completion section of Fannie Mae Form 1004D/Freddie Mac Form 442, <i>Appraisal Update and/or Completion Report</i>, for the reobservation of a Property. <p>When using a Remote Observation technology, the appraisal report must include a certification that states the visual inspection was performed with Remote Observation and the technology verified the location of the Property.</p> |



Newrez Disaster Policy

All damage must be repaired by licensed contractors or per local jurisdictional requirements. All damages, regardless of amount, must be repaired and the subject property restored to pre-loss condition with appropriate and applicable documentation.

7A.6 VA Inspection Requirements

Pending mortgage closings or endorsement in a declared disaster require a damage inspection that identifies and quantifies any dwelling damage.

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| Loans Closed Prior to Natural Disaster | Any loan closed prior to the date of the declared disaster is eligible for VA Guaranty without regard to the disaster. |
| Appraisal completed on or prior to the Natural disaster end date and not closed | <p>Exterior inspection performed by a VA approved appraiser is required. Appraiser must address the physical condition of the site and improvements as well as the impact of any damages to the property value and marketability and if damage is noted an interior inspection must also be performed.</p> <p>The following items must be submitted with the VA guaranty request:</p> <p>Lender Certification, signed with title and dated</p> <p>This is to affirm that the property which is security for VA loan number _____ has been inspected to ensure that it was either not damaged in the recently declared disaster or has been restored to its pre-disaster condition or better.</p> <p>Veteran Certification, signed and dated</p> <p>I have inspected the property located at _____ and find its condition now to be acceptable to me. I understand that I will not be charged for any disaster-related expenses and now wish to close the loan.</p> <p>If local law requires the property to be inspected and approved by the local building inspection authority, a copy of the appropriate local report(s)</p> |



Newrez Disaster Policy

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| | <p>must be provided. Neither VA nor the veteran purchaser shall bear the expense of any disaster-related inspection or repairs.</p> <p>Decline in Value</p> <p>If there is an indication that the property, despite repairs, will be worth less at the time of loan closing than it was at the time of appraisal, the VA appraiser must update the original value estimate. The payment of the appraiser’s fee for that service will be a contractual matter between the buyer and seller.</p> <p>If the property value has decreased, the loan amount must be reduced accordingly.</p> |
| Appraisal completed after the “Incident Period” end date up to the expiration date of the disaster (90 days from the end of the “Incident Period”) | Full appraisal with interior and exterior inspection required. Appraiser must address the physical condition of the site and improvements as well as the impact of any damages to the property value and marketability if the inspection occurs within 90-days of the disaster end period. |
| VA IRRRL (No appraisal) | No inspection is required. |

7A.7 USDA Inspection Requirements

USDA Streamlined-Assist and Streamline without Appraisal Refinance do not require Disaster Inspections.

Loans with an appraisal date prior to the declared disaster Incident Date requires a Disaster Inspection Report with photos evidencing the property is free from damage and the disaster had no effect on value or marketability.

Newrez and USDA do not require a specific form or damage inspection report. Below are recommended forms to certify the property condition:



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- Disaster Area Inspection Report (DAIR)
- *Desktop Underwriter Property Inspection Report (Form 2075)*
- *Appraisal Update and/or Completion Report (Form 1004D/442)*
- A letter on the appraiser's letterhead bearing an original signature

7A.8 Smart Series Inspection Requirements

Refer to Conforming Inspection requirements.

| Revision History | Date |
|---|------------------|
| Non-Agency Inspection Requirements | August 31,2021 |
| Overview-Borrower Attestation Requirements -Added | October 31, 2021 |
| Removed Appraisals dated on or before September 3, 2021 | August 22, 2022 |
| Removed: requirements shown in Correspondent Operations Guide Ch 1C | |
| Removed: Appraisals dated on or before September 3, 2021 | |
| Added definition of incident date based on FEMA website and reporting tool | |
| Removed County declaration information and references to Incident Start Date, End Date and Incident period | |
| Added Conventional inspection options for appraisals dated prior to FEMA incident date | |
| Removed Conventional disaster inspection report content and inspector qualifications | |
| Removed: Age of Underwriting (Employment, Credit or Asset) documents as of note date throughout for Fannie Mae, Freddie Mac and VA sections | |
| Updated VA Disaster Policy to change incident date to declaration date | May 30,2024 |
| Removed VA requirement to complete VA Loan Summary Sheet (VA Form 26-0286) per VA announcement manual 16-7 (lenders handbook A and B updates as of 05.20.204 removing this form | July 30, 2024 |
| Added information about Remote Observations | |



Escrow Holdback Policy

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Escrow Holdback Policy

8A.1 Overview

Newrez will permit escrow holdbacks/work completion escrows for weather-related repairs that do not impact the safety, soundness, and structural integrity of the improvement.

The escrow holdback must be approved by the Delegated Client or by a Newrez underwriter for a Non-Delegated Client, when applicable.

The appraiser must provide an "as completed" value and provide a list of all incomplete items. The appraiser or disinterested party must provide the cost to complete all incomplete items.

Cost of borrower labor may not be included in the repair escrow.

8A.2 FEMA Declared Disaster

Properties located in a FEMA-declared disaster area must comply with agency/investor requirements regardless of appraisal method; refer to Chapter 7A FEMA Disaster Policy.

8A.3 Ineligible Repairs for Escrow

The following must be repaired prior to closing. This is not an all-inclusive list.

- Electrical repairs that are structural and requires a permit and sign off by the city
- Installation of a new pool or spa
- Portable items such as appliance or furniture
- Repairs that impact the health, safety, soundness, and structural integrity of the improvement
- Roof repair or replacement
- Septic repair or replacement:
 - An exception may be considered if weather related and requires certificate of occupancy from the local jurisdiction for disbursement
- Termite damage repairs
- Well repair or replacement



Escrow Holdback Policy

8A.4 Conventional Conforming Work Completion Escrow

8A.4(a) Existing Construction

8A.4(a)(i) Minor Deferred Maintenance

- If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the livability, soundness, or structural integrity of the property, the appraiser may complete the appraisal “as is.”
- These items must be reflected in the appraiser’s opinion of value. Minor conditions and deferred maintenance items include but are not limited to work floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass and are typically due to normal wear and tear. This type of work does not need the repairs to be completed prior to closing or a repair escrow.
- If the appraiser completes the appraisal “subject to repairs” for minor deferred maintenance, an escrow for repairs does not need to be established, unless the minor deferred maintenance cannot be completed due to weather, or a material shortage. Repairs must be completed as required by the appraiser prior to closing if an escrow account is not established.

8A.4(a)(ii) Safety, Soundness and Structural Related Repairs

- Repairs or incomplete items or conditions that affect the safety, soundness, or the structural integrity of the property must be completed prior to closing.
- The appraiser must appraise the property “subject to completion” of the repairs. These items include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. A certificate of completion from the appraiser must be obtained prior to closing. Photographs are not required unless those that accompanied the original appraisal report are no longer representative of the completed property.

8A.4(b) New or Proposed Construction

Newrez will accept loans with postponed improvements subject to compliance with the following:

- The postponed improvements must be completed within 180 days of the date of the Note.
Acceptable postponed items include items that:



Escrow Holdback Policy

- Are part of the sales contract (third-party contracts are not permitted)
- Are postponed for a valid reason, such as inclement weather or a shortage of building materials
- Do not affect the ability to obtain an occupancy permit
- A certification of completion must be obtained to verify the work was completed and must:
 - Be completed by the appraiser
 - State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report
 - Be accompanied by photographs of the completed improvements
- The cost of completing the improvements must not exceed 10% of the "as completed" value of the property. The appraiser must confirm that the cost estimate of the repairs is reasonable
- Mortgage insurance and title insurance are not adversely affected during or after the time the completion escrow is in effect

8A.4(c) Establishing an Escrow

The following is required to establish an escrow account:

- The cost of completing the improvements must not exceed 10% of the "as completed" value of the property.
- A minimum of 120% of the cost for completing the improvements must be held in escrow. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price
- A fully executed Escrow Agreement is required reflecting the agent to hold the agreed amount of escrow funds and a listing of all required repairs. All parties must sign this agreement which identifies their rights, duties, and obligations, including but not limited to the Client, borrower(s), and Closing Agent
- A title company or any other party may hold the escrow holdback funds and must be reflected on the Closing Disclosure
- The request for release of the funds is sent directly to the Title Company or party holding escrow funds and not Newrez
- The Title/Closing agent must collect the final inspection fee at closing to cover the cost of the inspection following completion of the work



Escrow Holdback Policy

- If the repairs are not completed in a timely and professional manner to Newrez's reasonable satisfaction, the escrow funds may be used to complete the repairs. Once repairs are properly completed, the remaining funds must be returned to the designated party

8A.4(d) Completion Certification

Once the Client receives notification that the repairs are complete, an inspection must be ordered with the results reported on the *Appraisal Update and/or Completion Report* ([Form 1004D/Form 442](#)). Inspections are required on all escrow releases.

8A.4(e) Follow-up Procedures to Clear Suspense

Forward the final inspection report, *Appraisal Update and/or Completion Report* ([Form 1004D/Form 442](#)) completed by the original appraiser indicating all repairs from the original appraisal and escrow agreement are complete and acceptable to postfundingadjustmentsmailbox.ftw@newrez.com.

8A.5 FHA Work Completion Escrow

The cost of repairs and improvements may be added to the sales price before calculating the mortgage amount when:

- Required by the appraiser as essential for property eligibility
- Agreement of sale indicates that repairs are to be paid for by the borrower
- The deferred work cannot be acceptably completed prior to loan closing due to adverse weather conditions
- The subject dwelling and property is habitable, safe and sound

8A.5(a) Establishing an Escrow

If adverse weather conditions prevent completion of certain Minimum Property Requirement (MPR) repairs prior to closing, funds may be escrowed to pay for completion of the work after closing.

- Maximum allowable escrow is 10% of the appraised value
- A minimum of 150% of the cost for completing the improvements must be held in escrow
- A fully executed Escrow Agreement is required reflecting agent to hold escrow funds for the agreed amount a listing of all required repairs. All parties must sign this agreement which identifies their rights, duties, and obligations, including but not limited to the Client, borrower(s), and Closing Agent



Escrow Holdback Policy

- Cost of the final inspection must be collected at closing in the escrow holdback funds to cover the cost of the inspection following completion of the work
- A title company or any other party may hold the escrow holdback funds and must be reflected on the Closing Disclosure
- The request for release of the funds is sent directly to the Title Company or party holding escrow funds and not Newrez
- The Client assumes the obligation to satisfactorily complete the repairs or improvements, regardless of the adequacy of the funds reserved in escrow
- Completion will be within 180 days of closing date
- FHA insurance will be obtained with *Mortgagee's Assurance of Completion* (form HUD-92300)
- The following documentation must be submitted with loan purchase package:
 - Fully executed escrow holdback agreement
 - Cost estimates
 - Copy of executed *Mortgagee's Assurance of Completion* (form HUD-92300)

8A.5(b) Completion Certification

Satisfactory completion of repairs must be evidenced by one (1) of the following:

- Part B of *Appraisal Update and/or Completion Report* ([Form 1004D/Form 442](#))
- Compliance Inspection Report (form HUD-92051)
- Certification from a "qualified" professional on their company form or letterhead

8A.5(c) Follow-up Procedures to Clear Suspense

Forward the final inspection report indicating all repairs from the original appraisal and escrow agreement are complete and acceptable to postfundingadjustmentsmailbox.ftw@newrez.com.

8A.6 VA Escrow Holdbacks

An escrow account may be established if:

- Required by the appraiser as essential for property eligibility
- The deferred work cannot be acceptably completed prior to loan closing due to adverse weather conditions
- The subject dwelling and property is habitable, safe and sound

An escrow account is not required when the following is true:



Escrow Holdback Policy

- The incomplete work is limited to the installation of landscaping due to inclement weather (lawns, shrubbery, etc.)
- The estimate cost to complete is not greater than \$2500, and
- There is adequate assurance that the work will be completed timely and satisfactorily (90-120 days)

8A.6(a) Establishing an Escrow

If adverse weather conditions prevent completion of certain Minimum Property Requirement (MPR) repairs prior to closing, funds may be escrowed to pay for completion of the work after closing.

- Maximum allowable escrow is 10% of the appraised value
- A minimum of 150% of the cost for completing the improvements must be held in escrow
- A fully executed Escrow Agreement is required reflecting agent to hold escrow funds for the agreed amount a listing of all required repairs. All parties must sign this agreement which identifies their rights, duties, and obligations, including but not limited to the Client, borrower(s), and Closing Agent
- For new construction, seller paid escrow repair funds will be held by the builder's title company
- Borrower paid escrow repair funds will be held by the Correspondent Client or title company
- Cost of the final inspection must be collected at closing in the escrow holdback funds to cover the cost of the inspection following completion of the work
- The escrow funds must be reflected on the Closing Disclosure
- Completion will be within 120 days of the closing date
- The Veteran-borrower signs the escrow holdback agreement
- VA Guaranty will be issued with unfinished work
- The Client assumes the obligation to satisfactorily complete the repairs or improvements, regardless of the adequacy of the funds reserved in escrow
- The following documentation must be submitted with loan purchase package:
 - Fully executed escrow holdback agreement
 - Cost estimates
 - Completed *Escrow Agreement for Postponed Exterior On site Improvements* ([VA Form 26-1849](#))



Escrow Holdback Policy

- If the repairs are not completed in a timely and professional manner, the escrow funds may be used to complete the repairs. Once repairs are properly completed, the remaining funds must be returned to the designated party

8A.6(b) Completion Certification

Satisfactory completion of repairs must be evidence by one of the following:

- Part B of *Appraisal Update and/or Completion Report* ([Form 1004D/442](#))
- Appraiser statement on their letterhead
- Certification from a qualified professional on their company form or letterhead
- Signed statement from the Veteran-purchaser that he or she is satisfied with the work
- Veteran cannot be charged the final inspection fee

8A.6(c) Follow-up Procedures to Clear Suspense

Forward the final inspection report indicating all repairs from the original appraisal and escrow agreement are complete and acceptable to postfundingadjustmentsmailbox.ftw@newrez.com.

8A.7 USDA Work Completion Escrow

Funds may be escrowed to pay for completion of the work after closing based on the following:

- The deferred work cannot be acceptably completed prior to loan closing due to adverse weather conditions
- The deferred work cannot affect the livability of the structure
- The subject dwelling and property are habitable, safe and sound

8A.7(a) Establishing an Escrow

The following steps must be taken to establish an escrow account:

- Maximum allowable escrow is 10% of the appraised value
- A minimum of 120% of the cost for completing the improvements must be held in escrow.
 - If the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price
 - When a borrower will complete the interior or exterior **non-structural** repairs on an existing dwelling without the assistance of a contractor the following must be met:



Escrow Holdback Policy

- The estimated cost to complete the work is not greater than 10 percent of the total loan amount;
 - The escrow amount is less than or equal to \$10,000; and
 - The borrower must provide evidence to support qualifications to complete repairs including knowledge, skills and time necessary to complete repairs.
- A fully executed Escrow Agreement is required reflecting agent to hold escrow funds in an amount of 120% or 100% (when applicable) of the agreed repair amount and a listing of all required repairs. All parties must sign this agreement which identifies their rights, duties, and obligations, including but not limited to the Client, borrower(s), and Closing Agent
- A title company or any other party may hold the escrow holdback funds and must be reflected on the Closing Disclosure. The request for release of the funds is sent directly to the Title Company or party holding escrow funds and not Newrez
- The Title/Closing agent must collect the final inspection fee at closing to cover the cost of the inspection following completion of the work
- The escrow funds must be reflected on the Closing Disclosure
- Completion will be within 180 days of the closing date
- The Client assumes the obligation to satisfactorily complete the repairs or improvements, regardless of the adequacy of the funds reserved in escrow
- If the repairs are not completed in a timely and professional manner to Newrez's reasonable satisfaction, the escrow funds may be used to complete the repairs. Once repairs are properly completed, the remaining funds must be returned to the designated party

8A.7(b) Completion Certification

Once the Correspondent receives notification that the repairs are complete, an inspection must be ordered with the results reported on the *Appraisal Update and/or Completion Report* ([Form 1004D/Form 442](#)). Inspections are required on all escrow releases.

8A.7(c) Follow-up Procedures to Clear Suspense

Forward the final inspection report, *Appraisal Update and/or Completion Report* ([Form 1004D/Form 442](#)) completed by the original appraiser indicating all repairs from the original appraisal and escrow agreement are complete and acceptable to postfundingadjustmentsmailbox.ftw@newrez.com.



Escrow Holdback Policy

8A.8 Smart Series

Newrez requires a maximum allowable escrow holdback of 10% of the appraised value or \$20,000 whichever is less. Escrow amounts over \$20,000 will be considered on exception basis.

All other requirements for Conforming transactions apply.

8A.9 MA Title 5 Repair Escrow (All Products)

A MA Title 5 repair escrow is permitted subject to the following:

- A satisfactory septic certification verifying the current system is operational
- A copy of the contract verifying the cost of the septic improvement to comply with MA Title 5 requirements
- A minimum of 150% of the cost for completing the improvements must be held in escrow, collected, and held by the title company
- Once work is completed, Client is required to forward escrow close out documentation to the postfundingadjustmentsmailbox.ftw@newrez.com

| Revision History | Date |
|--|-----------------|
| Added to Overview: Cost of borrower labor may not be included in the repair escrow | October 31,2022 |
| Added Section Ineligible Repairs for Escrow The following must be repaired prior to closing. This is not an all-inclusive list. <ul style="list-style-type: none">• Electrical repairs that are structural and requires a permit and sign off by the city• Installation of a new pool or spa • Portable items such as appliance or furniture• Repairs that impact the health, safety, soundness, and structural integrity of the improvement• Roof repair or replacement• Septic repair or replacement:<ul style="list-style-type: none">o An exception may be considered if weather related and requires certificate of occupancy from the local jurisdiction for disbursement• Termite damage repairs• Well repair or replacement | |
| Updated Minor Deferred Maintenance <ul style="list-style-type: none">• If the appraiser completes the appraisal “subject to repairs” for minor deferred maintenance, an escrow for repairs does not need to be established, unless the | |
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Escrow Holdback Policy

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| <p>minor deferred maintenance cannot be completed due to weather, or a material shortage. Repairs must be completed as required by the appraiser prior to closing if an escrow account is not established.</p> | |
| <p>Conventional Establishing an Escrow</p> <ul style="list-style-type: none"> • Maximum allowable escrow is 10% of the appraised value | |
| <p>FHA Establishing an Escrow</p> <ul style="list-style-type: none"> • Maximum allowable escrow is 10% of the appraised value <p>Added the following for clarification and consistency</p> <ul style="list-style-type: none"> • A fully executed Escrow Agreement is required reflecting agent to hold escrow funds for the agreed amount a listing of all required repairs. • The Client assumes the obligation to satisfactorily complete the repairs or improvements, regardless of the adequacy of the funds reserved in escrow • Forward the final inspection report indicating all repairs from the original appraisal and escrow agreement are complete and acceptable to postfundingadjustmentsmailbox.ftw@newrez.com <p>VA Establishing an Escrow</p> <ul style="list-style-type: none"> • Maximum allowable escrow is 10% of the appraised value Added the following for clarification and consistency • A fully executed Escrow Agreement is required reflecting agent to hold escrow funds for the agreed amount a listing of all required repairs. • The Client assumes the obligation to satisfactorily complete the repairs or improvements, regardless of the adequacy of the funds reserved in escrow • Forward the final inspection report indicating all repairs from the original appraisal and escrow agreement are complete and acceptable to postfundingadjustmentsmailbox.ftw@newrez.com. | |
| <p>VA Establishing an Escrow</p> <ul style="list-style-type: none"> • Maximum allowable escrow is \$10,000 of the appraised value Added the following for clarification and consistency • A fully executed Escrow Agreement is required reflecting agent to hold escrow funds for the agreed amount a listing of all required repairs. • For new construction, seller paid escrow repair funds will be held by the builder's title company • Borrower paid escrow repair funds will be held by the Correspondent Client or title company | |



Escrow Holdback Policy

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| <ul style="list-style-type: none"> • The Client assumes the obligation to satisfactorily complete the repairs or improvements, regardless of the adequacy of the funds reserved in escrow • If the repairs are not completed in a timely and professional manner, the escrow funds may be used to complete the repairs. Once repairs are properly completed, the remaining funds must be returned to the designated party <p>Forward the final inspection report indicating all repairs from the original appraisal and escrow agreement are complete and acceptable to postfundingadjustmentsmailbox.ftw@newrez.com</p> | |
| <p>USDA Establishing an Escrow</p> <ul style="list-style-type: none"> • Maximum allowable escrow is \$10,000 of the appraised value <p>Added the following for clarification and consistency</p> <ul style="list-style-type: none"> • A fully executed Escrow Agreement is required reflecting agent to hold escrow funds for the agreed amount a listing of all required repairs. • The Client assumes the obligation to satisfactorily complete the repairs or improvements, regardless of the adequacy of the funds reserved in escrow • The escrow funds must be reflected on the Closing Disclosure • Forward the final inspection report indicating all repairs from the original appraisal and escrow agreement are complete and acceptable to postfundingadjustmentsmailbox.ftw@newrez.com | |
| <p>Added Smart Series requirements</p> <ul style="list-style-type: none"> • Newrez requires a maximum allowable escrow holdback of 10% of the appraised value or \$20,000 whichever is less. Escrow amounts over \$20,000 will be considered on exception basis. • All other requirements for Conforming transactions apply. | |
| <p>Added MA Title 5 Repair Escrow</p> | |
| <p>Modified Conventional policy for maximum amount of escrow to clarify Cost of completing repairs must not exceed 10% of the “as completed” value.</p> | 08.30.2023 v23.1 |
| <p>Updated USDA escrow guidelines to identify guidelines for borrower to complete interior and exterior repairs with overlay non-structural repairs only.</p> | 09.28.2023 v23.2 |
| <ul style="list-style-type: none"> • Modified title for MA Title 5 Repair Escrow to reflect (All Products) • Removed requirement: The cost to complete the improvements does not exceed 15% of the “as completed” value | 01.30.2024 v24.1 |
| <ul style="list-style-type: none"> • VA Escrow Holdbacks updated to not require an escrow account when the following is true: | |



Escrow Holdback Policy

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| <ul style="list-style-type: none">○ The incomplete work is limited to the installation of landscaping due to inclement weather (lawns, shrubbery, etc.)○ The estimate cost to complete is not greater than \$2500, and○ There is adequate assurance that the work will be completed timely and satisfactorily (90-120 days) | |
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Power of Attorney

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Power of Attorney

Newrez permits the use of a Power of Attorney (POA) under certain circumstances to sign certain loan documents. There are several types of POAs and different restrictions or limitations in their use, depending upon State laws, investor requirements, loan types, title company requirements and Newrez requirements.

9A.1 Power of Attorney

Generally, a POA is an instrument that authorizes one person (agent) to act as agent or attorney-in-fact for another person (principal). A POA is generally used when the principal is unavailable to conduct their business in person, not as a matter of convenience. A POA does not survive death of the borrower.

Refer to our Product Summaries for specific restrictions or requirements.

Some common POAs are:

- 1. General POA**

A POA that authorized an agent to transact business for the principal.

- 2. Durable POA**

A POA that authorized an agent to transact business for the principal and remains in effect during the principal's incompetency, disability, or incapacity.

- 3. Specific POA**

A POA that limits the authority of an agent to transact business for the principal to only a specific matter, including specific to the mortgage transaction. The POA must specify the legal description, subject property address, and transaction type within the body of the document. It must be recorded at closing.

- 4. General Military**

A POA issued through the United States Judge Advocate General (JAG) Office. It may be general, durable, or specific.

9A.2 Acceptable Use of Power of Attorney

Generally, a Power of Attorney may be used for closing in the following scenarios depending on the investor. Refer to the specific investor requirements in this chapter:



Power of Attorney

1. Incapacitated Borrower

The borrower is incapacitated and therefore unable to sign documents due to disability, legal incapability, or they lack the physical ability.

Incapacitated borrowers must occupy the property as their primary residence; the underwriter must validate occupancy and review for red flags within the loan file.

Example: verify the signer of the POA is not acting as a straw buyer or purchasing an investment property utilizing the incapacitated borrower's credit.

2. Military Personnel

Permitted on Purchase, Rate and Term Refinance, and Cash-out Refinance transactions, per individual investor requirements, when the borrower is currently deployed or stationed overseas and is unable to sign documents or attend closing.

3. Hardship Circumstance

The borrower is unable to attend closing because he/she is out of the state or country for an extended period, bedridden, in the hospital with a serious illness, or is incarcerated. A POA will not be permitted for borrowers that are on vacation.

4. Government Contractor

The borrower is employed by the government and currently working overseas. A letter from the borrower's employer is required to verify overseas travel. Must comply with [Lender Policies](#)

5. Business Reasons

Permitted on Purchase and Rate and Term Refinance transactions when the co-borrower/spouse has POA for the unavailable borrower. A POA is not permitted on Cash-out Refinance transactions.

Note: A Power of Attorney is not permitted when requested as a matter of convenience.

9A.3 Restrictions and Limitations

Some states have statutes that govern the form of POA, so POAs executed in those States should comply with the applicable law.

Regardless of what form is used, POAs cannot be used in connection with a Texas Section 50(a)(6) loans.



Power of Attorney

General Requirements

The following are general requirements applicable to all POAs:

- A written statement that explains the circumstances of the use of the POA must be included in the loan file. Such statement must be provided to document custodian with the power of attorney.
- The POA must be on the proper form and drawn in accordance with applicable state laws and be acceptable to the recording agent in the local jurisdiction;
- The POA must be prepared by the borrower's attorney or the closing agent; it will not be prepared by Newrez;
- All POAs must be signed and notarized;
- Documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity must be written out in its entirety; abbreviations are not acceptable;
- The POA clearly defines the agent;
- The POA grants the agent the authority to enter into a real estate transaction and mortgage real property;
- The POA does not contain any blanks;
- The Principal is the same person as shown on the loan application;
- The agent's identity is verified and documented in the loan file;
- The POA has been, or will be, recorded prior to the recording of the Deed of Trust/Mortgage. If recorded simultaneously, the POA must be recorded first;
- The original POA must be provided at closing for recording or must be previously recorded with a clerk certified copy in the file;
- The title company must accept the POA and insure the property without exceptions;
- Obtains a letter of explanation verifying the reason the POA is being used; The name(s) on the POA must match the name(s) on the loan documents, and it must have been dated such that it was valid at the time the loan document(s) was executed. If applicable law requires an original POA for enforcement or foreclosure purposes, an original POA must be forwarded to the document custodian;
- If the subject property is held in a Trust, a POA cannot be used to sign on behalf of the trustee unless:
 - The related trust instrument expressly authorizes the trustee to use a POA to delegate powers to an agent, or
 - The agent under the POA is the borrower creating such inter vivos revocable trust.

9A.3(a) Fannie Mae

The Fannie Mae Selling Guide contains numerous provisions relating to POAs and should be consulted for



Power of Attorney

the latest information.

An agent under a POA may sign the Note and/or Security Instrument on behalf of a borrower if all of the following requirements are met:

- The name(s) on the POA match the name(s) of the person on the relevant loan document;
- The POA is dated such that it was valid at the time the relevant loan document was executed;
- The POA is notarized; and
- The POA must reference the address of the subject property.

As applicable, comply with the following additional requirements:

- In jurisdictions where a POA is used for a signature on a Security Instrument must be recorded with the security instrument, the lender must ensure that recordation has been affected.
- If applicable law requires an original POA for enforcement or foreclosure purposes, an original must be forwarded to the document custodian.
- If there is more than one borrower, each may execute the Note and/or Security Instrument using a POA that complies with this section.

A Power of Attorney may not be used for Cash-out Refinance transactions.

9A.3(a)(i) Ineligible Agents under a POA

Except as otherwise required by applicable law or unless they are the borrower's relative, none of the following persons may sign the Security Instrument or Note as agent under a POA:

| Agent | Permitted Exceptions |
|--|---|
| <ul style="list-style-type: none">• Affiliate of lender• Loan originator• Affiliate of the loan originator• Employee of the title insurance company• Affiliate of the title insurance company or its employee (including, but not limited to, the title agency closing the loan) | Transaction must meet the Additional Conditions below |
| <ul style="list-style-type: none">• Lender (or employee of lender)• Property seller, or any person related to the property seller, including a relative or | None |



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| affiliate; <ul style="list-style-type: none">Any real estate agent with a financial interest in the transaction (or any person affiliate with such real estate agent). | |
|--|--|

A borrower's relative includes any person defined as a relative in this Guide, or a person who is a fiancé, fiancée, or in a legally recognized mutual relationship with the borrower.

9A.3(a)(ii) Additional Conditions

The following are the additional conditions that must be met to qualify for a permitted exception in the table above.

The POA expressly states an intention to secure a loan not to exceed a stated amount from a named lender on a specific property.

- The POA expressly authorizes the agent to execute the required loan documents on behalf of the borrower.
- In a recorded, interactive session conducted via the internet, and to the satisfaction of the agent, the borrower must—confirm their identity;—after reviewing the required loan documents, reaffirm their agreement to the terms and conditions of the note and security instrument evidencing the transaction; and
- Reaffirm their agreement to the execution of the loan documents by the agent.

At Fannie Mae's request, a recording and other documentary media must be produced memorializing the entirety of the interactive session. Such request may be at any time during the term of the related loan and must be complied with within a commercially reasonable time following such request and without additional expense to Fannie Mae.

If the agent is an employee of the title insurer or is an employee of the policy-issuing agent of the title insurer, then unless unavailable under applicable law, such title insurer must issue a closing protection letter (or similar contractual protection) for the transaction for the policy-issuing agent.

9A.3(b) Freddie Mac

The Freddie Mac [Single-Family Seller Servicer Guide](#) contains several provisions relating to POAs and should be consulted for the latest information. Those provisions are summarized below.



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Freddie Mac will permit the Note, including an eMortgage, in accordance with the following requirements.

A POA may only be used when:

- There is an event, such as a medical emergency, natural disaster, military deployment, or other hardship preventing the borrower from executing the requisite documents in person, by electronic signature or through other alternative electronic means; or
- Applicable law requires the use of a POA.

The POA must comply with the laws of the applicable jurisdiction and the borrower must have had the capacity to grant the POA at the time it was made. A notation, description, or other information about the reason why a POA must be used, is required. If the acceptance of a POA is required by law, a written statement that explains the circumstances must be provided and a copy of the statement delivered to the document custodian with the POA.

The person using the POA to sign on behalf of the borrower is called an “attorney-in-fact.” The attorney-in-fact must:

- Have a familial or fiduciary relationship with the borrower;
- Be an individual employed by the title insurer underwriting the title insurance product insuring the mortgage; or
- Be an individual employed or engaged contractually by the title agency issuing the title insurance product for the mortgage and closing the transaction, but only if the title insurer has issued a closing protection letter relating to the transaction (or has similar contractual indemnity to the Newrez and assignees of the Newrez) for such policy issuing agent

Ineligible Agents Under a POA

- Neither the seller of the property in a purchase transaction nor an employee of the originating lender is eligible to be an attorney-in-fact under a POA.
- **Any real estate agent with a financial interest in the transaction (or any person affiliate with such real estate agent).**

A POA may be used to execute any of the initial loan documents and closing documents. The borrower may execute the POA using an electronic signature. The POA must be executed by the borrower prior to its use by an attorney-in-fact. The POA does not have to be specific to the mortgage transaction.



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The POA must be notarized, and the loan must be covered by a title insurance product.

If the Note, Security Instrument and other closing documents were executed under a paper POA, the Seller must comply with the delivery requirements per Freddie Mac [Seller Guide](#).

9A.3(c) Freddie Mac Cash-out Refinance Transactions

After the terms of the mortgage have been finalized and prior to closing, an employee of the originating lender or settlement agent must explain and discuss the terms of the mortgage and use of the POA with the borrower to confirm the borrower understands them. However, if the borrower is in a Period of Military Service and is unavailable for the discussion or the borrower is incapacitated such that they cannot participate in a discussion, then this requirement is waived for that borrower.

At a minimum, the discussion must include:

- Review of the rate, term, and principal balance of the mortgage;
- The address of the subject property;
- The fact that the attorney-in-fact uses the borrower's POA to sign documents on behalf of the borrower; and
- The scheduled or estimated closing date.

This discussion must take place in person, telephonically or using a video conference system. It may take place just before closing and does not require the presence of the attorney-in-fact. It must be memorialized by a borrower acknowledgment that may be in:

- Writing;
- An e-mail exchange with the borrower at an e-mail address provided by the borrower; or
- A recording or a transcript of the telephone or video discussion with the borrower.

The acknowledgement must be retained in the loan file.

9A.4 FHA (Ginnie Mae)

The HUD Handbook, [4000.1](#) contains numerous provisions relating to POAs and should be consulted for the latest information.

An agent under a POA may execute the following:



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- Initial Documents except for the Application and Purchase Contract/Agreement of Sale; and
- Closing Documents.

The initial application may not be executed by using a POA (i.e., it must be signed by all borrowers); except for either of the following:

- For Military Personnel, a POA may be used:
 - When the service member is on overseas duty or on an unaccompanied tour;
 - When unable to obtain the absent borrower's signature on the application by mail or fax; and
 - Where the attorney-in-fact has specific authority to encumber the property and to obligate the borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.
- For Incapacitated borrowers, a POA may be used when:
 - A borrower is incapacitated and unable to sign the mortgage application;
 - The incapacitated individual will occupy the property, or the property is underwritten as an eligible investment property; and
 - The attorney-in-fact has specific authority to encumber the property and to obligate the borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

POA may be used for closing documents, including page four of the Addendum to the Uniform Residential Loan Application (URLA) and the final URLA if it is signed at closing.

A Power of Attorney may not be used for Cash-out Refinance transactions.

Unless required by applicable state law, or as stated in the exception below, or they are the borrower's family member, none of the following connected to the transaction may sign the Security Instrument or Note as the attorney-in-fact under a POA:

- Mortgagee, or any employee or affiliate;
- Loan originator, or employer or employee;
- Title insurance company providing the title insurance policy, the title agent closing the mortgage, or any of their affiliates; or
- Any real estate agent or any person affiliated with such real estate agent.

9A.4(a) Exception

Closing documents may be signed by an attorney-in-fact who is connected to the transaction if the POA



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expressly authorizes the attorney-in-fact to execute the required documents on behalf of a borrower, only if the borrower, to the satisfaction of the attorney-in-fact in a recorded interactive session conducted via the internet has:

- Confirmed their identity; and
- Reaffirmed, after an opportunity to review the required mortgage documents, their agreement to the terms and conditions of the required mortgage documents evidencing such transaction and to the execution of such required mortgage by such attorney-in-fact.

9A.5 VA (Ginnie Mae)

The [VA Lenders Handbook](#) contains several provisions relating to POAs and should be consulted for the latest information.

It is permissible for a Veteran to use a POA to execute any documents necessary to obtain a VA guaranteed loan. This enables active duty service persons stationed overseas, and other Veterans who cannot be present to execute loan documents.

The Veteran must execute a general or specific POA that is valid and legally adequate. The Veteran's attorney-in-fact must use this POA to apply for a Certificate of Eligibility (COE) and initiate processing of a loan on behalf of the veteran. A military POA is considered a general POA and is only valid during the Active Duty Military period of deployment, not to exceed one year.

Ineligible Agents Under a POA

Any real estate agent with a financial interest in the transaction (or any person affiliate with such real estate agent).

To complete the loan transaction using an attorney-in-fact, ensure that the general or specific POA complies with state law to the extent that:

- The mortgage can be legally enforced in that jurisdiction; and
- Clear title can be conveyed in the event of foreclosure.

To complete the loan transaction using an attorney-in-fact, VA also requires the Veteran's written consent to the specifics of the transaction either through a general POA or a specific POA.

- General POA: The veteran's signature on both the sales contract and the URLA, as long as the veteran's intention to obtain a VA loan for the subject property is expressed somewhere in those



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documents, or

- Specific POA: A specific power of attorney or other document(s) signed by the veteran, which encompasses the following:
 - Entitlement—A clear intention to use all or a specified amount of entitlement
 - Purpose—A clear intention to obtain a loan for purchase, construction, repair, alteration, improvement, or refinancing
 - Property Identification—Identification of the specific property
 - Price and Terms—The sales price, if applicable, and other relevant terms of the transaction
 - Occupancy—The Veteran’s intention to occupy the subject property (or other applicable VA occupancy requirement)

9A.5(a) Alive and Well Statement

All transaction types require an Alive and Well Statement at time of loan closing. Verify that the Veteran is alive and well, and, if on active military duty, not missing in action, and make the following certification:

“The undersigned lender certifies that written evidence in the form of correspondence from the Veteran or, if on active military duty, statement of his or her commanding officer (including statement of person authorized to act for said officer), affirmatively indicating that the Veteran was alive and, if the veteran is on active military duty, not missing in action status on (date), was examined by the undersigned and that the said date is subsequent to the date the Note and Security Instruments were executed on the Veteran’s behalf by the attorney-in-fact.”

9A.6 USDA (Ginnie Mae)

The USDA Technical Handbook, HB-1-3555 contains numerous provisions relating to POAs and should be consulted for the latest information.

An agent under a POA may execute the following:

- Initial Documents except for the Application and Purchase Contract/Agreement of Sale; and
- Closing Documents.

The initial application may not be executed by using a POA (i.e., it must be signed by all borrowers); except for either of the following:

- A specific or general POA must comply with state law and allow for legal enforcement of the mortgage Note.
- For Military Personnel, a POA may be used for the initial or final application, but not both:



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- When the service member is on overseas duty or on an unaccompanied tour;
- When unable to obtain the absent borrower's signature on the application by mail or fax; and
- Where the attorney-in-fact has specific authority to encumber the property and to obligate the borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.
- For Incapacitated borrowers, a POA may be used when:
 - A borrower is incapacitated and unable to sign the mortgage application;
 - The incapacitated borrower will occupy the property; and
 - The attorney-in-fact has specific authority to encumber the property and to obligate the borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

Unless required by applicable state law, or as stated in the exception below, or they are the borrower's family member, none of the following connected to the transaction may sign the Security Instrument or Note as the attorney-in-fact under a POA:

- Mortgagee, or any employee or affiliate;
- Loan originator, or employer or employee;
- Title insurance company providing the title insurance policy, the title agent closing the mortgage, or any of their affiliates; or
- Any real estate agent or any person affiliated with such real estate agent.

9A.7 Title Company Requirements

The title company may have additional requirements to be considered and clients should contact the title company to review in addition to the above requirements.

9A.8 Lender Policies

Newrez has a specific policy with regard to executing POAs used outside of the United States. The following categories of individuals are eligible to execute POAs outside the United States and must be signed in a United States Military Base or United States Embassy in the foreign country where the POA is being signed:

- Members of the uniformed services of the United States (e.g., Army, Navy, Air Force, Marine Corps, Coast Guard) serving outside the United States ("Overseas Service Members");
- Members of the National Guard under a call to active service and serving outside the United States ("Overseas Guard Members");
- Members of reserve components ordered to report for military service and serving outside the United States ("Overseas Reserves Members");



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- United States citizens serving with the forces of a nation with which the United States is allied in the prosecution of a war or military action (“Overseas Citizens”);
- State Department employees stationed at an overseas post (“Overseas Employees”);
- Overseas Service members, Overseas Guard Members, Overseas Reserves Members, Overseas Citizens;
- Overseas Employees are collectively referred to as “Overseas Members;” and
- Family members of Overseas Members. “Family Members” include spouses, domestic partners, and other persons regardless of actual or perceived sexual orientation, gender identity.

Any other POAs signed overseas falling outside of these categories are not permitted.

9A.9 Smart Series

Power of Attorney is not permitted unless required by state law for the following:

- Cash-out Refinance;
- Texas Sections 50(a)(6) and 50(a)(2);
- When closing in the name of an LLC;
- When closing in the name of a trust; and
- When the borrower is a Foreign National.

| Revision History | Date |
|---|---------------------|
| A POA may be used on a cash-out refinance for a Veteran who is on active duty Updated POA Restrictions: <ul style="list-style-type: none">• Removed POA may not be used when subject property is held in a trust Retitled 9A.11 retitled from Jumbo/Non-Agency to Smart Series Clarified Power of Attorney information for Cash-Out Refinance transactions for: <ul style="list-style-type: none">• Not permitted for: Fannie Mae or FHA• Permitted guidelines added for: Freddie Mac and VA (active veterans) Added Smart Series power of Attorney requirements | 05.30.2023 v23.1 |
| Modified following: <ul style="list-style-type: none">• Acceptable use of Power of Attorney Policy section: Bookmark link added for General Contractor eligibility to Lender Policies section for individuals eligibility to sign POA overseas• General requirements: Added a written statement explaining the circumstances of the use of the POA must be included in the loan file. Such statement must be | 08.30.2023 v23.2 |

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| provided to document custodian with the power of attorney. | |
| <ul style="list-style-type: none"> Clarified POA executed outside the United States must be signed in a United States Military Base or United States Embassy in the foreign country where POA is being signed Removed statement for VA transactions - A power of attorney may not be used for cash out refinance transactions unless it is required due to the Veteran-borrower being on active duty. | 09.28.2023 v23.3 |
| <p>Created a category Titled: Ineligible Agents Under a POA for both VA and Freddie Mac Purchase transactions to identify overlay:</p> <ul style="list-style-type: none"> Any real estate agent with a financial interest in the transaction (or any person affiliate with such real estate agent). | 05.30.2024 v24.1 |



Glossary

The terms defined within shall have the same meaning as referenced in the Underwriting Guide unless otherwise stated.

1031 Tax Deferred Exchange

A section of the U.S. Internal Revenue code that applies to business use or investment properties including rental, land, and commercial real estate. It provides a safe and legal procedure for rolling sales profits into new property as a non-taxable exchange. These exchanges are often referred to as “Starker” exchanges.

Abstract of Title

A written history of the title transaction of conditions bearing on the title to a designated parcel or land. It covers the period from the original source of title to the present and summarizes all subsequent instruments of public record by setting forth their material parts.

Acquisition Cost/Mortgage Basis

Total cost to the buyer for the real estate securing the mortgage, including the sales price, cost of any required repairs paid for by the buyer, plus Allowable Closing Costs. Total acquisition does not include non-realty items, prepaid expenses (such as taxes, assessments, and insurance premiums), or seller concessions.

Active Duty

Because of Public Law 97-66, service in the armed forces, for the purpose of Eligibility for Entitlement, does not commence until entry into actual active-duty status regardless of any reserve duty prior to that date or enlistment under the Delayed Entry Program (considered in the reserves until reporting to active duty).

Active Trade Line

The date of the last activity on the account and not a current open balance.

Adjustable-Rate Mortgage (ARM)

A mortgage loan that allows the lender to adjust the interest rate in accordance with a specified index periodically and as agreed to at the inception of the loan. Also referred to as a variable rate mortgage (VRM)



Glossary

Adjustment Period

The time during which an ARM interest rate remains effective.

Agency

Fannie Mae, Freddie Mac, or Ginnie Mae.

Affiliate

Any person or entity controlling, controlled by, or under common control with a person or entity.

“Control” means the power to direct the management and policies of a person or entity, directly or indirectly, whether through ownership of voting securities, by contract or otherwise; and “controlling” and “controlled” shall have meanings correlative to the foregoing.

Allonge

A separate piece of paper on which is written endorsements to a Bill of Exchange or Promissory Note.

This is usually done when the original document was not endorsed. The piece of paper must be securely attached to the instrument that is being endorsed.

Alternative Dispute Resolution (ADR)

Includes any process or procedure other than adjudication by a presiding judge in which a neutral third party participates to assist in the resolution of issues in controversy through methods such as early unbiased evaluation, mediation, minitrial, and arbitration.

Annualize Income

Total year-to-date income (regardless of the number of months) divided by 12.

ALTA

Stands for: American Land Title Association, 1828 L. Street NW, Suite 705, Washington, DC 20036.

Telephone number: 800. 787.ALTA

Alternative Documentation

A documentation option that allows lenders to obtain documentation related to a borrower's income, employment, funds for closing, and mortgage payment history directly from the borrowers, rather than



Glossary

from the borrowers' employer, bank, or mortgage servicer. Samples of alternative documentation include W-2 forms, bank statements, pay stubs, and canceled checks.

Annual Percentage Rate (APR)

The actual cost of borrowing money expressed in the form of an annual rate to make it easy to compare costs between lenders. The rate includes such items as the base interest rate, origination fees, commitment fees, prepaid interest, and any other credit costs that may be paid by the borrower to obtain the loan.

Approved Contract Underwriter

A contract underwriter employed by a provider of mortgage insurance that has been approved by Newrez as listed on Newrez Exhibit E201.

Arm's Length Transaction

A transaction that refers to the transfer of property between a buyer and a seller who has no degree of relationship. The parties involved are entirely independent of each other, deal with each other as strangers, and have no reason for collusion. Also, see Non-arm's Length Transaction.

Assignment of Trade

A transaction where the owner of a forward trade (the mortgage originator) assigns the forward trade to a third party (Newrez) rather than fulfilling the trade by delivering the loan or securities into such trade.

Attorney-In-Fact

An individual, not necessarily an attorney, who is authorized to act for another in a specific or general assignment. This individual has privileges afforded to perform business or other official transactions as under power of attorney.

Authoritative Copy

The copy of an eNote or other Electronic Record that is designated by agreement of the parties to the transaction, system rule, or system design as the controlling reference copy.

Authorized User Account

When a credit account owner permits another person to have access to and use an account, the user is referred to as an authorized user of the account. This practice is intended to assist related individuals in



Glossary

legitimately establishing a credit history and credit score based on the account and payment history of the account owner, even though the authorized user is not the account owner.

Automated Underwriting System (AUS)

Refers to Desktop Underwriter (DU), Desktop Originator (DO) and Loan Product Advisor (LPA), an underwriting system that provides a computer-generated loan decision.

Automated Valuation Model (AVM)

A computerized service that combines the mathematical or statistical modeling with databases of existing properties and transactions to calculate real estate values for real property without the use of or with limited intervention by a human appraiser.

AVM Approved Vendors

Approved providers include CoreLogic, Federal Home Loan Mortgage Corp, VeroValue, and Equifax.



Glossary

Best Efforts Delivery Commitment

A Commitment under which Client has committed that it shall make best efforts to close on an eligible-for-purchase loan, which conforms to the loan described in the Commitment, and that if Client does so then Client shall deliver the loan to Newrez.

Blind Trust

A blind trust is an arrangement where financial holdings of a person are placed in the control of a fiduciary, typically to avoid a conflict of interest. Therefore, someone other than the borrower has control over the trust assets.

Borrower

In a real estate purchase transaction, the borrower is the party that receives funds in the form of a loan with the obligation of repaying the loan in full, with interest, if applicable. A borrower is also referred to as a mortgagor. The primary borrower is defined as the occupying borrower with the highest income. In the case of a non-occupant co-borrower with a higher income, the occupying borrower would still be the primary borrower. Also see Co-borrower.

Borrower Self-Reported Trade Lines

Described as the consumer authorized permission to allow credit bureaus to view the account and payment history for utility and other non-traditional accounts that are not automatically reported to credit agencies such as Experian, TransUnion, and Equifax.

The consumers are unable to self-report directly to the credit bureaus.

Bridge Financing

A loan spanning the gap between the termination of one loan (generally short-term) and the start of another (generally permanent long-term loan. Also referred to as gap financing.

Bridge Loan

A short-term form of second mortgage that is collateralized by the borrowers' present home (which is usually for sale) in a manner that allows the proceeds to be used as down payment funds for closing on a new house before the present home is sold. Also referred to as a swing loan or gap financing.



Glossary

Broker origination

A loan that is originated under circumstances where a person or firm other than a mortgage loan seller (or its parent company, controlled affiliate, or subsidiary) or lender correspondent is acting as a “broker” and receives a commission for bringing together a borrower and a lender. The broker performs some of the loan processing functions (such as taking loan applications; ordering credit reports and title reports; requesting appraisals; and verifying a borrower’s income and employment), but does not underwrite the loan, fund the loan at settlement, or service the loan. Typically, the loan is closed in the name of the mortgage loan seller or lender correspondent that commissioned the broker’s services, but may also include so-called “table-funded” loans where the loan is closed in the broker’s name, but is funded by the mortgage loan seller or the lender correspondent.

Builder Bailout

Schemes promoted by the builder or developer to move property quickly in a depressed real estate market.

Bulk Commitments

A commitment that is taken for a specified dollar amount, a specified loan program, a specified interest rate range, and a specified number of days. Also see Best Effort Commitment.

Business Day

Any day other than a Saturday, Sunday, or any of the holidays upon which Newrez is officially closed for business, as set forth in the Holidays section in Chapter 7C, Funding Requirements and Wire Instructions.

Business Purpose Loan

Credit extended to acquire, improve, or maintain rental property (regardless of the number of housing units) that is not owner-occupied is deemed to be for business purposes. This includes, for example, the acquisition of a warehouse that will be leased or a single-family house that will be rented to another person to live in.

Buy-out Fee

A fee that Client owes Newrez as a result of the Client’s failure to meet Client’s delivery obligations in a timely manner under a Commitment. See also Pair-off fee.

Cantilevered Property



Glossary

A projecting structure supported at one end and carries a load at the other end or along its length.

Cash-out Refinance Mortgage

Cash-out refinance transactions are loans used to remove equity from the subject property. Funds received from a cash-out refinance loan is not limited to a specific purpose.

Charge-off Account

A charge-off is an account deemed by a creditor to be an underperforming receivable that has been (for accounting purposes) converted to a loss recovery account. The borrower remains contractually liable for the unpaid balance and related charges, except if the charge-off balance is legally uncollectible, such as following a settlement. Also known as a Profit & Loss (P&L) account and usually reflected on the credit report as R-9, I-9, U-9. A charge-off is a major adverse credit account.

Client

A person or entity that has entered a Client Contract with Newrez.

Client Contact

The Client Contract that incorporates this Client Guide by reference (by whatever name, including Seller/Servicer Agreement or Correspondent Agreement) for purchase and sale of Loans between one or more of the entities that make up Newrez and Client, as amended, supplemented, or replaced.

Client Guide

Those requirements set forth in the Client Contract or the Client Guide.

Closing Costs

Amounts paid in connection with the closing, typically itemized under "Closing Costs Details" or the Closing Disclosure. These generally include, but not limited to, the following:

- Origination fees and discount points
- Application fees
- Appraisal and credit report fees
- Funding for a temporary subsidy buydown plan
- Inspections
- Lender's title insurance
- Legal services, settlement or escrow services, survey, Owners title insurance, transfer taxes and tax stamps



Glossary

- Prepays/Escrows (taxes and insurance escrow payments)
- Real estate agent commissions
- Title exams

CLTA

California Land Title Association, 1110 K. Street, Suite 100, Sacramento, CA 95814. Telephone number 916.444.2647

Co-borrower

Describes any borrower other than the first or primary borrower whose name appears on the Note.

Combined Loan -to-Value (CLTV)

Refers to the ratio of the loan amount plus any secondary financing to the value of the subject property.

Example: Loan amount \$205,000 plus \$125,000.00 (secondary financing) divided by the \$368,000 (value of the home) will equal 89.67% or 90% CLTV if rounded.

Calculation is $\$205,000 + \$125,000 = \$330,000$ divided by $\$368,000.00$ equals .8967 or 90% CLTV if rounded.

Commingled Accounts

The combining or mixing of accounts and/or funds.

Common Interest Apartments

A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building. The project or building is often owned by several owners as tenants in common or by a HOA.

Commitment

A Best Efforts or Mandatory Delivery Commitment obtained by Client from Newrez for delivery of loans.

Commitment Confirmation

Newrez's written communication to Client confirming that Newrez has accepted Client's Commitment and additional terms and conditions applicable to Newrez's potential purchase of the loan under such Commitment.

Community Land Trusts



Glossary

Community land trusts are created to preserve long-term affordable housing by purchasing homes in their communities, then leasing the land using a long-term ground lease low-income and moderate-income families at affordable monthly ground rents.

Compensating Factors

Positive characteristics of a borrower's credit, employment or savings history that may be used to offset high debt-to-income ratios in the underwriting process.

Condominium

A condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas.

A condominium project is created according to local and state statutes. The structure is two (2) or more units with the interior airspace individually owned. The balance of the property (land and building) is owned in common by the individual unit owners.

Condo Hotel

A condominium that is operated as a commercial hotel even though the units are individually owned. A Condo Hotel is often referred to as a condotel or a condominium hotel.

Conforming Loan

A mortgage loan that meets the underwriting guidelines, loan amount limits, and regulatory parameters set by Freddie Mac and Fannie Mae.

Controller

When a system employed for evidencing the transfer of interests in an eNote reliably establishes the Controller as the person to which the eNote was issued or transferred.

Conventional Mortgage

A mortgage that is not insured or guaranteed by the federal government.

Conversion Option



Glossary

On an adjustable-rate loan, a conversion option allows the borrower to change the loan terms from an adjustable rate to a fixed rate loan, at a specified adjustment period, without refinancing.

Convertible ARM

A type of adjustable-rate mortgage that includes an option for the borrower to change the mortgage to a fixed-rate mortgage in the early years of the mortgage term.

Corporation

A corporation is a state-chartered legal entity that exists separately and distinctly from its owners, who are stockholders or shareholders. It is the most flexible form of business organization for purposes of obtaining capital. A corporation can sue; be sued; hold, convey or receive property; enter into contracts under its own name; and does not dissolve when its ownership changes.

There are two types of corporations—publicly owned (widely held) corporations and privately owned (closely held) corporations. Because more than 50% of the outstanding stock of a privately owned corporation is owned directly or indirectly by no more than five people, the corporation has little or no access to public funds and must raise capital through institutional financing.

Although legal control of the corporation rests with its stockholders, they typically are not responsible for the day-to-day operations of the business since they elect a board of directors to manage the corporation and delegate responsibility for the day-to-day operations to the directors and officers of the company. The corporation's board of directors or other entities that have a significant financial interest in the business determines the distribution of profits earned by the business. However, the profits are usually filtered down to the owners in the form of dividends. Since a stockholder is not personally liable for the debts of the corporation, losses are limited to his or her individual investment in the corporation's stock.

Corporations must report income and losses on the U.S. Corporation Income Tax Return (IRS Form 1120) and pay taxes on the income. The corporation distributes profits to shareholders in the form of dividends, which it reports on the Statements for Recipients of Miscellaneous Income (IRS Form 1099-DIV), and the shareholders must then report the dividends as income on their Individual U.S. Income Tax Returns (IRS Form 1040).

a) Limited Liability Company

A limited liability corporation is a hybrid business structure which offers its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation. The member-owners of the limited liability corporation (or their assigned managers) can sign

Glossary

contracts, sell assets, and make other important business decisions. The limited liability corporation operating agreement may set out specific divisions of power among the member-owners (or managers). Although the member-owners generally have limited liability, there may be some instances in which they are required to personally guarantee some of the loans that the limited liability corporation obtains. Profits from the operation of the limited liability corporation may be distributed beyond the pool of member-owners such as by offering profit distributions to managers.

The limited liability corporation must report its profits or loss on the U.S. Partnership Return of Income (IRS Form 1065) and each member-owner's share of the profit or loss on the Partner's Share of Income, Credits, Deductions, etc. (Schedule K-1); however, the limited liability corporation pays no tax on its income. Each member-owner uses the information from Schedule K-1 to report his or her share of the limited liability corporation's net profit or loss (and special deductions and credits) on the Individual U.S. Income Tax Return on Schedule E from IRS Form 1040 - whether or not he or she receives a cash distribution from the limited liability corporation. Individual member-owners pay taxes on their proportionate share of the limited liability corporation's net income at their individual tax rates. Because profits may or may not be distributed to the individual member-owners, it must be determined whether the borrower received a cash distribution from the limited liability corporation. To quantify the level of the borrower's financial risk, determine whether the borrower has guaranteed any loans obtained by the limited liability corporation (other than loans considered as non-recourse debt or qualified non-recourse debt).

b) "S" Corporations

An "S" corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. An "S" corporation has many of the characteristics of a partnership. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items.

The ordinary income for the "S" corporation is reported on the U.S. Income Tax Return for an "S" Corporation (IRS Form 1120S), with each shareholder's share of the income reported on the Shareholder's Share of Income, Credits, Deductions, etc. (Schedule K-1). Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, it must be determined whether the borrower received a cash distribution from



Glossary

the "S" corporation. The cash flow of an "S" corporation is otherwise evaluated similarly to that of a regular corporation.

Correspondent

An entity that typically sells the loans it originates to other lenders. The loan may be originated by a party other than a mortgage loan seller (or its parent company, controlled affiliate, or subsidiary) and is then sold to a mortgage loan seller. The lender Correspondent performs some or all of the loan processing functions such as taking the loan application; ordering credit reports, requesting appraisals, and title reports; and verifying the Borrower's income and employment. The Correspondent may or may not have delegated underwriting authority and typically funds the Loans at settlement through its own funds or through a bona fide warehouse line of credit. The loan is closed in the Correspondent's name. The Correspondent may use a Mortgage Broker to perform some of the processing functions or even to fund a Loan closed in the Mortgage Broker's name; however, such a Loan will be considered, and should be delivered as, a Correspondent loan.

Cost Approach

The Cost Approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property that is being appraised. This approach, then, measures value as a cost of production.

The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values. Appraisals relying solely on the cost approach as an indicator of market value are not acceptable.

Credit Alert Interactive Voice Response System (CAIVRS)

The system checks the Social Security Number of all borrowers for FHA insured loans (except for Streamline refinances) for delinquent federal debts. Additionally, it checks for suspension or debarment from HUD's Limited Denial of Participation (LDP) list and the government-wide General Services Administration (GSA) List of Parties Excluded from Federal Procurement or Non-procurement Programs.

Credit Documents

Glossary

A subset of the Loan Documents that refers to the main documents (e.g., personal and/or business credit reports, bank statements, financial statements and/or business plans) relative to a financial transaction under which an obligor (borrower) has a financial obligation to a lender, agent, or other secured party.

Credit Limit

The maximum aggregate principal amount of advances allowed to be outstanding under the terms of the agreement.

Credit Repository

Described as a business who is qualified as a data furnisher that reports the payment history of consumer credit accounts to credit bureau agencies such as TransUnion, Equifax, and Experian.

Credit Score

Also known as the “FICO Score,” “Beacon” or “Empirica” – an index assessing the borrower’s credit history. The credit score evaluates and considers only the information in a borrower's file at a credit reporting agency. As an index, the score reflects the relative risk of serious delinquency, default, foreclosure, or bankruptcy associated with a borrower. A credit score is available (as an enhancement to the credit report) through the following repositories:

- Equifax and Equifax Canada
- Beacon
- Trans Union
- Empirica
- Experian
- FICO

Credit Utilization

An evaluation that is done to determine the borrower’s use of revolving credit by comparing the current balance on each open account to the amount of credit that is available. This evaluation allows Client to determine whether the borrower has a pattern of using revolving accounts up to the Credit Limit. Credit histories with a low balances-to-limits ratio generally represent a lower credit risk, while those that include accounts with a high balances-to-limits ratio represent a higher credit risk.



Glossary

Statement of Service document that may be issued when a veteran is still on active duty to verify military service.

DD Form 214

A Report of Separation From Active Duty form for veterans separated after January 1, 1950.

Debt-to-Income Ratio (DTI)

All of the borrower's applicable monthly debt divided by the borrower's monthly income.

Deed Restricted Properties

Defined as a restriction placed on the deed when the land is transferred. Restrictive covenants or clauses limits the future use of the property.

Deferred Action for Childhood Arrivals (DACA)

A policy that allows children of undocumented immigrants brought to the U.S. as minors to legally remain in the country to work or study.

Deferred Enforced Departure (DED) formerly Extended Voluntary Departure

A form of presidential discretionary authority to conduct foreign relations allows temporary immigration benefit to specific individuals from designated countries and regions involved in political, civic conflict, or natural disaster to remain in the United States.

Delegated

Describes an underwriting arrangement where approvals are granted by Client using Newrez standards and guidelines set forth herein, or Fannie Mae or Freddie Mac guidelines as set forth in their respective Seller Guide, prior to purchase by Newrez. "Delegated" status is at the discretion of Newrez and is granted under separate agreement or expressly stated in the original and/or subsequent amendment to the Client Contract.

Delinquency

Delinquency occurs when all or part of the borrower's monthly installment of principal, interest and, where applicable, escrow/impound is unpaid after the due date. A delinquency as of the close of business of the last business day before the next due date is considered a one payment or 30-day delinquency.



Glossary

Delivery Commitment Number

The number that is assigned to each Delivery Commitment at the time an individual Delivery Commitment is ordered.

Delivery Expiration

Date that the completed closed Loan package is required to be received by Newrez.

Designated Custodian

The entity that stores, maintains, and transfers the eNote for the Controller and is the Controller's designated custodian as that term is described and used in Section 16(c) of UETA and Section 201(c) of ESIGN, and would otherwise qualify as a Document Custodian

Designated Servicer

A person or entity that has been designated by Newrez to service any loan with respect to which Newrez purchases the Servicing Rights.

Desktop Originator (DO) / Desktop Underwriter (DU)

Fannie Mae's automated decisioning tool.

Discontinued Loan

A Discontinued Loan is a loan that meets any of the criteria set out in the Responsible Lending Representations, Warranties, and Covenants section in Chapter 1C, Representations, Warranties, & Covenants. Discontinued Loan has the same meaning as Prohibited Loan.

Domestic Partner

An eligible borrower and one other person (of the same or opposite sex) sharing a committed relationship that includes the following features:

- common residence;
- financial interdependence;
- joint responsibility for each other's welfare;
- couples who consider themselves to be life partners; and
- roommates, siblings, parents, and people sharing other blood relationships are not considered to be domestic partners.



Glossary



Glossary

Early Schedule Transfer

The Simultaneous Sale of Servicing with the Sale Date being the date on which the Purchase Price of the Loan is funded, and the Effective Date of Transfer being the first day of the month following the Sale Date.

Easements

Is defined as a non-possessory or right to legally employ the use of someone else's land for a limited or definite and specific purpose.

Effective Date of Transfer

The date on which the responsibility for the servicing of a mortgage loan is assumed by the Designated Servicer and responsibility for the servicing representations, warranties and duties are transferred to the Designated Servicer. In the case of any sale of Servicing Rights to Newrez on a loan-by-loan basis, the effective date of transfer:

- For a Simultaneous Sale of Servicing is the first day of the second month following the Sale Date.
- For an Early Scheduled Transfer, in which case the Effective Date of transfer is the first day of the month following the Sale Date.
- For a Post Purchase Sale of Servicing and an Early Purchase of Servicing, is the first day of the month following the Sale Date.

Electronic Loan Documents

The loan file documents, including any Electronic Records associated with the closing of an eMortgage.

eMortgage

A loan for which the promissory note is an eNote and possibly other loan documents are created and stored electronically rather than using traditional paper documentation that has a pen and ink signature.

eMortgage Guide

The Fannie Mae Guide to Delivering eMortgages to Fannie Mae (Version 2.5 March 2007) and documents incorporated therein, as may be amended from time to time.

eMortgage Process Technology

The process, procedures, systems and technology utilized by the Client (or its agents) to (i) provide Borrower(s) with the Electronic Loan Documents, (ii) sign Electronic Loan Documents; (iii) obtain and



Glossary

store the Borrower(s) electronically signed consent to use such technology in accordance with all applicable federal and state laws and regulations, including but not limited to ESIGN and UETA; (iv) manage and effect the Transfer of Control of an eNote; and (iv) validate, store, maintain, document and access Electronic Loan Documents to evidence any and all elements of the eMortgage transactions including, but not limited to, the authentication of parties, the creation, registration, transfer and storage of the Electronic Loan Documents, and the electronic consent and signature process.

eNote

A Transferrable Note-that-is the digital equivalent of the paper promissory, having the same legal weight as the paper Note when properly executed. eNOTEs are not PDF documents. Instead, the documents must be generated in a specific file format.

Electronic Record

A record created, generated, sent, communicated, received, or stores by electronic means.

Electronic Signatures

Any symbol or process attached to or logically associated with a record and executed or adopted by a person with the intent to sign.

Electronic Verification

A computer-generated document downloaded and printed from the Internet, Intranet or included in an email message that provides all the information contained in the original hard-copy form. The Electronic Verification must be readable by an image scanner and must be printed and included in the loan file. The borrower may provide the Electronic Verification to Client or Client may obtain it directly from the employer, depository, appraiser, or other institution

eSign

The official text of the federal Electronic Signatures in Global and National Commerce Act, 15 U.S.C. § 7001, et seq. eSign or an e-signature is the electronic signature that holds the same weight in legality as a signature provided by the traditional pen and paper.

Escrow/Impound

All funds collected by Client and/or Servicer to cover expenses of the borrower required to be paid under the Security Instrument, including, but not limited to, taxes, special assessments, ground rents,



Glossary

water, sewer and other governmental impositions or charges that are or may become liens on the subject property prior to that of the Loan, as well as hazard, flood, and mortgage insurance premiums.

eVault

The electronic system is a cloud-based system often used as a backup and recovery service that enables the storage of eNotes and other Loan documents.

Excluded Party List

A directory of individual and organizations that are prohibited from receiving federal contracts, assistance, or aid from the United States government.



Glossary

FDIC

Is the acronym for The Federal Deposit Insurance Corporation.

Factory-built Home

Many types of housing structures are constructed right in the factory and are designed for long-term residential use. There are five categories of factory-built homes that include: Manufactured Home, Modular Home, Mobile Home, Panelized Home, and Pre-cut Home. Each are defined individually in this Guide.

Federal Home Loan Mortgage Corporation

Also referred to as Freddie Mac. A quasi-governmental agency that purchases conventional mortgages in the secondary mortgage market. It sells participation sales certificates secured by pools of conventional loans; their principal and interest are guaranteed by the federal government through Freddie Mac. It also sells GNMA bonds to raise funds to finance the purchase of mortgages.

Federal National Mortgage Association

Also referred to as Fannie Mae. A government-sponsored private corporation created by Congress to support the secondary mortgage market. It is the largest purchaser and seller of conventional residential mortgages, as well as mortgages insured by the FHA or guaranteed by the VA.

Fee Simple

The greatest possible interest a person can have in real estate including the right to dispose of the property or pass it on to one's heirs.

FHA Case Number

The 13-digit number used to identify the case on HUD/FHA's records during processing and, if insured, through the life of the loan. The number consists of:

- The 3-digit prefix that identifies the state and the HUD/FHA field office where the loan was accepted for processing.
- The 7-digit case serial number.
- The 3-digit suffix that identifies the loan as an ARM or fixed rate.



Glossary

FICO

The acronym for Fair, Isaac, and Company, founded by Bill Fair and Earl Isaac who established a data analytics company that measures a consumer's credit risk from data collected and then issuing a credit score ranging from 300- 850.

First Time Homebuyer

An individual is to be considered a first-time home buyer who:

- Is purchasing the security property; and
- Will reside in the security property as a principal residence; and
- Had no ownership interest (sole or joint) in a residential property during the three-year period preceding the date of the purchase of the security property.

In addition, an individual who is a displaced homemaker or single parent also will be considered a first-time home buyer if he or she had no ownership interest in a principal residence (other than a joint ownership interest with a spouse) during the preceding three-year period. Timeshare ownership is not considered an ownership interest in a residential property for purposes of the definition of a First Time Homebuyer.

Flood Insurance

Insurance that compensates the property owner for physical property damage resulting from flooding. Flood insurance is required if the property improvements are in federally designated Special Flood Hazard Areas. If the land is in the flood hazard area, but the improvements are not, flood insurance is not required.

Floor Plan

A floor plan must be a software-generated (not hand drawn), show the exterior footprint and interior layout of the dwelling Unit(s) and include the following:

- All exterior wall dimensions,
- All levels of the swelling, and
- The calculations that demonstrate how the square footage(s) was derived.

A separate footprint sketch including all exterior dimensions and room labels must be provided for each additional structure.



Glossary

Footprint Sketch

A footprint sketch must be software-generated (not hand drawn) and include the following:

- All exterior wall dimensions,
- All levels of the dwelling, and
- The calculations that demonstrate how the square footage(s) was derived.

A separate footprint sketch including all exterior dimensions and room labels must be provided for each additional structure.

Forbearance

A postponement of loan payments, granted by a lender or a creditor, for a temporary period. This is done to give the borrower time to make up for overdue payments.

Foreign National

A citizen of another country who visits the United States periodically and is purchasing a property to reside in during visits to the U.S. A foreign national is not a permanent or non-permanent resident alien and does not have full or partial diplomatic immunity.

Freddie Mac

The Federal Home Loan Mortgage Corporation and any successor entity.

Frozen Credit

In certain circumstances, a borrower has the right to “freeze” his or her credit information at one or more of the three national repositories, prohibiting a third-party gaining access to their credit information.

Full-gut Rehabilitation

The renovation of a property down to the shell with replacement of all HVAC and electrical components.

Full Eagle Designation

A lender who may originate, fund, hold, service, purchase, underwrite, and sell FHA mortgage loans.

Fully Indexed Rate



Glossary

The fully indexed rate is the index plus the margin.

thirdFunding Amount

The funds wire transferred to Client on the Funding Date in payment for any loan and servicing (if applicable) sold by Client to NewRez.

Funding Date

The date the Funding Amount is wire transferred to Client in payment for any loan and servicing (if applicable) sold by Client to NewRez.

Funding Documents

The documents required for funding the loan.

Generally Accepted Accounting Principles (GAAP)

Accounting standards adopted by the U.S. Securities and Exchange Commission (SEC) to ensure that a company's financial reporting is transparent and consistent from one organization to another.

Government National Mortgage Association (Ginnie Mae)

Ginnie Mae is a government program that guarantees investors (security holders) the timely payment of principal and interest on securities issued by private lenders that is backed by pools of FHA, VA, RHS and PIH mortgage loans.

Government Sponsored Enterprise (GSE)

Fannie Mae, Freddie Mac, or Ginnie Mae are known GSEs whose primary intention is to enhance the flow of credit to targeted sectors of the economy, making those segments of the capital market more efficient, transparent and to reduce the risk to investors and other suppliers of capital.

Guarantor

A party who is secondarily liable for another's debt or performance (in a contrast to a surety who is primarily liable with the principal debtor).

Homeowner's Association (HOA)

An owners' group that manages common areas whether in a PUD, condominium, or single-family subdivision that establishes general guidelines for the operation of the community, as well as its standards.



Glossary

HUD

United States Department of Housing and Urban Development (HUD) is a government agency responsible for national policy and programs that addresses the need to create decent and suitable housing needs for all Americans while developing communities and enforcing fair housing laws in the United States.

Individual Assistance

Disaster assistance is money or direct assistance to individuals, families, and businesses in an area whose property has been damaged or destroyed and whose losses are not covered by insurance. It is meant to help you with critical expenses that cannot be covered in other ways. This assistance is not intended to restore your damaged property to its condition before the disaster. Individual Assistance must be identified on the disaster notification.

Inherited Property

A real property that passed to an heir on the death of the owner.

Institutional Verification of Rent (VOR)

Direct written verification of 12-month rental history from a property management company may be provided if management company is listed in the local telephone directory. Verification that property management company exists can be obtained through a reverse telephone directory look up or can be verified with a business entity verification.

Interested Party

Person or entity who benefits from the completion of the property sales transaction and may be the property seller, builder, developer, real estate agent or lender.

Intermittent Lates

A pattern of late payments that is not consecutive but is broken into intervals. For example, a mortgage rating with a three-month history reflecting the following is considered 2x30 for grading purposes:

First Month: 30-day Delinquency

Second Month: Current

Third Month: 30-day Delinquency



Glossary

Inter Vivos Revocable Trust

Inter vivos is the Latin term for "between the living." This means it is a trust that an individual creates and becomes effective during his or her lifetime but can be changed or canceled at any time for any reason during the creator's lifetime. Inter vivos revocable trusts are created by individuals while they are still living as an estate planning tool. The inter vivos revocable trust, also called a family trust, living trust, or revocable living trust, can be used as an alternative form of property ownership. A trust is referred to as revocable when the individual who created it, usually called the grantor, trustor, or settlor, can change, or cancel it at any time, for any reason, while they are still living. This ability to revoke the trust, or revocability, is important because it allows the grantor/trustor/settlor, who would otherwise own the property directly, to retain control of the property.

Investment Securities

A project in which unit ownership is characterized or promoted as an investment opportunity, and/or projects that have documents on file with the Securities and Exchange Commission (SEC).

Irrevocable Trusts

An irrevocable trust is a type of trust where its terms cannot be modified, amended, or terminated without permission of the grantor's named beneficiary or beneficiaries. The grantor, have effectively transferred all ownership of assets into the trust, legally removes all of their rights of ownership to the assets and the trust.



Glossary

Land Contract of Sale

An agreement between buyer and property seller in which the seller retains title to the property until all or a specified part of the sales price has been paid to the seller. If recorded, the buyer will show on title as having an interest in the property. Also known as Installment Land Contract or Contract for Deed.

Land-to-Value Ratio

Refers to the calculation of the value indicated on the appraisal report divided by the value of the property that sits on the premises.

Example: \$150,000 (the value of the land) divided by \$375,000 (the value of the land and improvements) = 0.40 (the value of the land compared to the overall property expressed in decimal form)

Land Trusts

A land trust is when an organization holds property or when one party holds ownership of real property for the benefit of another party. The full management and control of the property is retained by the beneficiaries of the trust. The trustee is named as owner of the property in the Security Instrument and is the “borrower” of record on the loan, even though the trustee is not personally liable for repayment of the loan.

Leasehold

An estate or interest in real property held by virtue of a lease.

Lease Purchase Agreement

An arrangement whereby part of the rent payment is applied to the purchase price and when the prearranged total amount has been paid, title is transferred.

Legal Documents

As it pertains to a loan transaction, legal documents are a subset of required documents where two or more parties enter into an agreement and is confirmed by the placement of their signatures which is needed to complete a transaction.

Lifetime Cap

The maximum interest rate increase or decrease over the term or life of a loan.



Glossary

Liquid Reserves

Liquid reserves are those liquid or near liquid assets that are available to a borrower after the loan closes. Liquid reserves include cash and other assets that are easily converted to cash.

Lis Pendens

An official, notice of public record indicating that the property is in pending litigation or has a claim attached to it and in danger of an adverse judgement

Loan

A loan as it pertains to a mortgage, is the sum of money that is lent by a bank or financial creditor, with the legal expectation of being paid back with interest. A residential mortgage loan or line of credit originated by, sold, or intended to be sold (by Client) to Newrez and that it meets or is intended to meet all the requirements of the Guide.

Loan Documents

Refers to documents that includes originals and copies of documents, instruments, or it-relates to a loan transaction.

Loan Program

A loan (mortgage) program is defined by the term of the loan and whether the loan is backed by a government (FHA, VA, USDA) agency or by a private agency (Fannie Mae, Freddie Mac, or other investor).

Loan-to-Value (LTV)

The ratio of the loan amount to the value of the subject property. The calculation is the loan amount divided by the appraised value.

Example: \$182,000 (loan amount) divided by \$285,000 (appraised value), the loan to value ratio is .6385% or 64% if rounded.

Location

The entity named on the MERS® eRegistry that maintain the authoritative copy of the eNote either as controller or as a custodian on behalf of the controller.



Glossary

Lock Expiration

Date that the locked commitment expires.



Glossary

Mandatory Delivery Commitment

A commitment under which the Client has committed to deliver an eligible for purchase loan that conforms to the loan described in the commitment.

Manufactured Home

A home built entirely in the factory under a federal building code administered by the Department of Housing and Urban Development (HUD) is classified as a “Manufactured Home.” These homes are constructed to meet the Federal Manufactured Home Construction and Safety Standards Act (HUD Code) which have been in effect since June 15, 1976.

Manufactured Home Definitions

Anchorage

Connection between superstructure and foundation, by means of welds, bolts, and various high gage metal plates. Anchorage does not refer to any type of soil anchor.

Exterior Foundation Wall

Foundation walls placed directly below the exterior perimeter walls of the unit. These walls may or may not be structurally used as: bearing walls under gravity loads and/or shear walls under horizontal loads. If these walls are not used structurally, they are called non-bearing walls or skirt walls.

HUD Construction Code (Certification Label)

The HUD Certification Label is a metal plate that is affixed to the exterior of each transportable section of the manufactured home. The HUD Certification Number appears on each HUD Certification Label and evidence compliance with the Federal Manufactured Home Construction and Safety Standards.

HUD Data Plate/Compliance Certificate (Data Plate)

The HUD Data Plate/Compliance Certificate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name, and trade/model number. The data plate also includes pertinent information about the unit, including a list of factory-installed equipment.

Skirting

A term used to describe a non -structural enclosure of a foundation crawl space. Typically, but not



Glossary

always, it is a lightweight material such as vinyl or metal, attached to the side of the structure, extending to the ground (generally, not installed below frost depth).



Glossary

Margin

The amount added to the index value to create the mortgage interest rate for an ARM loan.

Market Area

The geographic region, for a subject property, from which most demand comes and in which most of the competition is located.

Master Association

A Master Association is a HOA in a large condominium project that consists of representatives from associations covering specific areas within the project. It is a second level association that handles matters affecting the entire development, while the first level association handle matters affecting their portion of the subject development. If a project is part of the Master Association and the Master Association operates as a hotel, resort, motel, inn or lodge the entire project is ineligible.

Mello Roos

A Mello-Roos District are in areas in California where a special property tax on real estate, in addition to the normal property tax, is imposed on those real property owners within a Community Facilities District. These districts seek public financing through the sale of bonds for financing public improvements and services. These services may include streets, water, sewage and drainage, electricity, infrastructure, schools, parks, and police protection to newly developing areas. The tax paid is used to make the payments of principal and interest on the bonds.

MERS (Mortgage Electronic Registration System)

MERSCORP or Mortgage Electronic Registration Systems, Inc., and the MERS® System. An electronic registration system that tracks the mortgage rights of a loan.

MERS® eRegistry

A system of record that identifies the owner (Controller) and the custodian (Location) for registered eNotes.

MIN

Defined as the acronym for Mortgage Identification Number consisting of a unique 18-digit identifier on a MERS loan.



Glossary

Mini Eagle Designation

A lender meeting all required FHA qualifications, which has, as its principal activity, the origination of HUD-insured mortgages for the sale or transfer to its sponsors.

Modular Home

A modular home is a factory built home constructed to the state, local or regional building codes where the home will be located. A modular home is constructed in two or more three-dimensional sections, including interior and exterior finish, plumbing, wiring and mechanical systems.



Glossary

Neighborhood

A congruous group of complementary land uses.

New Construction

Is a newly built property that is purchased from the builder and whose first occupant is the home buyer.

New Construction Loan

Refers to a short-term loan that is obtained to pay for the costs associated with the custom home build of a new home, however, the home is built, the occupant must apply for a mortgage to pay for the completed home.

Non-Arm's Length Transaction

A transaction with a family member or relative, or when a personal or business relationship exists between the borrowers and the builder or property seller. This relationship may influence the transaction. Also, see Arm's Length Transaction.

Non-Conforming Loan

A mortgage loan in which the loan amount, the LTV ratio, term, or some other aspect of the loan exceeds permissible limits as specified in agency (GSEs) regulations. Non-conforming loan guidelines may follow GSE underwriting guidelines or be a blend of various investor guidelines.

Non-Gut Rehabilitation

The renovation of a property that does not include a full replacement of HVAC and electrical components.

Non-Standard Documents

Any documents evidencing or securing a loan that are not uniform instruments.

NOTE

The applicable legal document or instrument that evidences the written obligation to repay the loan as required by the terms of the agreement or Guide, including any addenda-um thereto. obligation to repay a loan.



Glossary

Number and Age of Accounts

Refers to the number of the accounts shown on the credit report(s) and age refers to how long the accounts were open and active.



Glossary

Off-Frame Modular Construction

An off-frame modular construction is defined as a sectioned modular home that do not have a steel beam chassis or undercarriage underneath the structure. The structure is usually lifted by a crane and placed in a stem-wall or pier foundation that was built prior to the arrival.

On-Frame Modular Construction

An on-frame modular construction is defined as a sectioned structure that is like a modular structure but is built on a permanent steel beam chassis (known as the undercarriage) underneath that has removable axels and wheels. The on-frame modular's wheels can be bolted down but can be used to move the mobile home.

Owelty Lien

Defined as a type of lien that allows the owner of the property or home to use the existing equity in the home to assist in dividing property in the case of a divorce or as inheritance. In the case of divorces, an Owelty lien allows the owner or parties to cash up to 95% of the equity on the property.



Glossary

Pair-off Fee

A fee assessed if Client does not deliver qualifying loan files in the amount of the Mandatory Delivery Commitment or as otherwise required by the Client Contract or Guide. See also Buyout Fee.

Panelized Home

Panelized Homes are defined as homes where panels (flat units that represent a whole wall with windows, doors, wiring and outside siding) are constructed in the factory and then transported to the site and assembled. Panelized Homes are constructed to the state, local or regional building codes of where the home will be located.

Partnership

A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses (according to predetermined proportions that are set out in the partnership agreement). A partnership may be a general partnership or a limited partnership.

The partnership must report its profit or loss on IRS Form 1065 and each partner's share of the profit or loss on Form 1065, Schedule K-1; however, the partnership pays no tax on the partnership income.

a) General Partnership

Under a general partnership, each partner has responsibility for running the business, is personally liable for the debts of the entire business and is responsible for the actions of every other partner (unless otherwise specified in the partnership agreement). A general partnership is dissolved immediately upon the death, withdrawal, or insolvency of any of the partners, although the personal liability of partnership creators exists even after the partnership is dissolved. However, the partnership's assets will first be applied to the creditors of the business. The partner's individual assets will be first applied to their personal creditors, with any surplus in a partner's personal assets then being applied to the remaining business creditors.

Each partner uses the information from Schedule K-1 to report his or her share of the partnership's net profit or loss (and special deductions and credits) on the Individual U.S. Income Tax Return on Schedule E from IRS Form 1040, whether or not the partner receives a cash distribution from the partnership. Individual partners pay taxes on their proportionate share of

Glossary

the net partnership income at their individual tax rates. Because profits may or may not be distributed to the individual partners, it must be determined whether the borrower actually received a distribution from the partnership. To quantify the level of the borrower's financial risk, determine whether the borrower has guaranteed any loans obtained by the partnership (other than loans that are considered as nonrecourse debt or qualified non-recourse debt).

b) Limited Partnership

Under a limited partnership, a limited partner:

- Has limited liability based on the amount he or she invested in the partnership;
- Does not typically participate in the management and operation of the business; and
- Has limited decision-making ability.

A limited partnership will have at least one general partner who manages the business and is personally liable for the debts of the entire business. A limited partner's death, withdrawal, or insolvency does not dissolve the partnership.

Each partner uses the information from Schedule K-1 to report his or her share of the partnerships net profit or loss (and special deductions and credits) on the Individual U.S. Income Tax Return on Schedule E from IRS Form 1040 - whether or not he or she receives a cash distribution from the partnership. Individual partners pay taxes on their proportionate share of the net partnership income at their individual tax rates. Because profits may or may not be distributed to the individual partners, it must be determined whether the borrower actually received a cash distribution from the partnership. However, because limited partnerships are often formed as tax shelters, it is more likely that Schedule K-1 will reflect a loss instead of income. In such cases, the borrower's ability to deduct the loss will be limited by the "at risk" amount of his or her limited partnership interest (and will most likely be subject to passive loss limitations).

Review the U.S. Partnership Return of Income (IRS Form 1065) to determine the borrower's share of non-cash expenses that can be added back to the cash flow of the partnership business. To quantify the level of the borrower's financial risk, determine whether the borrower has guaranteed any loans obtained by the limited partnership (other than loans that are considered as non-recourse debtor qualified non-recourse debt).



Glossary

Party Wall

A wall built along the boundary line of adjoining properties and shared by the respective property owners or tenants.

Passive or Unearned Income

Defined as income in which the person is not actively involved. Income that may not be readily verifiable by an outside, independent third-party source. Examples include dividend/interest income, trust income, child support, alimony, or separate maintenance, foster care, unemployment, disability, social security and other retirement income, rental income, and installment sales or land contract income.

Payment Change Date

The first day of the month following an interest rate change date. It is the date on which a payment change, due to an interest rate change, becomes effective.

Payment Shock

The amount of increase from the borrower's current housing payment (rent or PITI) to the proposed subject mortgage PITI. For ARMs, Payment Shock is calculated using the qualifying rate.

Permanent Resident Alien

A non-U.S. citizen holding acceptable evidence of permanent residency issued by the Immigration and Naturalization Service (INS).

Piggyback

Newrez defines piggyback loans as a first and second lien loan secured by the same subject property that close concurrently and both loans are sold to Newrez at the same time.

Planned Unit Development (PUD)

A Planned Unit Development (PUD) is a development that has the following characteristics:

- The individual unit owners own a parcel of land improved with a dwelling;
- Ownership is not in common with other unit owners;
- The development is administered by a HOA that owns and is obligated to maintain property and improvements within the development for the common use and benefit of the unit owners; and



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- The unit owners have an automatic, non-severable interest in the HOA and pay a mandatory assessment.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in project or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects.

These projects

- have no common property and improvements;
- do not require the establishment of and membership in an HOA; and
- do not require payment of assessments.

Post Purchase Sale of Servicing

The sale of Servicing to Newrez after purchase of the loan by Newrez.

Power of Attorney

A legal document authorizing a person or an organization to act on behalf of another person. The person or organization that is appointed is referred to an Attorney-In-Fact. There are three (3) types of Power of Attorney: General, Special/Specific/Limited, and Durable.

Pre-cut Home

Pre-cut Homes are a type of factory-built housing. Materials for this type of home are factory-cut (pre-cut) to design specifications, transported to the site and then assembled. Pre-cut Homes include kit, log, and dome homes. Pre-cut Homes are constructed to the state, local or regional building codes where the home will be located.

Pre-foreclosure Sale

A pre-foreclosure sale involves the sale of the property by the Borrower to a third party for less than the amount owed to satisfy the delinquent mortgage, as agreed to by the lender, the investor, and the mortgage insurer.

Premium

Refers to price amount paid to for a good or service.



Glossary

Prepayment

Newrez considers a Prepayment to have occurred when an amount greater than the regularly scheduled principal payment is made, thereby reducing the principal balance of a loan before the final due date.

Prepayment Penalty/Fee

A charge that a borrower may be required to pay during the early years of a mortgage if it is paid in full or if the borrower makes a principal curtailment.

Price Premium

The amount by which the Purchase Price less the Servicing Released Premium exceeds the principal balance at the Funding Date. If the Purchase Price less the Servicing Released Premium does not exceed the principal balance at the Funding Date, then there is no Price Premium.

Primary Borrower

If more than one person is obligated to repay the loan, the primary borrower is considered to be the individual whose credit score is selected for grading and qualification purposes.

Prime Rate

The highest base commercial rate on corporate loans at large U.S. money center commercial banks that The Wall Street Journal publishes as the Prime Rate.

Prior Underwriting Approval

Prior Underwriting Approval means that Newrez has performed a complete underwriting analysis of the loan, including credit, income, assets, liabilities, and appraisal prior to the borrower closing the loan. For a loan to have Prior Underwriting Approval, Newrez must have provided Client with a written notification (by fax, email, or regular mail) noting that the loan has Prior Underwriting Approval Status.

Private Mortgage Insurance (PMI)

Private mortgage insurance is insurance offered on conforming loan products that protect the lender when a borrower, who paid less than a 20% down payment, defaults on the mortgage.

Program Documents

The Client Contract, Client Guide, and all amendments supplements and replacements, and any other documents and agreements between Newrez and Client regarding the sale of loans.



Glossary

Program Guidelines

Guidelines that detail and conform to Agency or Newrez requirements, restrictions, or limitations of loans.

Prohibited Loan

Prohibited Loan has the same meaning as Discontinued Loan.

Property Data

Includes but is not limited to prior sale price, prior date sold, prior appraised value, prior appraised date, lot size, year built, property type or any other Property Data and/or characteristics.

Public Assistance

Through the Public Assistance (PA) Program, FEMA provides supplemental Federal disaster grant assistance for debris removal, emergency protective measures, and the repair, replacement, or restoration of disaster-damaged, publicly owned facilities and the facilities of certain Private Non-Profit (PNP) organizations.

Public Assistance disaster notifications are not acceptable when determining if a property is in an area that has been declared a natural disaster.

Purchase Price

The price paid for each loan set by Newrez at the time of loan registration, but subject to change at Newrez's discretion based on changes in registration information or late delivery.



Glossary

Qualified Automated Valuation Model (AVM)

A report of property valuation issued under an Automated Valuation Model, where such valuation report has been ordered from a Qualified AVM Vendor, as specified in the Automated Value Model Approved Vendors, using the vendor's Newrez Qualified AVM system, and the report of valuation has been given the Newrez Qualified AVM seal as may be determined through methods and systems issued at Newrez's discretion.

Qualified Insurer

"Qualified Insurer" means an insurance company duly qualified as such under the laws of the states in which the Subject property are located, duly authorized and licensed in such states to transact the applicable insurance business and to write the insurance provided, approved as an insurer by Fannie Mae and Freddie Mac and whose claims paying ability is rated in the two highest rating categories by the Standard & Poor's Ratings Services, Moody's Investors Service, Inc. and Fitch, Inc. with respect to primary mortgage insurance and in the two highest rating categories for general policyholder rating and financial performance index rating by Best's with respect to hazard and flood insurance.

Qualifying Prepayment Penalty

Qualifying Prepayment Penalties are acceptable when allowed under the applicable law and this Client Guide. Client must determine individual state law requirements regarding Prepayment penalties. A Qualifying Prepayment must meet the following requirements:

- Is clearly stated in the Note or addenda and provisions of the Prepayment must be sufficient to enforce the penalty;
 - Meets the minimum Prepayment requirements for the specific Loan Program;
 - Complies with federal and state laws and regulations under which the Loan was originated; and
 - Meets the minimum standards of the Loan Program under which the loan is submitted.
-



Glossary

Rate Cap

Determined by the cap term and will be used as the final lock rate if the market declines. The interest rate is calculated by taking the 60-Day lock-in rate with price and adding a specified spread to the rate. The Rate Cap spreads are calculated for each eligible Loan Program and are found on the current Rate sheet. You have the option to deliver into the capped rate / price or any current market rate, price, or loan program.

Rate sheet

A rate sheet is a daily list or log of rates that provide the current rates for investors paid a fee when selling loans with higher than wholesale interest rates; however, the rates may change several times a day based upon the financial markets.

Recast

Recasting is a re-amortization of a mortgage to the remaining term at the current interest rate and current unpaid principal balance. When the loan is recast, the payment required to fully amortize the loan over the remaining term becomes the new minimum payment and the payment cap does not apply. The purpose of recasting is to ensure the loan is paid off within the scheduled amortization period.

Recreational Lease

A lease that runs for a short period of time during each year; sometimes called time sharing.

Redemption Period

A period of time established by state laws during which a property owner has the right to redeem his or her real estate from a foreclosure or tax sale and reclaim title and possession of the property.

Re-established Credit

Credit that is established after a bankruptcy or foreclosure.

Re-price

Lower of the existing commitment price or the current market price for the same Note rate in the same Commitment.



Glossary

Residual Income

Residual income is the total monthly gross income less all monthly debt, including the mortgage payment.

Restricted Stock (RS) and Restricted Stock Units (RSU)

- Performance-based Restricted Stock or Restricted Stock Units are RS or RSU with a vesting schedule contingent on corporate and/or individual performance.
- Time-based Restricted Stock or Restricted Stock Units are RS or RSU with a pre-determined vesting schedule contingent only on the Borrower's continued employment.

Restructured Loan

A restructured loan is a mortgage loan in which the terms of the original transaction have been changed resulting in either absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in:

- 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; and
- Conversion of any portion of the original mortgage debt from secured or unsecured debt.

In many cases, a borrower may not disclose that their existing mortgage loan has been restructured. The credit report may show a restructured loan as "settled for less than owed." If the credit report does not specify "settled for less than owed", you will need to scrutinize the mortgage balance reported on the credit report versus the payoff balance. If the two (2) balances do not match and the difference is more than unpaid interest or prepayment penalties, the loan may have been restructured.

Restrictive Covenants

A covenant or an agreement that imposes restrictions on the use of the land to preserve the value and enjoyment of the adjoining land or property.

Retail Origination



Glossary

A loan for which the mortgage loan seller (or, as described in "Retail Origination" below, its parent company, controlled affiliate, or subsidiary) takes the loan application and then processes, underwrites, funds, and sells the loan to investor.

"Retail Origination" includes a loan that is originated and funded by a parent company, controlled affiliate, or subsidiary of the mortgage loan seller, *or* is closed either in the name of the applicable parent company, controlled affiliate, or subsidiary and sold to the mortgage loan seller or is closed in the name of the mortgage loan seller. In any case, the loan is then sold by the mortgage loan seller to investor.

Rural Property

If any of the following criteria exists, the property will be classified as rural:

- Appraiser classifies the property as rural;
 - Less than 25% of the surrounding market area is developed; or
 - If at least 50% of the acceptable comparable properties are not within five miles of the Subject property, unless the appraiser provides sufficient justification for the distance of the comparable sales and clarifies that the property is not rural in nature.
-



Glossary

Scheduled Principal Balance

At any time and with respect to any Loan, the original principal amount of such loan at the time it was purchased by Newrez less that portion of any cash payments received by Newrez from the primary Servicer for such loan that is to be applied toward the reduction of the outstanding principal balance of the loan.

Second Home

A property that the borrower occupies for some portion of the year, in addition to their primary residence.

Security Instrument

The applicable form of mortgage, deed of trust, deed to secure debt or security deed required, including any riders, creating a lien on the Subject property.

Seller Guide

Fannie Mae's and Freddie Mac's Seller Guide as amended, supplemented, or replaced from time to time.

Servicing Released Premium (SRP)

A one-time Premium paid to Client for the Servicing Rights on a mortgage loan.

Servicing Rights

The right, title, and interest in and to the non-recourse servicing of any loan and the maintenance and Servicing Fee income and any and all ancillary income arising from or in connection with any loan.

Settlement Agent

A neutral third party that facilitates the closing of a real estate transaction, including the closing of the loan, and the collection and disbursement of loan proceeds. The settlement agent can be a lender, an escrow company, title company, title agent, or attorney.

Simultaneous Transaction

A first and second lien mortgage loan secured by the same subject property and are originated and closed together.



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Simultaneous Sale of Servicing

The sale of servicing to Newrez concurrently with the sale of the loan to Newrez.

Simultaneous Second Mortgage

The second lien in a Simultaneous Transaction with the first lien transaction.

Single-Family Residence

A detached, semi-detached, or attached single-family dwelling, including town homes and row homes.

Site Condominium

A condominium project composed solely of one-unit detached dwellings and no common area improvements other than greenbelts, private streets, and parking.

Sole Proprietorship

A sole proprietorship is an unincorporated business that is individually owned and managed. The individual has unlimited personal liability for all debts of the business. If the business fails, the borrower will have to replace his or her income, as well as satisfy the outstanding obligations of the business. Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy the borrower's business obligations.

The financial success or failure of this type of business depends solely on the owner's ability to obtain capital. Poor management skills or an inability to secure capital to keep the business running will compromise the continuance of the borrower's business (and income).

The income, expenses, and taxable profits of a sole proprietorship are reported on the Profit or Loss from Business (Schedule C) on the owner's Individual U.S. Income Tax Return (IRS Form 1040) and are taxed at the rates that apply to individuals. When evaluating a sole proprietorship, make sure that there is sufficient and stable cash flow to support both the business and the payments for the requested mortgage. Client must confirm that the business can accommodate the withdrawal of assets or revenues should the borrower need them to pay the mortgage payment and/or other personal expenses.

Standalone Transaction

A loan, usually in a junior position, closed independently from any other mortgage transaction.



Glossary

Substitution Date

The date on which Newrez receives a loan that a client has substituted for a denied loan.

Sweat Equity

Unpaid labor performed by employees, cash-strapped entrepreneurs, or homeowners on a project to help renovate the property or home is called Sweat Equity. A term often used by homeowners and real estate investors who do their own repairs.



Glossary

Tamperseal

Digital signature technology used to provide tamper-evidence protection to the Electronic Record as required by the Guide to Delivering eMortgage Loans to Fannie Mae (Version 2.5 March 2007).

Tax Service Fee

A fee charged on all loans to hire outside vendors to verify that all taxes on the Subject property were paid.

Temporary Buydown

An amount of money paid by the borrower, home seller, home builder or other person or entity that reduces the borrower's monthly payments of the Note for a number of months at the beginning of the loan term and that will, by the terms of the agreement establishing the temporary buydown, be pledged to Client as additional security for the loan.

Third-party origination

A loan that is completely or partially originated, processed, underwritten, packaged, funded, or closed by an entity other than the seller (or its parent company, controlled affiliate or subsidiary) that sells the loan. This includes mortgage brokers or correspondents, which are known as third-party originators. If a seller enters into a contract with a third party known for the quality of its underwriting (such as a mortgage insurer) to help the seller in underwriting its mortgage originations, the loans will not be considered third-party originations.

Title Vesting

The manner in which the borrower takes title to the subject property. Types of Title Vesting are individual, joint tenants, tenants in common and living trusts.

- Individual : an individual borrower taking sole ownership (title) to a property.
- Joint Tenants: a form of co-ownership giving each tenant equal interest and equal rights in a property, including the right of survivorship.
- Tenants in Common: a form of individual ownership interest by two (2) or more persons that provides no right of survivorship. The interest is needs not to be of equal percentage.

Transfer, Transferring Control, Transfer Control or Transfer of Control

The transfer of interests in an eNote (designated by transferor and transferee as the Authoritative Copy), and any subsequent transfer of eNotes (designated by the transferor and the transferee as the Authoritative Copy) and registered on the MERS® eRegistry. In the event of a conflict between the



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information in the MERS® eRegistry and the eMortgage Process Technology, to the extent that the MERS® eRegistry is a going concern, the MERS® eRegistry controls.

Transfer on Death Deed

A transfer on death deed allows a property owner to directly transfer the ownership of real estate at the owner's death to whomever the owner designates by name. It is a method for avoiding probate of real estate when the owners don't need the tax benefits of a trust.

Transferable Record

An Electronic Record under ESIGN and UETA that would otherwise be a note under Article 3 of the Uniform Commercial Code ("UCC") if it was in writing, that the issuer expressly has agreed is a Transferable Record; for purposes of ESIGN relates to a loan that is secured by a mortgage (on real property); and is presented to and signed by the Borrower(s) using eMortgage Process Technology. A Transferable Record is also referred to as an eNote.

Two- to Four-Unit Property

A two- to four-unit property is a residential structure with more than one (1) unit but not more than four (4) units.



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Uniform Electronic Transactions Act (UETA)

The official text of the Uniform Electronic Transactions Act proposed by the National Conference of Commissioners on Uniform State Laws. UETA is a state law that authorizes electronic signatures for electronic documents, contracts, and records in place of the traditional pen and paper. The UETA is allowed in states (all but New York) that has adopted the state law.

U.S. Possession or Territory

Refers to islands that are under the jurisdiction of the United States which are not actual states of the United States or are not located in America. The following are considered U.S. territory or possessions: American Samoa, Guam, Marshall Islands, Federated States of Micronesia, Northern Marianas, Palau, Puerto Rico, U.S. Virgin Islands.

Note about Hawaii: Though Hawaii became a United States territory in 1899, Hawaii did not become a state until August 21, 1959.

Uniform Instruments

Defined as a uniform set of documents used when originating single family residential mortgages loans. These documents include Fannie Mae/Freddie Mac, Freddie Mac Note, Riders documents as well as Deed of Trust and Mortgages which are considered Security instruments.



Glossary

VA Lender Appraisal Processing Program (LAPP)

The Veterans Administration Lender Appraisal Processing Program

Glossary

Wraparound Mortgage

A refinancing technique involving the creation of a second mortgage which includes the balance due on any existing mortgages, plus the amount of the new secondary or junior lien. This type of transaction is usually for borrowers who are unable to qualify for traditional financing. This type of transaction is usually for borrowers who are unable to qualify for traditional financing. Wraparound mortgages are a type of seller financing that does not involve applying for a conventional bank mortgage. Both buyer and seller sign the mortgage, and the buyer pays the seller directly but at a higher interest rate.

| Revision History (2025) | Date |
|---|------------|
| Freddie Mac Bulletin 2024-16: Released definitions for Restricted Stock (RS) and Restricted Stock Units (RSU) to identify specific vesting on performance or timing provisions: <ul style="list-style-type: none"> Contingent on corporate and/or individual performance, or Time based vesting schedule contingent only on borrower's continued employment | 01.30.2025 |
| Fannie Mae SEL2025-01: Definitions released for Floor Plan and Footprint sketch with specific requirements for each including: <ul style="list-style-type: none"> Must be software-generated (not hand drawn) and include: | 02.27.2025 |

Glossary

- | | |
|--|--|
| <ul style="list-style-type: none">• All exterior dimensions, all levels of the dwelling, and• Calculations that demonstrate how the square footage was determined.• All interior walls, doorways, staircases, exterior ingress/egress, and labels for each room (only required for Floor Plan) | |
|--|--|

Additionally, a separate footprint sketch including all exterior dimensions and room labels must be provided for each additional structure.