



Conforming Underwriting Guide

Chapter 1A Eligibility

Contents

Chapter 1A Conforming Eligibility	1
1A.1 Overview	3
1A.2 Excluded Parties	3
1A.3 Loan Application	4
1A.4 Identity Verification	5
1A.5 Social Security Number Validation	5
1A.6 Documentation Age	6
1A.7 Occupancy Types.....	8
1A.7 (a) Primary Residence	8
1A.7 (a)(i) Primary Residence Exception.....	9
1A.7 (b) Second Home	10
1A.7 (b)(i) Freddie Mac LPA	10
1A.7 (c) Investment Property	11
1A.8 Borrower Eligibility	11
1A.8 (a) U.S. Citizen	11
1A.8 (b) Non-U.S. Citizen	11
1A.8 (b)(i) Permanent Resident Alien.....	11
1A.8 (b)(ii) Non-Permanent Resident Alien	12
1A.9 Non-Occupant Borrower, Guarantor, and Co-Signer	16
1A.9 (a) Non-Occupant Borrower	16
1A.9 (b) Guarantor or Co-Signer	16
1A.10 Multiple Financed Properties	17
1A.10 (a) Ownership Defined	17
1A.10 (b) Property Subject to Limitations	17



Conforming Underwriting Guide

- 1A.10 (c) Simultaneous Submissions..... 18
- 1A.11 Ownership Interests 18
 - 1A.11 (a) Life Estate 18
 - 1A.11 (b) Leasehold Estate..... 19
- 1A.12 Inter Vivos Revocable Trust 23
 - 1A.12 (a) Trust and Trustee Requirements..... 23
 - 1A.12 (b) Certification of Trust 24
 - 1A.12 (c) Title and Title Insurance Requirements 24
 - 1A.12 (d) Legal Documents and Riders 25
 - 1A.12 (e) Ineligible Trusts..... 25
- 1A.13 Ineligible Programs 26



Conforming Underwriting Guide

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 prohibits loans where any company, lender, vendor, individual, or lender employee (loan originator, loan processor, or loan underwriter) who are material parties to the transaction are listed on NewRez's Exclusionary List, HUD's [Limited Denial of Participation](#) list or the Federal General Services Administration (GSA) [Excluded Party](#) list found in the System for Award Management (SAM).

NewRez's Exclusionary List, HUD's LDP list, and SAM must be checked to confirm eligibility for all participants involved in the transaction and must be evidenced in the loan file.

Borrower	A borrower is not eligible if they appear on the NewRez Exclusionary List.
Other Parties to the Transaction	<p>If anyone participating in the transaction is listed on NewRez's Exclusionary List, any of the above or FHFA's Suspended Counterparty Program (SCP) list, the loan is not eligible.</p> <p>This may include but is not limited to:</p>

Conforming Underwriting Guide

	<ul style="list-style-type: none">• 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• 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)
--	---

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.



Conforming Underwriting Guide

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.

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 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.

Conforming Underwriting Guide

1A.6 Documentation Age

See below for [TEMPORARY COVID REQUIREMENTS](#)

Topic	Fannie Mae	Freddie Mac
Age of Credit Documents	All documents must not be more than four 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 months old on the date of the Note and Mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. 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 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, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. 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.
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: <ul style="list-style-type: none"> The effective date is more than one year from the Note date; and 	

Conforming Underwriting Guide

	<ul style="list-style-type: none"> The appraiser indicates in an Appraisal Update that the property value has declined. 	
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 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 	<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 or deterioration of the property would affect marketability or value; and 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

Conforming Underwriting Guide

	<p>greater than four months old as of the Note date, an appraisal update is required; and</p> <ul style="list-style-type: none"> ○ The appraisal update must reflect the current transaction information (current borrowers, transaction type, owner of record, lender/client, etc.). 	<p>the subsequent transaction;</p> <ul style="list-style-type: none"> ○ 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	<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>	

TEMPORARY COVID REQUIREMENTS

Income and asset documentation must be 60 days old as of the Note date for all loans (existing and new construction).

If an asset account is reported on a quarterly basis, obtain the most recently issued quarterly statement.

1A.7 Occupancy Types

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.

1A.7 (a) Primary Residence

A primary residence is a property that at least one borrower occupies as their primary residence

Conforming Underwriting Guide

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.

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

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

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

1A.7 (a)(i) Primary Residence Exception

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
<p>A borrower may be considered an occupying borrower if the property is occupied as a primary residence in the following situations:</p> <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; or 2. 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. 	<p>A borrower may be considered an occupying borrower if the property is occupied as a primary residence by an individual(s) who:</p> <ol style="list-style-type: none"> 1. Is the borrower's parent(s); or 2. Has a disability and the borrower is the individual(s)'s parent or legal guardian.

Conforming Underwriting Guide

1A.7 (b) 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.

Often located in a vacation/resort area, the property must be suitable for year-round occupancy and should not be located in the same market area as the borrower's primary residence. Second homes may be located in a major metropolitan area that the borrower visits on a regular basis. Obtain a letter of explanation from the borrower stating the reason that the home is not located in a vacation/resort area.

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.

The borrower must have exclusive control over the property and the property must not be subject to any kind of time sharing agreement, rental pools, or agreements that require the borrower to rent, share or give management firm control over occupancy.

Rental income may not be used to qualify the borrower. 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.

1A.7 (b)(i) Freddie Mac LPA

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

- A second home with seasonal limitations for year-round occupancy (e.g., lack of winter accessibility) is eligible provided the appraiser includes at least one (1) 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.



Conforming Underwriting Guide

1A.7 (c) 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

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.

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. See 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) Non-U.S. Citizen

1A.8 (b)(i) Permanent Resident Alien

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 of the following:



Conforming Underwriting Guide

- A copy of a valid and current Permanent Resident card (Green Card-Form I-551) front and back; or
- A passport stamped "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 (b)(ii) Non-Permanent Resident Alien

A non-permanent resident is a non-U.S. citizen who lawfully enters the U.S. for specific time-periods under the terms of a Visa. A non-permanent resident status may or may not permit employment. Asylees and refugees may also be eligible under this classification.

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

Eligible Visa Types		
Visa Type	Visa Description	EAD (I-766) Required?
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	Yes, for spouse
G-2	Representative of a recognized or member foreign government	No
G-3	Representative of non-recognized or non-member government	Yes, for spouse
G-4	Appointment - designated international organization	Yes, for spouse
G-5	Employee of G-1, G-2, G-3, or G-4	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

Conforming Underwriting Guide

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
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
<p>Expiring Visas: If the authorization for temporary residency status will expire within one 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.</p>		

If the borrower does not have one (1) of the above Visas, one (1) of the following may be used to establish lawful residency:

- A valid passport, letter from employer/sponsor and an I-94 proving work authorization; or
- A valid employment authorization document (EAD) (Fannie Mae only).

Form I-797C, Notice of Action, issued by the United States Citizenship and Immigration Services (USCIS) itself is not sufficient to document that a non-U.S. Citizen is legally present in the United States.

A valid social security number is required for all borrowers, except for those employed by the World Bank, foreign embassy, or equivalent employer identified by HUD.

Refugee or asylee status granted by the USCIS is automatically eligible to work in the U.S. The EAD is not required but documentation of refugee or asylee status is required.

Conforming Underwriting Guide

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

- **Deferred Action for Childhood Arrivals (DACA; EAD Category C33);**
- Deferred Enforced Departure;
- Diplomatic Immunity;
- Humanitarian Parole; and
- Temporary Protected Status.

Ineligible Visa Types	
Visa Type	Visa Description
A-1	Official foreign government (ambassador, public minister, career diplomat)
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
A-3	Employee of A-1 or A-2
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
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 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

Conforming Underwriting Guide

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
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
R-1	Temporary Religious Worker Visa
R-2	Spouse or child of R-1

Conforming Underwriting Guide

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

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;
- 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.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



Conforming Underwriting Guide

- Do not have an interest in the property sales transaction, such as the property seller, the builder, or real estate broker.

1A.10 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 Profiles for limits.

1A.10 (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 property; and
- Is cumulative for all borrowers (though jointly financed properties are counted once).

1A.10 (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 consistency 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	No

Conforming Underwriting Guide

property (chattel lien on the home)	
Examples <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.	

1A.10 (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.11 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.11 (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.

Conforming Underwriting Guide

1A.11 (b) Leasehold Estate

A Leasehold Estate is an estate or interest in real property held by virtue of a lease or sublease.

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 term of the lease must run for at least five years beyond the maturity date of the mortgage, unless fee simple title will vest in borrower or HOA association at an earlier date; • 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; <ul style="list-style-type: none"> ○ An automatic renewal clause is acceptable if it verifies the terms will extend at least five 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

Conforming Underwriting Guide

	<p>take over the borrower's rights under the lease;</p> <ul style="list-style-type: none"> • 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; • The lease must provide for the borrower to retain voting rights in any homeowners' association; and • 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. <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. • 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

Conforming Underwriting Guide

	<p>purchase price should be the lower of the following:</p> <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 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>
Ineligible Property Types	<p>The following are ineligible:</p> <ul style="list-style-type: none"> • 2-4 units • Condos • 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 term of the leasehold estate must run for at least five years beyond the maturity date of the mortgage unless the fee simple title vests at an earlier date; • 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; • All basic rent and amounts due (for taxes, insurance, utilities and use fees

Conforming Underwriting Guide

	<p>or operating expenses) relating to the land and improvements must be current;</p> <ul style="list-style-type: none"> • The borrower must not be in default under any provision of the lease nor may the lessor have claimed such a default; • The lease (and any sublease including any amendments) must be recorded in the appropriate land records; and • The lease must provide the borrower to retain voting rights in the homeowners' association, if applicable.
Lease Provisions	<p>The lease must:</p> <ul style="list-style-type: none"> • Not contain default provisions allowing forfeiture or termination of the lease for nonmonetary default, except for nonpayment of the ground rent; • Permit assignments, transfers, mortgaging, and subletting of the leasehold (or sub-leasehold) estate, including any improvements on the leasehold estate; • Be in full force and effect and is binding and enforceable against the lessor (and sublessor); • 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); • Provide that for a notice of lessee's default (monetary or non-monetary) to be valid, the lessor must send written notice of the lessee's default to the leasehold mortgagee not more than 30 days after such default; • 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; • 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; and • At least one borrower must have been a lessee on the ground lease or lease agreement of the subject leasehold estate for at least six months for a cash-out refinance.
Ineligible Property Types	<p>The following are ineligible:</p> <ul style="list-style-type: none"> • Manufactured housing

Conforming Underwriting Guide

	<ul style="list-style-type: none">• 2-4 units• Condos• Co-ops
--	---

1A.12 Inter Vivos Revocable Trust

All trust requests must be approved in writing by NewRez legal as early as practical but should be 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.

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

- An individual creates 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.12 (a) 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:

- The trust is established by one 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 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

Conforming Underwriting Guide

- 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;
- 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.

1A.12 (b) 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.12 (c) 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

Conforming Underwriting Guide

- 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.12 (d) 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
 - For of Settlor/Credit Applicant's Signature Acknowledgment Required on Security Instrument
 - Optional Limitation on Trust Liability

1A.12 (e) Ineligible Trusts

- Blind Trusts
 - 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.
- Community Land Trusts
 - 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

Conforming Underwriting Guide

ground lease low-income and moderate-income families at affordable monthly ground rents.

- **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.

- **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.

1A.13 Ineligible Programs

The following programs are not eligible:

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

Conforming Underwriting Guide

Chapter 1B Transactions

Contents

Chapter 1B Transactions	1
1B.1 Purchase Mortgage	3
1B.1 (a) Owner of Record and Chain of Title	4
1B.1 (b) Non-Arm's Lengths Transactions	4
1B.1 (c) Conflict of Interest (Dual Capacity)	5
1B.1 (d) Auctioneer's Fees.....	5
1B.1 (e) Redemption Periods.....	5
1B.2 Rate and Term Refinance Mortgage	5
1B.2 (a) Use of Funds.....	6
1B.2 (b) Owelty Liens-Texas Only.....	7
1B.2 (c) Ineligible Transactions.....	7
1B.3 Cash-out Refinance Mortgage	7
1B.3 (a) Use of Funds.....	8
1B.3 (b) Eligible Transactions.....	8
1B.3 (c) Ineligible Transactions.....	9
1B.4 Student Loan Cash-Out Refinance	9
1B.5 Buyout of an Owner's Interest.....	10
1B.6 Delayed Financing	11
1B.7 Continuity of Obligation	12
1B.8 Inherited Properties.....	13
1B.9 Installment Land Contract.....	13
1B.10 Texas Equity Refinance.....	13
1B.10 (a) Rate and Term Refinance	15
1B.11 Permanent Financing for New Construction	17



Conforming Underwriting Guide

Conforming Underwriting Guide

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.

Generally, renegotiated sales contracts are not allowed, however, minor adjustments due to condition or other relevant factors will be permitted. Increasing the sales price after the appraisal is completed to provide seller credit is not permitted.

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).

Conforming Underwriting Guide

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 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;
- 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; and
- 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 Lengths Transactions

A non-arm's length transaction exists when the borrower has a direct relationship or business affiliation with the builder, developer, or property seller. Extra diligence should be exercised when there are interested parties to the transaction, other than the builder, developer, or property seller (e.g., loan officer, client, etc.).

The purchase of a newly constructed home secured by either a second home or investment property is not permitted.

For delayed financing transactions, the original purchase of the property may not have been a non-arm's length transactions.

Conforming Underwriting Guide

1B.1 (c) Conflict of Interest (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.

NewRez will permit only the following: 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.

1B.1 (d) 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 (e) Redemption Periods

Properties with unexpired redemption periods have unacceptable title defects

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.8](#) Inherited Properties and Ownership Interest below for exceptions.



Conforming Underwriting Guide

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.

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

1B.2 (a) 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 (including an existing HELOC in first-lien position) plus any required per diem interest;
- 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; purchase money transaction and refinance of the purchase money second lien transaction.
 - Financing the payment of closing costs, points, and prepaid items.



Conforming Underwriting Guide

- Fannie Mae DU: With the exception of real estate taxes that are more than 60 days delinquent the borrower can include real estate taxes in the new loan amount as:
 - 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;
- Incidental cash back not to exceed the lesser of 2% of the balance of the new loan or \$2000;
- Prepayment penalties associated with the payoff of the existing mortgage.

1B.2 (b) Owelty Liens-Texas Only

The payoff of an owelty lien may be treated as a no cash-out refinance transaction.

1B.2 (c) Ineligible Transactions

- No outstanding first lien on the subject property;
- No Continuity of Obligation, if applicable. See [1B.7](#) Continuity of Obligation below (LPA only);
- 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
- Refinance transaction that:
 - Combines a first mortgage and a non-purchase money subordinate mortgage into a new first mortgage; or
 - Any refinance of the combined loan within six months.

Closing Disclosure from prior transactions are required to determine eligibility. 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

Conforming Underwriting Guide

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

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;
- One borrower must have held title to the subject property for at least six months preceding the Note date of the new loan, with the following exceptions:
 - There is no waiting period with documentation and verification that 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.
 - Delayed financing requirements are met; see below.
 - Fannie Mae DU: Time held in a limited liability company (LLC) that is controlled, or majority owned by the borrower(s) may be counted towards the borrower's six-month ownership requirement. Ownership must be transferred out of the LCC and into the name of the individual borrower(s) in order to close the transaction.
 - 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.

Conforming Underwriting Guide

- Continuity of Obligation requirements are met, if applicable. See [1B.7](#) Continuity of Obligation below for Freddie Mac LPA; and
- 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 (c) Ineligible Transactions

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

- The subject property was purchased by the borrower within the six months preceding the Note date of the new loan, except where delayed financing guidelines are met;
- The subject property is listed for sale at time of the Note date of the new loan;
 - Properties listed for sale include and investment property where current tenants have a lease-to-own provision in their lease.
- 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.

1B.4 Student Loan Cash-Out Refinance

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

Conforming Underwriting Guide

	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	<p>The loan may be used to pay off:</p> <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 • 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>

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.) as a rate and term refinance 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 may receive no cash-out from the proceeds of the refinance; • All parties must have jointly owned the subject 	<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

Conforming Underwriting Guide

<p>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</p> <ul style="list-style-type: none"> The transaction is considered a rate and term refinance. 	<p>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</p> <ul style="list-style-type: none"> The transaction is considered a cash-out refinance.
---	--

1B.6 Delayed Financing

Fannie Mae DU	Freddie Mac LPA (Special Purpose Cash-out Refinance)
<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 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 ratios for the refinance transaction; Funds received as a gift and used to purchase the property may not be reimbursed with 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 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 were borrowed, those funds must be repaid, in full, and reflected on the CD; 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 actual documented amount of the borrower's initial investment in purchasing the property plus the financing costs, prepaid items, and points;

Conforming Underwriting Guide

<p>proceeds;</p> <ul style="list-style-type: none">• The new loan amount must not be more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing costs, prepaid items, and points;• All other cash-out refinance eligibility requirements are met; and cash-out pricing is applied; and• Manufactured housing not eligible.	<ul style="list-style-type: none">• All other cash-out refinance eligibility requirements are met, and cash-out pricing is applied; and• Manufactured housing not eligible.
---	--

1B.7 Continuity of Obligation

The requirement for continuity of obligation applies to Freddie Mac LPA transactions only.

Loans with an acceptable continuity of obligation may be underwritten as either a rate and term or a cash-out refinance transaction based on the definitions in this Underwriting Guide. Continuity of obligation requirements do not apply when there is no existing mortgage on the subject property.

Continuity of obligation is met when at least one borrower obligated on the new loan was also a borrower obligated on the existing loan.

The following transactions are eligible even though the definition of Continuity of Obligation has not been met. The time periods are measured from the date of the event (i.e., transfer of title) to the Note date of the new loan.

- At least one borrower has been on title to and resided in the property for the last 12-month period and one of the following is documented:
 - The borrower has paid the mortgage for the last 12 months;
 - The borrower can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor; or
- At least one borrower recently inherited or was legally awarded the property (divorce or separation). See [1B.8 Inherited Properties](#).

Conforming Underwriting Guide

1B.8 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 borrower must have 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. See our Product Profiles for product restrictions.

1B.9 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.10 Texas Equity Refinance

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



Conforming Underwriting Guide

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.

Second homes and investment properties that are not classified as homestead are not subject to the restrictions in Article XVI, Section 50(a)(6) and 50(g) of the Texas Constitution or the NewRez Texas Equity Loan requirements specified in this section.

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

1. 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.
2. 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.
3. Borrower must sign Borrower's Certification of Receipt of Settlement Statement and Accuracy Thereof at closing.
4. 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

Conforming Underwriting Guide

Texas Notice Regarding Extension of Credit.

5. Borrower must be provided 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.
6. 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.
7. 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.10 (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(f)(2).

Rate and Term Refinance Texas Section 50(a)(6)	A Texas Section 50(a)(6) Rate and Term Refinance transaction used to: <ul style="list-style-type: none">• Payoff of the outstanding principal balance of:
--	---

Conforming Underwriting Guide

	<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. <ul style="list-style-type: none"> 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(f)(2)	<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(f)(2) 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.

Conforming Underwriting Guide

1B.11 Permanent Financing for New Construction

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.

Transaction	Fannie Mae DU	Freddie Mac LPA
Purchase	NA	<p>The transaction is a purchase if prior to closing the interim financing, the borrower is not the owner of record of the land and the proceeds from the interim construction financing were used to purchase the land or pay construction costs.</p> <p>Value is determined by the lesser of:</p> <ul style="list-style-type: none"> • The current appraised value for the property (lot and improvements); or • The sum of the documented construction costs and the current appraised value of the lot. See Construction Costs section in this chapter. <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.</p>
No Cash-out Refi	<p>The borrower holds title to the land and is named as the borrower for the construction loan.</p> <p>The proceeds may be used to:</p>	<p>The transaction is a no cash-out refinance, if prior to the application date, the borrower holds title to the land and the proceeds from the interim financing was used to:</p>

Conforming Underwriting Guide

	<ul style="list-style-type: none"> • Pay off interim construction loan; and • Pay all transaction costs (closing costs, lot financing). <p>No loan proceeds are disbursed to the borrower.</p> <p>Value is determined by the appraised value, as completed.</p>	<ul style="list-style-type: none"> • Pay off any existing liens on the land; • Pay construction costs; and • Pay all transactions costs (e.g., closing costs, financing costs and/or prepaids/escrows). <p>Value is determined by the appraised value of the property, as completed.</p>
Cash-out Refi	<p>At least one borrower must have been on title to the land for at least six month prior to the Note date of the permanent financing.</p> <p>Value is based on the appraised value of the property, as completed.</p>	<p>At least one borrower must have been on title to the land for at least six months prior to the Note date of the permanent financing.</p> <p>Value is based on the appraised value of the property, as completed. Delayed Financing not permitted.</p>
Borrower Eligibility	<p>Borrower must be the primary obligor to repay the interim financing</p>	<p>Borrower must be obligated to repay the interim financing and any other outstanding prior financing, except as follows:</p> <ul style="list-style-type: none"> • A borrower may be omitted in the event of death or divorce; • A borrower who is related may be added, provided all borrowers occupy the subject property; or • The builder/developer must not be obligated to repay the interim financing or any mortgage on the land or improvements except when the builder/developer will occupy the subject property as his or her primary residence.
<p>Construction Costs</p> <p>For purposes of calculating the LTV ratio on conversion of construction-to-permanent loans, the</p>		

Conforming Underwriting Guide

following factors must be considered when evaluating documented construction costs.

Construction costs generally include all material and labor attributed toward the completion of the subject dwelling (these costs are commonly identified as “hard” costs, or in trade lingo as “sticks and bricks”). In addition, certain limited “soft” costs may be included if they cover tangible products/services associated with the subject. Items such as professional fees for services such as architectural fees, building permits, engineering fees, and environmental impact fees, while considered soft costs, are deemed typical and an integral component of the cost of construction and can be included as construction costs.

Other “soft costs”, sometimes paid through construction loan draws, are not considered a component of the cost to construct calculation and should be deducted from the total documented costs. These non-allowed “soft costs” include, but are not limited to:

- Costs attributed to financing of the construction and/or permanent loan (construction loan closing costs)
- Real estate taxes on the property
- Insurance
- Legal
- Sweat equity

In the event the borrower is acting as a general contractor, the following are not allowable costs:

- Employment tax benefits paid on behalf of labor
- Profit
- Industry-related fees and dues
- Insurance premiums
- Checks made payable to cash
- Tools
- Hotel bills or costs for temporary housing or site visits

In certain areas, it has become common practice to tear down or raze an older dwelling and construct a new home on a highly desirable site. Typically, the original purchase price of the site included a value attributed to both the dwelling and the land beneath. While it may be acceptable to include the demolition costs in the construction costs of the new home, pay careful attention to the methodology applied when estimating the true land value versus the original purchase price of the land.

All costs incurred for material and labor on newly constructed premises should be substantiated by a

Conforming Underwriting Guide

construction contract.

In the absence of a construction contract, construction costs must be verified by invoices, lien waivers, or contracts for services or materials provided by sub-contractors (certain items may not be considered construction costs, e.g., bank fees, service charges, interest carry, etc.). Invoices must note the subject address or lot number and the builder or borrower's name. All costs paid must be documented by way of canceled checks, paid receipts, or a certified draw schedule from the construction lender itemizing specific work covered by each draw.

If any of these costs were covered by the borrower's own funds, all costs paid must be documented by way of canceled checks or paid receipts.

When the loan represents a non-arm's length transaction, as in the case of a borrower/builder, or an employee, relative or business associate of the builder, the cost of materials and labor plus the value of the lot must be documented. Builder's profit is not an allowable cost. If the lot was purchased less than 12 months prior to the application, the value of the lot will be based on the lower of the purchase price or land value indicated on the appraisal. The LTV ratio will be based on the lower of the documented acquisition cost or appraised value.

Conforming Underwriting Guide

Chapter 1C Financing

Contents

Chapter 1C Conforming Financing.....	1
1C.1 Determining Amount to be Financed	3
1C.1 (a) Determining Value	3
1C.2 Calculating Loan-to-Value Ratios.....	3
1C.2 (a) Loan-to-Value (LTV) Ratios	3
1C.2 (b) Combined Loan-to-Value (CLTV) Ratio	3
1C.2 (c) Home Equity Combined Loan-to-Value (HCLTV) Ratio	4
1C.2 (d) Permanently Modified HELOC	4
1C.3 Temporary Buydowns	4
1C.4 Subordinate Financing.....	5
1C.4 (a) Subordinate Financing Terms	5
1C.4 (b) Employer Provided Secondary Financing.....	6
1C.4 (c) Community Seconds.....	6
1C.4 (d) Affordable Seconds	9
1C.4 (a)(i) Eligible First Lien Mortgages	10
1C.4 (a)(ii) Maturity Date	10
1C.4 (a)(iii) Scheduled Payments.....	10
1C.4 (a)(iv) Participation in Appreciation (equity sharing)	11
1C.4 (a)(v) Financing Structure	12
1C.4 (a)(vi) Documentation Requirements	12
1C.5 Property Assessed Clean Energy (PACE) and PACE-like Obligations	12
1C.6 Temporary Interest Rate Buydowns	14
1C.6 (a) Buydown Agreement.....	14
1C.6 (b) Buydown Funds	15
1C.6 (c) Buydown Escrow Holdback	15



Conforming Underwriting Guide

- 1C.6 (d) Disposing of Buydown Funds 15
- 1C.7 Premium Pricing/Lender Credits..... 16
- 1C.8 Principal Curtailments 17
- 1C.9 Escrow for Impounds..... 17
 - 1C.9 (a) Escrow/Impounds 18
 - 1C.9 (b) Ineligible for Escrow Waiver 18

Conforming Underwriting Guide

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

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 1B 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 1B 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.

Conforming Underwriting Guide

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; and
 - 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 Buydowns

Temporary buydowns may be permitted for certain products. See our Product Profiles for eligibility.

All of the following must be met:

- The temporary buydown plan must be a written agreement between the party providing the buydowns funds and the borrower;
- All terms of the buydown must be disclosed to the appraiser;
- The mortgage instruments must reflect the permanent terms rather than the terms of the buydown plan. The buydown plan may not change the terms of the Mortgage Note; and
- When the source of the buydown funds is an interested party to the property sale or purchase, interested party contribution limits apply.

Conforming Underwriting Guide

The buydown agreement:

- 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; and
- May include the buydown funds to be returned to the borrower, if the mortgage is paid off before all of the funds have been applied.

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. See our Product Profiles for LTV/CLTV/HCLTV guidelines and eligibility. Any secondary lien must be subordinate to the NewRez first mortgage and be recorded as such.

1C.4 (a) Subordinate Financing Terms

Fannie Mae DU
<u>Acceptable Subordinate Financing Terms</u> <ul style="list-style-type: none">• The terms of any subordinate financing must be fully disclosed, documented, and comply with the following:<ul style="list-style-type: none">○ Variable payment terms acceptable when 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;○ Mortgage with deferred payments in connection with employer subordinate financing (see below); and○ Mortgage terms that require interest at a market rate. <u>Unacceptable Subordinate Financing Terms</u> <ul style="list-style-type: none">• The following are unacceptable

Conforming Underwriting Guide

- Mortgages with negative amortization;
- Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five 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.

Freddie Mac LPA

Acceptable Subordinate Financing Terms

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

Conforming Underwriting Guide

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.

Community Seconds must meet the following Fannie Mae requirements:

- Community Seconds mortgage may be funded by 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). Funds from 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;
- 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.
- 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 above;
- When repayment is deferred for five 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:

Conforming Underwriting Guide

- 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.
- Provider's Share in Appreciation in Value
 - The repayment terms of the Community Seconds mortgage may provide for the provider to share in any appreciation in the value of the security property in lieu of charging interest.
 - If the Community Seconds mortgage provides for both a stated interest rate and a sharing in the property appreciation, the appreciation in value must be based on one of the following:
 - The actual sales price of a property that is sold on the open market;
 - The appraised value of the property; or
 - The amount of a successful bid at a foreclosure sale.
 - When the property is subsequently sold (or foreclosed), the sales price or value determination should be paid, first, to the first mortgagee in an amount required to pay off the first mortgage in full, and only then, to other entitled parties, such as the Community Seconds provider and the borrower.
 - The provider's share of the equity generally may not exceed the percentage derived by dividing the original principal amount of the Community Seconds mortgage by the original value of the property. However, the provider's share in the appreciation can be greater than this calculated percentage in two instances:
 - As long as the Community Second program give the borrower the right to recover all of the following before the provider is able to share in the appreciation:

Conforming Underwriting Guide

- Any portion of the down payment that came from the borrower's own funds;
 - Reasonable costs of selling the property (such as a sales commission);
 - The costs of any improvements made to the property (as long as they were allowed under the program guidelines); and
 - The principal portion of all payments the borrower made on the first mortgage.
- As long as the provider's share does not initially exceed 75% and is reduced over time so that the percentage of the appreciation will be equal to or less than the percentage usually allowed by no later than five years after the date of the Community Seconds mortgage was originated.
- Documentation Review
 - A review of all of the documents applicable to the Community Seconds program, including the legal documents (such as the Promissory Note and the Security Instrument), the program description, and any other pertinent documents is required.
 - The Deed of Trust or Mortgage for the Community Seconds mortgage must be clearly subordinate to the first mortgage lien. The title insurance in effect must ensure priority of the first mortgage by showing the Community Seconds mortgage in a subordinate position. Deed/resale restrictions are not permitted.
 - The Community Seconds documents do not need to explicitly state the fact that the Community Seconds mortgage will be subordinate to the first mortgage; however, the documentation must allow the holder of the first mortgage to foreclose and acquire title to the property free and clear of all interests of the Community Seconds provider.

1C.4 (d) Affordable Seconds

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.

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:

Conforming Underwriting Guide

- 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 consequent 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 (a)(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 (a)(ii) Maturity Date

The terms of the Affordable Second must not 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 (a)(iii) Scheduled Payments

All of the following apply:

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

Conforming Underwriting Guide

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 (a)(iv) Participation in Appreciation (equity sharing)

Agencies and subsidy providers of an Affordable Second may participate in appreciation if the requirements in this section are met. For-profit entities may not participate in appreciation.

When the terms of an Affordable Second permit the agency or subsidy provider to share in the appreciation of the subject property, the following requirements must be met:

- At the time of origination of the Affordable Second, the agency's or subsidy provider's share of appreciation, as a percentage, must not exceed the principal amount of the Affordable Second divided by value, as defined in Section 4203.1 ("the percentage of the Affordable Second"), except as stated below. For example, if the Affordable Second amount is 5% of value, the maximum share of appreciation is 5%;
- The terms of the Affordable Second may permit the Agency or subsidy provider a share of appreciation exceeding the percentage of the Affordable Second if all of the following requirements are met:
 - The agency or subsidy provider must not charge interest on the Affordable Second;
 - The share of appreciation must not exceed 75% unless the Affordable Second provider is a subsidy provider or program administrator managing an income-based resale restriction programs; and:
 - All of the special requirements for mortgages secured by properties subject to income-based resale restrictions in the Freddie Mac Selling Guide are met; and
 - The subsidy provider or program administrator has processes in place to allow the borrower to receive a share of the proceeds of subsequent sales in instances where the subsidized resale price of the property increases at resale.
- The terms of the Affordable Second must allow the borrower to recover all of the following

Conforming Underwriting Guide

before the agency or subsidy provider is able to share in the appreciation:

- The down payment paid from borrower funds;
 - Customary costs incurred by the borrower for selling the property; and
 - The payments of principal of the first mortgage.
- The right of the agency or subsidy provider to share in the appreciation must be subordinate to the first mortgage.

1C.4 (a)(v) Financing Structure

The Affordable Second financing cannot be a HELOC.

1C.4 (a)(vi) 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 PACE loan originated after July 6, 2010, the PACE loan must be paid off, and be treated as a cash-out refinance.

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 was originated prior to July 6, 2010, this restriction may be waived if the



Conforming Underwriting Guide

existing first mortgage has a Note date prior to March 1, 2010. The PACE program terms and conditions must be documented.

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.
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
Loan must be paid in full with either a rate and	The transaction is not eligible unless the borrower

Conforming Underwriting Guide

<p>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>brings sufficient funds to closing to pay off the PACE obligation.</p>
<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.</p>	

1C.6 Temporary Interest Rate Buydowns

Temporary interest rate buydowns may be eligible if all of the following are met:

- 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 the appraiser and mortgage insurance provider;
- The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan;
- The buydown plan must not change the terms of the Note; and
- Interested Party Contributions apply when the source of the buydowns funds are from an interested party to the property sale or purchase transaction.

1C.6 (a) Buydown Agreement

Conforming Underwriting Guide

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; and
- May include an option for the buydown funds to be returned to the borrower or lender, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied.

1C.6 (b) Buydown Funds

The following applies to the buydown funds:

- The buydown funds must be established and fully funded;
- Funds for the buydown accounts must be deposited into custodial bank accounts;
- 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; and
- 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.

1C.6 (c) Buydown Escrow Holdback

The escrow holdback:

- May be funded by the seller/builder only;
- Will be held in an escrow account and will subsidize the borrower's payment during the first 24 months of the loan repayment period;
- Funds are not refundable unless the mortgage is paid off before all funds have been applied, and
- May be funded by the seller/builder only.

1C.6 (d) Disposing of Buydown Funds

If the mortgage is liquidated or the property is sold during the buydown period, the funds should be disposed of in the following manner:

Conforming Underwriting Guide

Status of Mortgage	Disposition of Funds
The mortgage is paid in full.	The funds should be credited to the total amount required to pay off the mortgage, or they may be returned to either the borrower or the lender as specified in the buydown agreement.
The mortgage is foreclosed.	The funds are used to reduce the mortgage debt.
The property is sold, and the mortgage is assumed by the purchaser.	The funds may continue to be used to reduce the mortgage payments under the original terms of the buydown plan.

See our Product Profiles for product eligibility.

1C.7 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;
- 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



Conforming Underwriting Guide

the lender is an interested party to the transaction.

Any NewRez-serviced loan that closes with premium pricing/lender credits are not eligible for a refinance within 120 days of the Note date.

1C.8 Principal Curtailments

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the loan.

On transactions where the loan originator is paid by the lender, a principal curtailment may be permitted. The maximum amount of the curtailment cannot exceed the lesser of \$2,500 or 2% of the original loan amount for the subject loan.

If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment. See our Product Profiles for principal curtailment details.

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 delivery, the loan file (or servicing file) must be documented with the amount of the curtailment and the reason or source of the curtailment.	The curtailment must be applied at closing and the amount must be documented on the Closing Disclosure.

1C.9 Escrow for Impounds

Escrow for impounds is defined as all funds collected by NewRez 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.

Conforming Underwriting Guide

1C.9 (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.

Escrow Waiver Eligibility		
Primary Residence	Second Homes	Investment Properties
LTV <=80%	LTV <=80%	LTV <=80%
<ul style="list-style-type: none">California: LTV <90%New Mexico: LTV <80%	<ul style="list-style-type: none">California: LTV <90%New Mexico: LTV <80%	
An escrow account is always required for HPML loans, regardless of LTV.		

1C.9 (b) Ineligible for Escrow Waiver

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

- First time homebuyer (may be considered with demonstrated ability to save and strong residual income);
- 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;
- Flood insurance; and
- HPML loan.

Conforming Underwriting Guide

Chapter 1D Property Types

Contents

Chapter 1D Property Types.....	1
1D.1 Eligible Property Types.....	3
1D.1 (a) Single-Family Residence	3
1D.1 (b) Modular Home.....	3
1D.1 (c) Two- to Four-Unit Property.....	3
1D.1 (d) Condominium	3
1D.1 (e) Planned Unit Development (PUD).....	4
1D.1 (f) Cooperative Project.....	4
1D.1 (g) Manufactured Housing	5
1D.1 (g)(i) Manufactured Housing Eligibility	5
1D.1 (g)(ii) Modifications to the Manufactured Home	6
1D.1 (g)(iii) Ineligible Manufactured Housing Property Types	7
1D.1 (g)(iv) Manufactured Housing Purchase Mortgage Transactions	7
1D.1 (g)(v) Manufactured Housing Rate and Term Refinance Transactions	8
1D.1 (g)(vi) Manufactured Housing Cash-out Refinance.....	8
1D.1 (g)(vii) Manufactured Housing Trade Equity.....	9
1D.1 (g)(viii) Manufactured Housing Appraisal Site Requirements	9
1D.1 (g)(ix) Manufactured Housing Appraisal Comparable Site Selection	10
1D.1 (g)(x) Manufactured Housing Appraisal Cost Approach Requirements	11
1D.1 (g)(xi) Sources of Manufactured Housing Data	11
1D.1 (g)(xii) Titling the Manufactured Home as Real Property	12
1D.2 Mixed-use Property	12
1D.3 Group Home	13
1D.4 Hobby Farm	13
1D.5 Deed/Resale Restrictions	14

Conforming Underwriting Guide

1D.5 (a) Resale Restriction Types	15
1D.5 (b) Eligibility.....	15
1D.5 (c) Ineligible Resale Restrictions	15
1D.5 (d) Eligible Subsidy Providers	16
1D.5 (e) Income-Based Resale Restrictions	16
1D.5 (e)(i) Eligible Borrowers	16
1D.5 (f) Resale Restriction Controls	17
1D.5 (g) Condominium Subject to Inclusionary Zoning Restrictions.....	17
1D.5 (h) Title and Insurance Requirements.....	17
1D.5 (i) Right of First Refusal or Option to Purchase.....	17
1D.6 Properties with Solar Panels	17
1D.6 (a) Solar Power Purchase Agreement or Lease Agreements	19
1D.6 (b) Financed as a Fixture to Real Estate or as Personal Property.....	20
1D.6 (c) Solar Panels Owned Free and Clear	21
1D.7 Ineligible Property Types	22

Conforming Underwriting Guide

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) 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 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 complete guidelines, classification information, and approval procedures, see the [Project Review Department](#) (PRD) page.

Conforming Underwriting Guide

1D.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 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 complete guidelines, classification information, and approval procedures, see the [Project Review Department](#) (PRD) page.

1D.1 (f) 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 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.

Conforming Underwriting Guide

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

The following eligibility requirements must be met.

- The borrower must have owned both the manufactured home unit and land for at least 12

Conforming Underwriting Guide

months preceding the date of application;

- 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.
 - If the original or alternative documentation cannot be obtained for both the Data Plate/Compliance Certificate and HUD Certification Label (tag), the loan is not eligible;
 - If the HUD tag is missing, a recent "HUD Certification Verification" letter issued by the [Institute for Building Technology and Safety](#) (IBTS) or a copy of the Data Plate from the In-Plant Primary Inspection Agency (IPI) or manufacturer must be in the loan file.
- The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, 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 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;
- **Multi wide manufactured home unit;**
 - 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;
 - The borrower must own the land on which the manufactured home is located in fee simple; and
 - 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.

1D.1 (g)(ii) Modifications to the Manufactured Home

Room additions, attached carports, or other structural modifications may put the home at risk if

Conforming Underwriting Guide

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
- 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 Manufactured Home Construction Safety Standards.

1D.1 (g)(iii) Ineligible Manufactured Housing Property Types

The following are ineligible manufactured home property types:

- A manufactured home that is not classified and titled as real estate at application;
- 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 with a hobby farm;
- A manufactured home with a mixed-use;
- A manufactured home with deed restrictions;
- A manufactured home with less than 600 square feet of gross living area;
- A manufactured home with an accessory dwelling unit (ADU) or guest house;
- A single family residence with a manufactured home as an ADU or guest house;
- Construction-to-permanent manufactured homes;
- Single wide manufactured home;
- Title held as a leasehold estate; and
- A manufactured home in a condo project.

1D.1 (g)(iv) Manufactured Housing Purchase Mortgage Transactions

Purchase money transactions are those in which the mortgage proceeds are used to finance the

Conforming Underwriting Guide

purchase of the manufactured home. The borrower may not receive any cash back.

The LTV/CLTV/HCLTV for a manufactured home already existing on its foundation 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 (g)(v) 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:

- 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
 - the current appraised value of the manufactured home and land; or
 - the purchase price at which the manufactured home and land were previously sold during the 12-month preceding the application date.

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 (g)(vi) 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 preceding the date of the loan application.

Conforming Underwriting Guide

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 land.

1D.1 (g)(vii) 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 (g)(viii) 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

Conforming Underwriting Guide

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.

1D.1 (g)(ix) Manufactured Housing Appraisal Comparable Site 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 comparable sales of similar manufactured homes. 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.

Conforming Underwriting Guide

1D.1 (g)(x) 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

- 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 (g)(xi) 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



Conforming Underwriting Guide

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.1 (g)(xii) Titling the Manufactured Home as Real Property

All manufactured housing units and land must be classified 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 motor vehicle title is not purged and the property does not have clear marketable real estate title.

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.2 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



Conforming Underwriting Guide

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
- See our Product Profiles for eligibility and Chapter [1J](#) Appraisal and Property Requirements, [1J.8 \(u\)](#) Mixed-use Property Appraisal Requirements.

1D.3 Group Home

Group homes for people with disabilities 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.

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.4 Hobby Farm

NewRez will accept properties that may have an additional use as a "hobby farm." Examples include a 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;
- Owner occupied;
- Single family residence;

Conforming Underwriting Guide

- Appraiser must state property's highest and best use is as residential and provide photos of the non-residential use;
- Property must be appraised as residential real estate, with commercial/agricultural value not included in the 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;
- 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;
- Income generated (gross, not net) should be minimal. (this is more telling than a loss because any loss is probably a write-off of more than just the hobby itself). Any loss must be considered in the DTI ratio;
- 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.

1D.5 Deed/Resale Restrictions

Resale restrictions are eligible only if the deed restriction terminates or does not apply to the lender that forecloses.

Resale restrictions may limit the use of all or part of the land to occupancy by individuals or families of low to-moderate income or on the basis of age. It may also restrict the resale price of the property to ensure availability to future low to-moderate income borrowers. The restriction may be in the form of an easement, covenant, or condition in any deed, mortgage, ground lease, agreement, or other instrument executed by or on behalf of the owners of the land.

The restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale restrictions. The resale restrictions are binding on current and subsequent property owners and remain in effect until they are

Conforming Underwriting Guide

formally removed or modified; or terminate in accordance with their terms (such as at a foreclosure sale or upon acceptance of a deed-in-lieu of foreclosure).

1D.5 (a) Resale Restriction Types

One or more of the following types of resale restrictions are permitted (although some restrictions are likely to occur only in combination with others):

- Income limits;
- Age limits (senior communities must comply with applicable laws). If the deed restriction is solely due to 55+, verify Form 38 "Housing Developments-Subject to Age Restrictions" is completed by the HOA;
- Deed restrictions for easements, setback lines, or no zoning;
- Purchasers must be employed by the subsidy provider;
- First-time home buyer requirements as designated by the subsidy provider; and
- Resale price limits.

1D.5 (b) Eligibility

The following eligibility requirements apply:

- Purchase and Refinance;
- 1-2 units, PUD, and condos; and
- Interior and Exterior appraisal report, regardless of DU/LPA findings.

1D.5 (c) Ineligible Resale Restrictions

The following resale restrictions are ineligible:

- Properties with deed restrictions that survive foreclosure or deed-in-lieu of foreclosure;
- Down payment assistance programs if they contain a resale restriction that survives foreclosure;
- Resale restrictions providing for shared equity or shared appreciation;
- Properties that are group homes or primarily serve disabled residents;
- Loans with an interest only feature; and
- Loans with a temporary buydown.

Conforming Underwriting Guide

1D.5 (d) Eligible Subsidy Providers

Eligible subsidy providers or sponsors of resale restrictions are:

- 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.

The subsidy provider must have established procedures for screening and processing borrowers.

1D.5 (e) 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.

1D.5 (e)(i) Eligible Borrowers

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

- Fannie Mae DU: If the loan is a HomeReady mortgage, the more restrictive of the HomeReady income limit or resale restriction income limit applies.

Conforming Underwriting Guide

- Freddie Mac LPA: If the loan is a Home Possible mortgage, use the Home Possible income limits to determine borrower eligibility even if the subsidy provider or program administrator limits are different.

1D.5 (f) Resale Restriction Controls

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

1D.5 (g) Condominium Subject to Inclusionary Zoning Restrictions

Deed restricted properties are not eligible for Limited Reviews.

1D.5 (h) 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 (i) Right of First Refusal or Option to Purchase

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.

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.

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 in order to protect the subsidy invested in the property. Underwriters must document that the subsidy provider has approved the refinance transaction and should ensure that the cash-out amount complies with the provisions of the specific resale restrictions

1D.6 Properties with Solar Panels

The ownership and debt financing structures commonly found with solar panels are used to determine

Conforming Underwriting Guide

whether the panels are third-party owned, personal property of the homeowner, or a fixtured of the real estate. Common ownership or financing structures include:

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 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

Conforming Underwriting Guide

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 (a) Solar Power Purchase Agreement or Lease Agreements

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

Conforming Underwriting Guide

standards.

- Damage that occurs as a result 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 (b) 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.

Conforming Underwriting Guide

	<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>
<p>reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report</p>	<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>	

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

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

Conforming Underwriting Guide

- 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:

- Assisted living projects
- Bed and breakfast properties
- Boarding houses
- Builder model leaseback (purchase transactions)
- Commercial properties
- Condo hotels
- Cooperative units
- Houseboats
- Indian/Tribal lands
- Industrial properties
- Investment securities
- Mobile home
- Multi-family dwelling containing more than four units
- New and newly converted projects in Florida that are not PERS approved
- Properties encumbered with private transfer fee covenants
- Properties not suitable for year-round occupancy
- 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
- Residential property with a permanently affixed manufactured home on the property
- Tax-sheltered syndicate
- Timeshare unit/project
- Unimproved or vacant land
- Unique properties (geodesic home, berm homes, shouses, barndominiums)



Conforming Underwriting Guide

Chapter 1E Underwriting

Contents

Chapter 1E Conforming Underwriting.....	1
1E.1 Underwriting Methods.....	2
1E.2 Desktop Underwriter (DU).....	2
1E.2 (a) Desktop Underwriter General Requirements	2
1E.2 (b) Maximum Number of Borrowers	3
1E.2 (c) Data Accuracy	3
1E.2 (d) Desktop Underwriter Decisions	3
1E.2 (e) Desktop Underwriter Data and Delivery Information Accuracy	4
1E.2 (f) DU Validation Service	6
1E.2 (g) Validation Results.....	6
1E.2 (g)(i) Validated Components and Documentation Requirements.....	7
1E.2 (h) DU Validation Service	9
1E.3 Loan Product Advisor General Requirements	9
1E.2 (a) Maximum Number of Borrowers	10
1E.2 (b) Loan Product Advisor Risk Class and Eligibility	10
1E.2 (c) Loan Product Advisor Data and Delivery Information Accuracy.....	11
1E.4 Loan Product Advisor Asset and Income Modeler (AIM).....	13
1E.2 (a) Validation Results.....	13
1E.2 (b) Validation Components and Documentation Requirements	14



Conforming Underwriting Guide

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



Conforming Underwriting Guide

loan file would justify additional investigation or would provide grounds for a decision that is different from the recommendation that DU delivered.

1E.2 (b) Maximum Number of Borrowers

A maximum four borrowers may be submitted to DU. Any loan with more than four 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 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 Guide chapter, Product Profiles, 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	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.

Conforming Underwriting Guide

	<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> <p>The limited waiver of underwriting representations and warranties does not apply to loans that receive an Approve/Ineligible recommendation.</p>
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.</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.</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.</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.

Conforming Underwriting Guide

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.

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 documented reserves decrease by more than 10%
Borrowers Added/Deleted	Resubmit if any borrowers are added or deleted
Debt Increase Income Decrease Interest Rate Increase	<p>Resubmit if the:</p> <ul style="list-style-type: none"> • DTI is > 45%, or • Recalculated DTI is ≤50% and DTI has increased ≥3% <p>Resubmission is not required if the final DTI is >45% and DTI has increased <3%.</p> <p>Soft pull credit refresh without credit scores, follow above. In addition, if the new refresh credit report has any new derogatory credit, credit scores must be obtained and the loan must be resubmitted to DU to determine loan eligibility, regardless of DTI ratio.</p>
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	<p>Resubmit if the loan amount:</p> <ul style="list-style-type: none"> • Increases by more than the lesser of \$500 or 1% of the loan amount; or • Decreases by >5%. <p>These tolerances are allowed if the new LTV/CLTV/HCLTV does not result in:</p> <ul style="list-style-type: none"> • Changes to MI coverage; or • Different LLPA; or

Conforming Underwriting Guide

	<ul style="list-style-type: none">Changes to loan eligibility. <p>Does not apply to maximum cash back to borrower on a rate & term refinance</p>
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.

Conforming Underwriting Guide

Result	Message
Validated	<p>DU has determined that the information provided on the verification report supports the information entered into DU for the component being validated.</p> <p>The DU message(s) will indicate that the verification report is acceptable documentation to support the component that has been validated.</p>
Not Validated	<p>information entered into DU for the component of the loan file eligible for validation.</p> <p>The DU message(s) will indicate what documentation, in addition to the verification report, is required.</p>
Unable to Validate	<p>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.</p> <p>The DU message(s) will indicate what documentation is required.</p>

1E.2 (g)(i) 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 in this Underwriting Guide.

Eligible Income Type	Eligible Verification Report
Base	Employment and Income Verification Report
Bonus	
Overtime	
Commission Income	
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, supplemental, survivor benefits)	<ul style="list-style-type: none"> Tax Return Transcripts (Taxpayer Tax Return Summary Report) Additional documentation may be required

Conforming Underwriting Guide

	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)
<ul style="list-style-type: none"> When income has been validated, it is not required to determine if the borrower is employed by a family member or interested party to the property sale or purchase. Military income is not eligible for income validation. 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. 	

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	Employment and Income Verification Report or Employment Verification Report.
Bonus	
Overtime	
Commission Income	
<ul style="list-style-type: none">• Military income is not eligible for employment validation.• A verbal verification of employment must be obtained.	
The vendor may offer additional acceptable options to obtain information:	
<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.	

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.

Conforming 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 Additional documentation may be required depending on the type of asset account and the assessment conducted by DU for validation purposes.
Checking	
Savings	
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 (h) DU Validation Service

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:

Conforming Underwriting Guide

- 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
- 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.2 (a) Maximum Number of Borrowers

A maximum five borrowers may be submitted to LPA. Any loan with more than five (5) borrowers must be manually underwritten and is not permitted.

1E.2 (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.
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.
Incomplete/Invalid	LPA does not contain the rules or models that are necessary in order to

Conforming Underwriting Guide

	<p>underwrite the product, borrower, or type of loan submitted. LPA will not produce messages on a Feedback Certificate.</p> <p>Loans that are Incomplete or Invalid are not eligible.</p>
<p>The LPA Feedback Certificate will indicate the loan's purchase eligibility. The purchase eligibility must be Freddie Mac Eligible.</p>	

1E.2 (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 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

Conforming Underwriting Guide

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
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 decreases 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	Resubmit if the: <ul style="list-style-type: none"> DTI is >45%; or Recalculated DTI is ≤45% and DTI has increased ≥3%. <p>Resubmission is not required if the final DTI is ≤45% and DTI has increased <3%.</p> <p>Soft pull credit refresh without credit scores, follow above. In addition, if the new refresh credit report has any new derogatory credit, credit scores must be obtained and the loan must be resubmitted to DU to determine loan eligibility, regardless of DTI ratio</p>
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

Conforming Underwriting Guide

Loan Amount: Refinance	Resubmit if the loan amount: <ul style="list-style-type: none">• Increases; or• Decreases > 1%; or• Decreases ≤1% and appraisal waiver offer has been accepted or• Decreases ≤1% and MI coverage is impacted. 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

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.2 (a) Validation Results

When a component of the loan file, such as income, is assessed by the LPA AIM validation service,

Conforming Underwriting Guide

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 of the loan file eligible for validation.</p> <p>The LPA message(s) will indicate what documentation is required.</p>
Unavailable	<p>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.</p> <p>The LPA message(s) will indicate what documentation is required.</p>

1E.2 (b) Validation Components and Documentation Requirements

The following table lists the income 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 Income Type	Eligible Verification Report
Base	Income Verification Report
Bonus	
Overtime	
Commission Income	
The following employment earnings are not eligible for AIM:	

Conforming Underwriting Guide

- 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
Savings	
Money Market	
Borrower’s business checking, savings and/or money market	
The following assets sources are not eligible for AIM:	
<ul style="list-style-type: none">• Gift funds• Cash on hand• Assets that will be used by the borrower for the repayment of the monthly obligations	
The following must be confirmed:	
<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.	

Conforming Underwriting Guide

Chapter 1F Credit

Contents

Chapter 1F Conforming Credit	1
1F.1 Documentation Standards	2
1F.2 Credit Report Standards	2
1F.2 (a) Credit Report Versions.....	3
1F.2 (b) Credit Report Red Flags.....	3
1F.2 (c) Frozen Credit.....	3
1F.3 Credit Scores	4
1F.4 Selection and Validation of Credit Scores.....	4
1F.4 (a) Selection of Credit Score	4
1F.4 (b) Authorized User Account	4
1F.4 (c) Trade Line Requirements	5
1F.4 (d) Foreign Credit Reports and Credit Scores	5
1F.5 Inquiries and Undisclosed Liabilities.....	5
1F.6 Housing Payment History	6
1F.6 (a) Verification of Rent Documentation	9
1F.7 Significant Derogatory Credit.....	10
1F.7 (a) Waiting Period Requirements.....	11
1F.7 (b) Credit Report Identification of Deed-in-Lieu, Pre-foreclosure, Charge-off of a Mortgage Account	12
1F.7 (c) Re-established Credit	12
1F.7 (d) Delinquent Credit.....	13



Conforming Underwriting Guide

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 if 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 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. Although due diligence is required, it does not release the Client from representations and warranties regarding misrepresentation.

The borrower's present address must be within the U.S. in order to obtain a credit report. The borrower's



Conforming Underwriting Guide

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 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	

Conforming Underwriting Guide

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, and are required for all loans, per our Product Profiles. 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.

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. All borrowers must have a credit score.

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.



Conforming Underwriting Guide

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
- The borrower has been making the payments on the account for at least 12 months.

When none of these requirements can be met, the DU/LPA decision may still be considered valid if it is determined 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 based on the number of the borrower's own trade lines, as well as their age, type, size, and payment history compared to the authorized user accounts. Otherwise, the DU/LPA decision may not be used, and the loan is ineligible.

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) Foreign Credit Reports and Credit Scores

Foreign credit reports and credit scores are not permitted.

1F.5 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. When the credit report reveals a significant debt not listed on the application, a written explanation from the borrower addressing the omission may be required. The absence of a written explanation from the borrower may render the loan ineligible for purchase.

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. All credit inquiries (excluding all utility company inquiries) made within 90 days must be validated.

For NewRez underwritten loans, the Client must obtain a single-repository refreshed credit report as close to closing as possible, but within ten days of closing to validate that no additional debt has been granted.

Conforming Underwriting Guide

The refreshed credit may be obtained by a third-party monitoring service.

A condition will be placed on the Conditional Loan Approval (CLA) and must be included with the final package submitted for purchase.

Refreshed Credit Report	Third-Party Monitoring Service
<p>The refreshed credit report:</p> <ul style="list-style-type: none">• Should not include a credit score;• Does not need to show increase in revolving balance. <p>If the refreshed credit report shows any inquiries, those inquiries must be addressed by the borrower(s).</p>	<p>If using a third-party monitoring service to validate no additional debt has been obtained, include evidence that the service was run on the borrower(s) and the results.</p>

If the borrower's letter states that additional has been incurred, additional research and documentation may be needed. Running a MERS report to determine if the borrower has undisclosed liens or another mortgage being established simultaneously may also be used to reduce the risk of undisclosed obligations

If new debt is revealed and the inclusion of the additional debt would increase the total DTI ratio to a level outside of the acceptable DU or LPA tolerances, the loan must be resubmitted to automated underwriting and the new findings must be followed.

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

1F.6 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 45 days may have elapsed since the last paid installment date and the rating covers the time-period required by the product. 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.

Conforming Underwriting Guide

A mortgage payment is considered current if it is paid within the month due along with any late charges assessed for payments made beyond the 15-day grace period. 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.

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. • If there are any late mortgage payments that are not recognized by LPA, the loan must be resubmitted to LPA. If that is not possible, the loan is not eligible.

TEMPORARY COVID REQUIREMENTS
Mortgage Forbearance <ul style="list-style-type: none"> • A borrower's credit report must be reviewed to determine the status of all mortgage loans. In addition to reviewing the credit report, it is required that additional due diligence for each mortgage loan on which the borrower(s) is obligated, including co-signed mortgage loans and mortgage loans not related to the subject transaction, to determine whether the payments are current as of the Note date of the new transaction. • "Current" is defined as the borrower(s) having made all mortgage loan payments due in the month prior to the Note date of the new loan transaction by no later than the last business day of the month.

Conforming Underwriting Guide

- Acceptable documentation to satisfy the additional due diligence requirements include any of the following:
 - a loan payment history from the servicer or third-party verification service
 - a payoff statement (for mortgages being refinanced)
 - the latest mortgage account statement from the borrower

Once the status of all mortgages have been confirmed for which the borrower is obligated, regardless of the AUS Findings, the table on the following page details the eligibility requirements and use of proceeds based on the status of each existing mortgage as of the Note date of the subject transaction:

If any existing mortgage...	Eligibility requirements	Use of proceeds if the subject loan is a no cash-out or cash out refinance
Is current as of the Note date (i.e., the borrower made all mortgage payments due in the month prior to the Note date no later than the last Business Day of that month) and not in a Repayment Plan, Loan Modification Trial Period Plan, Payment Deferral, or subject to another loss mitigation program	No additional eligibility requirements	Follow standard guideline requirements
Is not current as of the Note date (as defined above) OR is in a Repayment Plan, Loan Modification Trial Period Plan or Payment Deferral	The new mortgage is ineligible unless the amounts outstanding on any existing mortgage are resolved by meeting the applicable additional eligibility requirements below	NA
Was fully reinstated on or after the Application Received Date but prior to the Note date	The source of funds used for reinstatement must be from an eligible source in accordance with standard guideline requirements and documented.	Proceeds from the transaction may not be used to reinstate the mortgage being refinanced or any other mortgage
Additional Eligibility Requirements		

Conforming Underwriting Guide

Is subject to a Repayment Plan	<p>The borrower must either:</p> <ul style="list-style-type: none"> i. Have successfully completed the repayment plan; OR ii. Be performing under the plan (i.e., has not missed any payments due under the plan) and must have made at least three consecutive payments 	In connection with the mortgage being refinanced, proceeds may be used to pay off the remaining payments under the repayment plan
Is subject to a Payment Deferral	The borrower must have made at least three consecutive timely payments following the approval of the payment deferral agreement	In connection with the mortgage being refinanced, proceeds may be used to pay off the deferred amount under the Payment Deferral
Is subject to a Modification Trial Period Plan	The borrower must have successfully completed the Trial Period Plan	In connection with the mortgage being refinanced, proceeds may be used to pay off the modified mortgage
Is subject to a Loss Mitigation Program not mentioned above	<p>The borrower must either:</p> <ul style="list-style-type: none"> i. Have successfully completed the loss mitigation program; OR ii. Be performing under the program (i.e., has not missed any payments due under the program) and must have made at least three consecutive full monthly payments 	In connection with the Mortgage being refinanced, proceeds may be used to pay off the remaining payments under the program

1F.6 (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, the following documentation is required to verify the monthly rental payment amount:

Conforming Underwriting Guide

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; or • Direct verification of rent from an individual landlord supported by two months of cancelled checks or other evidence of two months' payments; or • 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.

See our Product Profiles for housing payment history requirements.

1F.7 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 for a pre-foreclosure sale or short sale, you may manually apply the pre-foreclosure sale or short sale guidelines outlined in the Table below.



Conforming Underwriting Guide

For borrowers who have experienced extenuating circumstances, DU and LPA are not able to identify these loans. Loans that do not receive a DU Approve or LPA Accept due to a bankruptcy or foreclosure that was caused by extenuating circumstances are not eligible.

1F.7 (a) Waiting Period Requirements

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	Wait Time
Foreclosure	≥7 years from completion
Pre-foreclosure/Short Sale/DIL	≥4 years from completion
Mortgage Charge-off	≥4 years from charge off
Bankruptcy, excluding Chapter 13	≥4 years discharged/dismissed
Bankruptcy, Chapter 13	≥2 years discharged ≥4 years dismissed or filed but not discharged or dismissed
Multiple Bankruptcy Filings	≥5 years if more than one filing discharged/dismissed within the past 7 years
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	LPA determines wait time and eligibility. Follow LPA Accept.
Pre-foreclosure/Short Sale/DIL	
Mortgage Charge-off	
Bankruptcy, excluding Chapter 13	
Bankruptcy, Chapter 13	

Conforming Underwriting Guide

Multiple Bankruptcy Filings	
-----------------------------	--

1F.7 (b) Credit Report Identification of Deed-in-Lieu, Pre-foreclosure, Charge-off of a Mortgage Account

Foreclosure	Mortgage accounts, including first liens, second liens, home improvement loans, HELOCs and manufactured home loans, will be identified as a foreclosure if there is an MOP code of "8" or a Remarks Code that indicates a foreclosure is present in the credit report data and associated to the trade line.
Deed-in-Lieu of foreclosure	A transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such as "Forfeit deed-in-lieu of foreclosure."
Pre-foreclosure Short Sale	A pre-foreclosure sale or short sale is the sale of the property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as "Settled for less than the full balance."
Charge-off Mortgage Account	Occurs when a creditor has determined that there is little, or no, likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status and is identified on the credit report with a manner of payment (MOP) code of "9" and there is not information indicating the account may also be subject to a foreclosure (MOP code "8" or foreclosure Remarks Code), a bankruptcy (MOP code "7"), a deed-in-lieu of foreclosure (DIL Remarks Code (or a pre-foreclosure sale (PFS Remarks Code).

1F.7 (c) 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.

Conforming Underwriting Guide

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.7 (d) 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. 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 1H.4(h) Federal Income Tax Installment Agreements</p>
Past Due Accounts	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.
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



Conforming Underwriting Guide

	the loan resubmitted to DU/LPA for approval.
--	--

Conforming Underwriting Guide

Chapter 1G Assets

Contents

Chapter 1G Conforming Assets	1
1G.1 Minimum Down Payment and Cash to Close	2
1G.1 (a) Foreign Assets	3
1G.2 Reserve Requirements	3
1G.3 Interested Party Contributions	4
1G.3 (a) Financing Concessions	5
1G.3 (b) Sales Concessions	6
1G.3 (c) Interest Rate Buydowns	6
1G.3 (d) Payment Abatement	7
1G.4 Asset Sources	7
1G.4 (a) Financial Institution Accounts	8
1G.4 (b) Bridge Loan	11
1G.4 (c) Business Assets	12
1G.4 (d) Community Savings	13
1G.4 (e) Credit Card Financing	13
1G.4 (f) Earnest Money Deposit	14
1G.4 (g) Employer Assistance Benefits	14
1G.4 (h) Equity from Other Assets	18
1G.4 (h)(i) Loans Secured by Other Assets	19
1G.4 (h)(ii) Proceeds from 1031 Tax Deferred Exchange	19
1G.4 (h)(iii) Sale of Other Assets	19
1G.4 (h)(iv) Sale of Real Estate	20
1G.4 (i) Gift Funds	21
1G.4 (j) Income Tax Refund	24

Conforming Underwriting Guide

1G.4 (k) Individual Development Accounts	24
1G.4 (l) Life Insurance-Cash Value	26
1G.4 (m) Lot Equity	26
1G.4 (n) Notes Receivable/Repayment of Loans.....	27
1G.4 (o) Qualified Tuition Plan (529 Plan)	27
1G.4 (p) Real Estate Commission	28
1G.4 (q) Rent Credit for Option to Purchase	28
1G.4 (r) Retirement Accounts	28
1G.4 (s) Secondary Financing	29
1G.4 (t) Stocks, Stock Options, Bonds, Mutual Funds	30
1G.4 (t)(i) Stocks and Mutual Funds.....	30
1G.4 (t)(ii) Stock Options.....	30
1G.4 (t)(iii) Privately Held Stock or Unlisted Corporation	31
1G.4 (t)(iv) Government Municipal Bonds	31
1G.4 (t)(v) Government Savings Bonds	31
1G.4 (t)(vi) Down Payment or Closing Costs	31
1G.4 (t)(vii) Reserves	31
1G.4 (u) Systematic Savings	32
1G.4 (v) Trade Equity	32
1G.4 (w) Trust Funds.....	33
1G.5 Unacceptable Asset Sources	33

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 Profiles.



Conforming Underwriting Guide

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) 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 financial institution. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.

Reserves held in a foreign financial institution do not need to be placed in a U.S account however, the funds must be properly documented. 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 OFAC Policy and Procedure on the Policy and Procedures intranet page.

Fannie Mae DU	Freddie Mac LPA
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.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.

When required, reserves must come from the borrower's own funds, unless otherwise stated in this section or our Product Profiles.

The monthly housing expense includes:

- Principal and interest
- Property and flood insurance

Conforming Underwriting Guide

- 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

See our Product Profiles for reserve requirements.

1G.3 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 parties to the transaction, include but are not limited to, the property seller, the builder/developer, real estate agent or broker, or any affiliate who may benefit from the sale of the property. Lender-paid fees are not factored into contribution limits.

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.

Note: An affiliation exists when there is direct common ownership or control by the lender over the interested party or vice versa, or when there is direct common ownership or control by a third party of both the lender and the interested party. A typical ongoing business relationship—for example, the relationship between the builder and a lender that serves as its financial institution—does not constitute an affiliation.

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-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.

Conforming Underwriting Guide

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 IPCs must be disclosed. All interested party contributions must be disclosed on the Closing Disclosure.

1G.3 (a) Financing Concessions

Financing concessions that are paid on the borrower's behalf are subject to limitations outlined in our Product Matrices. Financing contributions include but are not limited to the following:

- Contribution toward financing fees normally paid by the borrower
- Discount points
- Commitment fees
- Appraisal fees
- Origination 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
- Attorney's fees
- Surveys
- Title insurance
- Interest charges (limited to not more than 30 days interest)
- Hazard insurance (limited to no more than 14 months)
- Real estate taxes covering any period after settlement date
- Real estate tax service fees
- 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

The financing concessions cannot exceed actual costs.

A legitimate pro-rated real estate tax credit in places where real estate taxes are paid in arrears is not considered a financing concession and is not subject to IPC limits.

Conforming Underwriting Guide

Dollar-for-dollar reductions to the property sales price, by the amount of the financing concessions exceeding the limitations, must reflect the amount of the lesser of the adjusted sales price or appraised value.

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.

1G.3 (b) Sales Concessions

Sales concessions are interested party contributions that take the form of non-realty items as well as financing concessions that exceed the set limits. The value of the sales concessions must be deducted from the sales price when calculating the LTV/CLTV/HCLTV for underwriting and eligibility purposes.

Sales concessions include but are not limited to the following:

- 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;
- Reimbursement to borrower for payment of short sale fees (short sale facilitation fees, buyer discount fees, short sale buyer fees);
- Any financial obligations of the borrower (e.g., revolving debt and installment debt) being paid by the seller;
- Assignment of rent payments;
- Contributions in excess of actual costs; and
- Homeowners' association dues covering any period after the settlement date beyond 12 months.

1G.3 (c) 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 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

Conforming Underwriting Guide

obtain the interest rate being offered with the buydown).

Fees for standby commitments 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.

1G.3 (d) 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. 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.

1G.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](#)
- [Bridge Loan](#)
- [Business Assets](#)
- [Community Savings Funds](#)
- [Credit Card Financing](#)
- [Earnest Money Deposit](#)
- [Employer Assistance Benefits](#)
- [Equity from Other Assets](#)

Conforming Underwriting Guide

- [Gifts](#)
- [Income Tax Refund](#)
- [Individual Development Accounts](#)
- [Life Insurance - Cash Value](#)
- [Lot Equity](#)
- [Notes Receivable/Repayment of Loans](#)
- [Qualified Tuition Plan \(529 Plan\)](#)
- [Real Estate Commission](#)
- [Rent Credit/Lease with Option to Purchase](#)
- [Retirement Accounts](#)
- [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.

1G.4 (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
- [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.

Conforming Underwriting Guide

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 statement, per DU or LPA. 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> <ul style="list-style-type: none"> • 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. <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;

Conforming Underwriting Guide

	<ul style="list-style-type: none"> • Open date; • Account balance as of the date of the VOD; and • Average balance for the previous two months. When an average balances is not provided, obtain the most recent two months account statements. <p>A VOD may not be used as standalone documentation.</p> <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.
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.
Large Deposits	<p>For purchase transactions, the borrower must document the source of funds for any single deposit that exceeds 50% of the total monthly qualifying income, if the deposit is needed to for down payment, closing costs, prepaids and reserves. Any liabilities resulting from all borrowed funds must be considered.</p>

Conforming Underwriting Guide

	<p>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.</p> <p>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.</p> <p>If the source of the large deposit is readily identifiable on the account statement, such as a direct deposit from an employer, the Social Security Administration, etc., additional documentation is not required. However, if there is any question that the funds may have been borrowed or there are consistent deposits that are not income, additional documentation must be obtained.</p> <p>When using a VOD, the borrower must provide a written explanation and documentation of the source of funds for:</p> <ul style="list-style-type: none">• Accounts opened within the last 90 days from the application date; and• An account balance that is considerably greater than the average balance over the previous few months or large increase in an existing account. <p>For refinance transactions, documentation for large deposits is not required; however, any liabilities resulting from all borrowed funds must be considered.</p> <p>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> <p>Unverified funds are not acceptable sources for the down payment, closing costs and/or reserves.</p>
--	---

1G.4 (b) Bridge Loan

A bridge loan is a form of second mortgage secured by the borrower's present home, which is for sale.

Conforming Underwriting Guide

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.

Fannie Mae DU	Freddie Mac LPA
<p>Verification of the terms of the loan including a copy of the executed Note must be provided.</p> <p>Proceeds from a bridge loan must be documented with one of the following</p> <ul style="list-style-type: none"> • Closing Disclosure verifying the proceeds from the sale or refinance of the borrower's real property; or • Executed buy-out agreement that is part of an employer relocation loan that takes responsibility for the outstanding mortgage. <p>Bridge loans are not an eligible source of funds for cash reserves.</p>	<p>Verification of the terms of the loan including a copy of the executed Note must be provided.</p> <p>Proceeds from a bridge loan must be documented with one of the following:</p> <ul style="list-style-type: none"> • Closing Disclosure verifying the proceeds from the sale or refinance of the borrower's real property; or • Executed buy-out agreement that is part of an employer relocation loan that takes responsibility for the outstanding mortgage. <p>Bridge loans are not an eligible source of funds for cash reserves</p>

See Chapter [1H](#) Liabilities and Debt Ratios for more information.

1G.4 (c) Business Assets

Business assets may be used for down payment, closing costs and reserves when a borrower is self-employed and the personal income tax returns have been evaluated. The borrower must be listed as the majority 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.

When using business assets, documentation of large deposits is not required if:

- Most recent two months business account statements are provided; and

Conforming Underwriting Guide

- It is determined that the deposits are typical for the borrower's business.

1G.4 (d) Community Savings

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.

Fannie Mae DU	Freddie Mac LPA
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.4 (e) 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.

Fannie Mae DU	Freddie Mac LPA
The maximum amount charged or advanced is limited to 2% of the loan amount.	<p>The maximum amount charged or advanced is limited to the greater of 2% of the loan amount or \$1500. One of the following must be met:</p> <ul style="list-style-type: none"> • The borrower has sufficient liquid funds

Conforming Underwriting Guide

	<p>(financial reserves) to cover these charges (in addition to funds needed for other closing costs and down payment); or</p> <ul style="list-style-type: none">• The credit card payment is recalculated to account for the new charges and includes the updated payment in the qualifying ratio.
--	--

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. Credit card financing cannot be used for down payment.

1G.4 (f) 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).

1G.4 (g) 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

Conforming Underwriting Guide

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.

Fannie Mae DU

a) Forms of Assistance

- Grant;
- Direct, fully repayable second mortgage or unsecured loan;
- Forgivable second mortgage or unsecured loan; and
- Deferred payment second mortgage or unsecured loan.

b) Financing Structures

- Fully amortizing level monthly payments;
- Deferred payments for some period or over the entire term; and
- Forgiveness of the debt over time.

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.

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:

Conforming Underwriting Guide

- 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);
- 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.

d) Inclusion in the DTI

- If the secured second mortgage or unsecured loan does not require regular payments of

Conforming Underwriting Guide

either principal and interest or interest only, a payment need not be calculated for qualifying. If regular payment are required, the payment must be included in the DTI.

Freddie Mac LPA

a) Forms of Assistance

- 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.

b) Financing Structures

- Fully amortizing level monthly payments;
- Deferred payments for some period or over the entire term; and
- Forgiveness of the debt over time.

In addition, if the loan is unsecured, the borrower must make a 5% minimum borrower contribution. The loan:

- 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 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.

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 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:

Conforming Underwriting Guide

- 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 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.

e) Inclusion in DTI

If the P&I or interest only payments begins 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.4 (h) Equity from Other Assets

Conforming Underwriting Guide

1G.4 (h)(i) 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.

The following documentation is required:

Fannie Mae DU	Freddie Mac LPA
<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.
<p>The monthly payment must be included in the DTI ratio unless excluded as outlined in Chapter 1H Liabilities and Debt Ratios.</p>	

1G.4 (h)(ii) 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.4 (h)(iii) Sale of Other 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

Conforming Underwriting Guide

transaction. The proceeds should not be more than the value of the asset.

Fannie Mae DU	Freddie Mac LPA
<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).

1G.4 (h)(iv) 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 or a fully executed buy-out agreement accompanying a Closing Disclosure that is

Conforming Underwriting Guide

part of an employer's relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage verifying required net proceed 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 plus all outstanding liens) = Estimated sales proceeds

Net proceeds based on listing price

Use 90% of listing price minus all outstanding liens = Estimated sales proceeds

The 10% adjustment factor must be adjusted depending on market conditions in the area.

1G.4 (i) Gift Funds

The borrower may use funds received as a gift from an acceptable donor to satisfy part of the cash requirement for closing provided the minimum borrower investment for the Loan Program is met.

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 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.
Donor	<p>A gift donor must be a relative. A relative is any person related by blood, legal proceedings, marriage, or adoption and includes a fiancé, fiancée, or domestic partner.</p> <p>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.</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>Transfer of funds from the donor's account to the borrower's account:</p>

Conforming Underwriting Guide

	<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; • 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 following to the closing agent:</p> <ul style="list-style-type: none"> • Copy of cashier's check; • Copy of certified check; or • Wire confirmation. 	
Gift of Equity	<p>A gift of equity:</p> <ul style="list-style-type: none"> • Is permitted for primary residence and second home purchase transactions; • 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 all of the following must be provided:</p> <ul style="list-style-type: none"> • A copy of the marriage certificate or license (not more than 60 days old). • Verification of receipt of the funds through an account statement or deposit slip. 	
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; 	<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

Conforming Underwriting Guide

	<ul style="list-style-type: none"> • A signed gift letter; and • 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. 	<p>and will continue to do so in the new residence;</p> <ul style="list-style-type: none"> ○ The source of the pooled funds; ○ The funds were not borrowed by the donor; and ○ The relationship between the borrower and the donor. <ul style="list-style-type: none"> • 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 Profiles. Gifts and grants are permitted on primary residences. Donated gifts or grants are not permitted on second homes or investment properties.</p> <p>Acceptable entities include churches, municipalities, nonprofit organizations (excluding credit unions), state, county or local housing finance agencies, a regional Federal Home Loan Bank under one of its affordable housing programs, and public agencies.</p> <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 the 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, gift or grants must be evaluated and approved by</p>	

Conforming Underwriting Guide

	NewRez prior to loan application.
--	-----------------------------------

1G.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.

1G.4 (k) 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 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
- 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.

Conforming Underwriting Guide

Fannie Mae DU	Freddie Mac LPA
<p><u>Does Not Require Repayment</u></p> <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. <p><u>Requires Repayment, Defers or Forgives</u></p> <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 or 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 to pay for some or all of the borrower's minimum contributions. 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; 	<p><u>Does Not Require Repayment</u></p> <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. <p><u>Requires Repayment, Defers, or Forgives</u></p> <ul style="list-style-type: none"> Not permitted <p><u>Documentation</u></p> <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; 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.

Conforming Underwriting Guide

<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. 	
--	--

1G.4 (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.

1G.4 (m) Lot Equity

If the borrowers holds title to the lot on which a property is being constructed and financed with a construction-to-permanent mortgage, the value of the land may be credited toward the borrower's minimum required contribution.

When was land acquired	Market Value of Land	Documentation
12 or more months preceding the loan application	Current appraised value	N/A
Less than 12 months preceding the loan application	The lesser of the sales price or current appraised value	Document borrower's cash investment by: <ul style="list-style-type: none"> Certified copy of the Closing Disclosure; Copy of warranty deed

Conforming Underwriting Guide

		showing that there are no outstanding liens against the property; or <ul style="list-style-type: none"> • Copy of release of any prior liens.
Borrower acquired the land at any time as a gift, an inheritance, or other non-purchase transaction	Current appraised value	If the borrower acquired the land less than 12 months preceding the loan application, document the acquisition of the land and transfer of ownership of the land.

1G.4 (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;
- 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.4 (o) 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 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.

Conforming Underwriting Guide

1G.4 (p) Real Estate Commission

Real estate commission is an acceptable source of funds for down payment and/or closing costs when the borrower is also the selling agent of the property. The Closing Disclosure must reflect the commission earned by the borrower and credited toward the transaction.

A borrower, who is also the realtor on the sale of the subject property, may use commission earned towards the funds to close:

- Verify that the borrower has sufficient funds for the transaction without the commission; and
- Funds for closing are validated prior to closing.

1G.4 (q) Rent Credit for Option to Purchase

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.

Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property.

All of the following must be provided:

- A copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, the monthly rental amount and specifying the terms of the lease; and
- Evidence of rental payments for the last 12 months (canceled rent checks, money order receipts); and
- Market rent as determined by the subject property appraisal.

If the above requirements are not met, the rental payments over and above fair market rent may not be included toward the down payment.

1G.4 (r) Retirement Accounts

Vested funds from individual retirement accounts (IRA, SEP-IRA, and KEOGH) and tax-favored

Conforming Underwriting Guide

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.

Fannie Mae DU	Freddie Mac LPA
<p>All of the following is required:</p> <ul style="list-style-type: none"> • Verification of the ownership of the account; • Confirmation that the account is vested; and • Confirmation that the account allows withdrawals regardless of current employment status (employer retirement accounts). <p>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.</p>	<p>All of the following is required:</p> <ul style="list-style-type: none"> • Most recent two months retirement account statements, • 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). <p>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.</p>

1G.4 (s) 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.

Conforming Underwriting Guide

1G.4 (t) Stocks, Stock Options, Bonds, Mutual Funds

See below for [TEMPORARY COVID REQUIREMENTS](#)

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.

1G.4 (t)(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.

TEMPORARY COVID REQUIREMENTS

When stocks and mutual funds are used for down payment or closing costs, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented in all cases.

When used for reserves, only 70% of the value of the asset must be considered, and liquidation is not required.

1G.4 (t)(ii) Stock Options

Fannie Mae DU	Freddie Mac LPA
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 	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

Conforming Underwriting Guide

exercise of an option and the sale of the optioned stock.	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.4 (t)(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 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.4 (t)(iv) Government Municipal Bonds

Document the value of government municipal bonds based on their purchase price unless the redemption value can be documented.

1G.4 (t)(v) Government Savings Bonds

Document the value of government savings bonds based on their purchase price unless the redemption value can be documented.

1G.4 (t)(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.4 (t)(vii) Reserves

When used for reserves, 100% of the value of the assets may be considered and liquidation is not

Conforming Underwriting Guide

required.

1G.4 (u) 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.4 (v) 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.

Fannie Mae DU	Freddie Mac LPA
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:



Conforming Underwriting Guide

$$\begin{aligned} & \text{(lesser of current appraised value or trade-in price)} \\ & \text{minus} \\ & \text{(outstanding liens plus transfer fees) = Borrower's equity} \end{aligned}$$

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.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:

- 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.

If the assets are required for closing, proof of receipt is required.

1G.5 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)
- Cryptocurrency (e.g., Bitcoin)
- 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"
- 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



Conforming Underwriting Guide

Chapter 1H Liabilities and Debt Ratios

Contents

Chapter 1H Liabilities and Debt Ratios.....	1
1H.1 Monthly Housing Expense	2
1H.1 (a) Real Estate Tax Payment	3
1H.2 Qualifying Housing Payment.....	3
1H.3 Debt-to-Income Ratios	4
1H.4 Monthly Obligations	4
1H.4 (a) Alimony and Child Support Payments.....	5
1H.4 (b) Authorized User Accounts	5
1H.4 (c) Bridge/Swing Loans	5
1H.4 (d) Business Debt	6
1H.4 (e) Co-signed Loans	6
1H.4 (f) Court-ordered Assignment of Debt	7
1H.4 (g) Debts Paid by Others	7
1H.4 (h) Federal Income Tax Installment Agreements.....	7
1H.4 (i) Garnishments.....	8
1H.4 (j) Home Equity Lines of Credit	8
1H.4 (k) Installment Debt	9
1H.4 (k)(i) Deferred Installment Debt	9
1H.4 (k)(ii) Pay Off or Pay Down of Debt	9
1H.4 (l) Lease Payments	10
1H.4 (m) Loans Secured by Financial Assets	10
1H.4 (n) Mortgage Assumptions	10
1H.4 (o) Mortgages Paid by Others	11
1H.4 (p) Non-Applicant Accounts	11
1H.4 (q) Other Real Estate Owned	12

Conforming Underwriting Guide

1H.4 (q)(i) Current Primary Residence Pending Sale	12
1H.4 (q)(ii) Conversion of a Primary Residence.....	13
1H.4 (r) Property Settlement Buyout.....	13
1H.4 (s) Revolving Charges/Lines of Credit.....	13
1H.4 (t) Student Loans	15
1H.4 (u) Undisclosed Liabilities	17
1H.4 (v) Voluntary Recurring Debts	17
1H.5 Monthly Obligations Not Included in Liabilities.....	17

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 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



Conforming Underwriting Guide

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 the 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.
- When the subject property is located in a jurisdiction where transfer of ownership causes or 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.
- Tax abatements are a temporary reduction in the actual amount of taxes that the owners of a property must pay. Use the abated or reduced tax for loan qualification if the tax abatement on the subject property will last for at least five years from the Note date.

For 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 through ten, qualify the borrower with the annual taxes that will be required at the end of year five 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.

See our Product Profiles for specific requirements on qualifying rates, formulas, and limitations.



Conforming Underwriting Guide

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.

See our Product Profiles 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 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](#)
- [Co-Signed Loans](#)
- [Court-Ordered Assignment of Debt](#)
- [Debts Paid by Others](#)
- [Federal Income Tax Installment Agreements](#)
- [Garnishments](#)
- [Home Equity Lines of Credit](#)
- [Installment Debt](#)
- [Lease Payments](#)
- [Loans Secured by Financial Assets](#)
- [Mortgage Assumptions](#)
- [Mortgages Paid by Others](#)
- [Other Real Estate Owned](#)
- [Property Settlement Buy-out](#)
- [Revolving Charges/Lines of Credit](#)
- [Undisclosed Liabilities](#)
- [Voluntary Recurring Debt](#)

Conforming Underwriting Guide

1H.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 months, the payments must be considered as part of the borrower's recurring monthly debt obligations. To omit the alimony or child support payments, there must be evidence documenting that there are ten or fewer payments remaining. In addition, alimony or child support must continue to be paid for at least three years after the application date.

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 and the number of remaining payments and that the alimony or child support will continue for at least three years:

- 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.

1H.4 (b) Authorized User Accounts

Authorized user accounts do not need to be included in the borrower's DTI ratio calculation.

1H.4 (c) Bridge/Swing 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

Conforming Underwriting Guide

documentation is provided:

- A fully executed sales contract for the current residence; and
- Confirmation that any financing contingencies have been cleared.

1H.4 (d) 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 (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 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.

Conforming Underwriting Guide

1H.4 (f) 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 need not be taken into consideration after the effective date of the assignment.

1H.4 (g) Debts Paid by Others

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 the following:

- The other party may not be an interested party to the transaction, such as the seller or realtor;
- 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 (h) 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:

Conforming Underwriting Guide

- An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due;
- Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing; and
- The payment amount must be included in the DTI ratio regardless of the number of payments remaining.

If a Notice of Federal Tax Lien has been filed, the lien must be paid off.

1H.4 (i) Garnishments

Garnishments with more than ten 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 (j) 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.

Conforming Underwriting Guide

1H.4 (k) 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 months remaining. 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. A timeshare is considered an installment loan and not a mortgage debt.

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 (k)(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 letters, or forbearance must be obtained to determine the monthly payment used for loan qualification.

1H.4 (k)(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.

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. The source of funds must 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.

Conforming Underwriting Guide

1H.4 (l) 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.

1H.4 (m) Loans Secured by Financial Assets

The borrower may use his or her financial assets (life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.) as security for a loan.

The 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 assets liquidity 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 (n) 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.

The contingent liability (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.

Conforming Underwriting Guide

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 (o) Mortgages Paid by Others

Fannie Mae DU	Freddie Mac LPA
<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; and • The mortgaged property is included in the borrower's multiple financed property count and meets reserve requirements. <p>The debt may only be excluded if the other party is paying the entire monthly obligation for a minimum of 12 months.</p>

1H.4 (p) 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:



Conforming Underwriting Guide

- 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 of 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 exclude the non-applicant debts for the borrower's DTI ratio.

1H.4 (q) 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 (q)(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's 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	Qualify based on the new primary residence if the following are provided: <ul style="list-style-type: none">• Executed, non-contingent sales contract for the current residence;

Conforming Underwriting Guide

<ul style="list-style-type: none"> Confirmation that any financing contingencies have been cleared. 	<ul style="list-style-type: none"> 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; and An executed buy-out agreement that is part of an employer relocation plan where the employer/relocation company takes responsibility for the outstanding mortgage(s).
--	---

See Chapter [1G](#) Assets for more information.

1H.4 (q)(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, see Chapter 6I Employment and Income for rental income requirements.

1H.4 (r) 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 under the mortgage, thus creating a contingent liability for the borrower. This contingent liability does not need to be included in the DTI ratio provided there is documentation to evidence the transfer of title of the property.

1H.4 (s) Revolving Charges/Lines of Credit

Conforming Underwriting Guide

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.

	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 monthly payment when calculating the DTI ratio.	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 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.	
	<p>Open 30-day accounts do not need to be included in the DTI ratio.</p> <p>The borrower must have sufficient funds to pay off the outstanding balance, in addition to the funds required for the transaction.</p> <p>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.</p>	<p>In the absence of a monthly payment and if there is no documentation indicating the monthly payment amount, 5% of the outstanding balance will be considered to be the required monthly payment amount.</p> <p>Monthly payments on open-end accounts (accounts which require the balance to be paid in full monthly) are not required to be included in the monthly debt payment if the borrower has sufficient verified funds to pay off the outstanding account balance. The borrower must document the source of funds used to pay the balance while still having sufficient funds for closing and reserves.</p>

Conforming Underwriting Guide

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>
---	--

1H.4 (t) 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.

	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.

Conforming Underwriting Guide

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. 	
Forgiveness, Cancellation, Discharge and Employment-Contingent Repayment Programs	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 in the case of an employment-contingent repayment program, paid at the end of the deferment or forbearance period. <p>AND</p> <ul style="list-style-type: none"> • The borrower is eligible or approved, as applicable, for the student loan forgiveness,

Conforming Underwriting Guide

		<p>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</p> <ul style="list-style-type: none">• Evidence of eligibility or approval must come from the student loan program or the employer, as applicable.
--	--	--

1H.4 (u) Undisclosed Liabilities

See Chapter [1E](#) Credit for Undisclosed Liabilities.

1H.4 (v) 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.

See 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)



Conforming Underwriting Guide

- Commuting costs
- Union dues
- Voluntary deductions

Conforming Underwriting Guide

Chapter 1I Employment and Income

Contents

Chapter 1I Employment and Income.....	1
11.1 Income Documentation.....	5
11.1 (a) IRS Form 4506-C.....	5
11.1 (a)(i) General Requirements.....	5
11.1 (a)(ii) At Closing Requirements.....	5
11.1 (a)(iii) Completing IRS Form 4506-C.....	6
11.1 (b) Tax Transcripts.....	7
11.1 (b)(i) Borrower Provided Transcripts.....	7
11.1 (c) Paystubs.....	8
11.1 (d) W-2 Form.....	9
11.1 (e) Written Verification of Employment (WVOE).....	9
11.1 (f) Verbal Confirmation of Employment.....	10
11.1 (g) Tax Returns.....	13
11.1 (h) Allowable Age of Individual Income Tax Returns.....	15
11.1 (i) Income Analysis Forms.....	16
11.1 (j) When Tax Returns are Required.....	16
11.2 Stable Monthly Income.....	17
11.2 (a) Continuity of Income.....	17
11.2 (b) Variable Income.....	18
11.3 Base Pay, Bonus, Overtime, and Commission.....	20
11.3 (a) History of Receipt.....	20
11.4 Base Pay (Salary or Hourly).....	21
11.4 (a) Second-Job Employment.....	22
11.4 (b) Bonus or Overtime.....	22
11.4 (c) Commission Income.....	23

Conforming Underwriting Guide

11.5 Self-Employed Income	23
11.5 (a) Verification of Income.....	24
11.5 (b) Self-Employment Income Not Used for Qualification.....	28
11.5 (c) Analysis of Borrower's Business Income.....	29
11.5 (d) Use of Business Assets.....	30
11.6 Individual Tax Returns	30
11.6 (a) Income or Loss from a Sole Proprietorship.....	30
11.6 (a)(i) Recurring vs. Non-recurring Income and Expenses.....	31
11.6 (b) Calculating Cash Flow from Schedule D	31
11.6 (c) Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1	32
11.7 Analyzing Partnership Returns for a Partnership or LLC	33
11.7 (a) Evaluating the Business Income	33
11.7 (b) Borrower's Proportionate Share of Income or Loss	33
11.7 (c) Adjustments to Business Cash Flow	33
11.7 (d) Income from Partnerships, LLCs, Estates, and Trusts.....	34
11.8 Analyzing Returns for an S Corporation	34
11.8 (a) Borrower's Proportionate Share of Income or Loss.....	34
11.8 (b) Adjustment to Business Cash Flow.....	35
11.9 Analyzing Returns for a Corporation	35
11.9 (a) Corporate Fiscal Year.....	35
11.9 (b) Determining the Corporation's Financial Position.....	35
11.9 (c) Borrower's Share of Income or Loss.....	36
11.9 (d) Adjustments to Cash Flow	36
11.10 Analyzing Profit and Loss Statements	36
11.11 Liquidity Ratios.....	37
11.12 Rental Income – Fannie Mae DU	38
11.12 (a) Rental Income from a One-unit Primary Residence or Second Home	38
11.12 (b) Rental Income from 2-4 unit Primary Residence and 1-4 unit Investment Property	38
11.12 (c) Calculating Monthly Qualifying Rental Income or Loss.....	41
11.12 (d) Treatment of Income or Loss	42



Conforming Underwriting Guide

11.12 (e) Rental Property Reported through a Partnership or an S Corporation	43
11.12 (f) Reporting Rental Income	44
11.13 Rental Income – Freddie Mac LPA	44
11.13 (a) Rental Income from a One-unit Primary Residence.....	45
11.13 (b) Rental Income from 2-4 unit Primary Residence and 1-4 unit Investment Property	45
11.13 (c) Calculating Monthly Qualifying Rental Income or Loss.....	47
11.13 (d) Treatment of Income or Loss	48
11.14 Other Income Sources	49
11.14 (a) Alimony and Child Support Payments	50
11.14 (b) Assets (Depletion) Used as Income	51
11.14 (b)(ii) Fannie Mae DU Asset Depletion.....	51
11.14 (b)(iii) Freddie Mac LPA Asset Depletion.....	55
11.14 (c) Automobile Allowance/Expense Account Payments	57
11.14 (d) Boarder Income	57
11.14 (e) Capital Gains.....	58
11.14 (f) Disability – Long Term	59
11.14 (g) Employment by a Relative or Any Interested Party to the Transaction.....	60
11.14 (h) Employment Contracts	61
11.14 (h)(i) Education Industry	61
11.14 (h)(ii) Other Industries.....	61
11.14 (i) Foreign Income	62
11.14 (j) Foster Care Income	62
11.14 (l) Income Beginning after the Note Date	63
11.14 (l)(i) Fannie Mae DU	64
Fannie Mae DU Option Two - Paystub Not Obtained Before Closing or Delivery	64
11.14 (l)(ii) Freddie Mac LPA	65
11.14 (m) Income Reported on IRS Form 1099	67
11.14 (n) Interest and Dividend Income.....	67
11.14 (o) Non-Occupying Co-Borrower Income	68
11.14 (p) Nontaxable Income	68

Conforming Underwriting Guide

11.14 (p)(iii) Social Security Income	69
11.14 (q) Notes Receivable.....	70
11.14 (r) Public Assistance	70
11.14 (s) Restricted Stock Units (RSU).....	71
11.14 (t) Retirement Income	74
11.14 (t)(i) Retirement, Annuity, and Pension	74
11.14 (u) Distributions from Retirement Accounts Recognized by the IRS (e.g., IRA or Keogh)	75
11.14 (v) Royalty Payments	77
11.14 (w) Seasonal Income	78
11.14 (x) Social Security Retirement Income	79
11.14 (y) Supplemental Security Income	79
11.14 (z) Survivor and Dependent Benefit Income.....	80
11.14 (aa) Temporary Help Services	81
11.14 (bb) Temporary Leave.....	81
11.14 (cc) Tip Income	83
11.14 (dd) Trust Income	84
11.14 (ee) Union Members	85
11.14 (ff) VA Benefits	87
11.15 Unacceptable Sources of Income.....	87

Conforming Underwriting Guide

11.1 Income Documentation

11.1 (a) IRS Form 4506-C

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, in order to obtain income information when qualifying income must be documented with individual tax returns, as necessary
- 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 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.

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.

Conforming Underwriting Guide

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. IVE 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"> 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 			

Conforming Underwriting Guide

- 1065: Borrower must sign name with title and only the following titles are acceptable
 - Partner
 - Limited Partner

11.1 (b) Tax Transcripts

See below for [TEMPORARY COVID REQUIREMENTS](#)

Tax transcript(s) may be required, at the underwriter's discretion, when individual income tax return(s) must be used for loan qualification (e.g., self-employment, rental income, employment by a family member, as applicable).

Information from the tax transcript and borrower-provided document must be compared and discrepancies explained and resolved with detailed comments provided.

TEMPORARY COVID REQUIREMENTS

The requirement for obtaining tax transcripts prior to closing is suspended.
--

11.1 (b)(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:

Conforming Underwriting Guide

- 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 (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.
- Paystubs must be dated no earlier than 30 days prior to the loan application for DU;
- 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; 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.

Conforming Underwriting Guide

11.1 (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; 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 (e) 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;
- 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 his or her employer.



Conforming Underwriting Guide

11.1 (f) Verbal Confirmation of Employment

See below for [TEMPORARY COVID REQUIREMENTS](#)

A verbal confirmation of the borrower's current employment status is required for each borrower (including when DU validation service 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	<p>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:</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; and• Borrower's employment status. <p>For borrowers in the military, the following may be used in lieu of a verbal re-verification:</p> <ul style="list-style-type: none">• <u>Fannie Mae DU</u>: Leave and Earnings Statement dated within 30 (or 31) calendar days of the Note date• <u>Freddie Mac LPA</u>: Leave and Earnings Statement dated within 120 calendar days of the Note date <p>Third-party Verification</p> <p>If using a third-party service to verify employment (e.g., The Work Number, Quick</p>

Conforming Underwriting Guide

	<p>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. <p>Employment information must be verified and documented by the third-party verification service provider directly through the electronic database of the employer or the employer's third-party payroll services provider and must contain the following:</p> <ul style="list-style-type: none"> • Name of borrower; • Name of employer; • Borrower's current employment status; • Any additional information that was verified; • Date employment information was issued from the employer to the third-party verification services provider (e.g., effective, date, current as of date); and • Date verification was issued by the third-party verification services provider.
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 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>

Conforming Underwriting Guide

	<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>
--	--

TEMPORARY COVID REQUIREMENTS

Wage Earner

One (1) of the following may be used if verbal confirmation of employment cannot be obtained:

- Email directly from employer, and must:
 - Be from the employer's email address, such as name@company.com (no Gmail, yahoo, etc.);
 - Be from the borrower's direct supervisor/manager or the employer's Human Resources department;
 - Contain all the standard information required on a VVOE, including the name, title, and phone number of the person providing the verification; and
 - Identify the borrower's name and current employment status.
- A year-to-date paystub from the pay period that immediately precedes the Note date. The income should be consistent with the paystub for qualification and the UAS findings, with not decrease or adverse change in earnings.

Third-Party Vendor

Information in third-party employment verification vendor's database, when using for income and employment documentation, must be no more than 60 days old as of the Note date.

Self Employed Borrower

- Verification that the borrower's business remains operational must be done within ten (10) days of the Note date. The following verifications include, but are not limited to:

Conforming Underwriting Guide

- Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment);
- Evidence of current business receipts within ten (10) days of the note date (payment for services performed);
- Lender certification the business is open and operating (lender confirmed through a phone call or other means); or
- Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

11.1 (g) 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 (DU only).

The following standards apply with using Income Tax Returns to verify income.

Tax Return	Requirement
<i>Individual Income Tax Return</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 Return</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. The following documentation should be reviewed when income

Conforming Underwriting Guide

	<p>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>	<p>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.</p>
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. 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> <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>

Conforming Underwriting Guide

11.1 (h) Allowable Age of Individual Income Tax Returns

If Today's Date is...	Then the Most Recent Years' Tax Return would be...
February 18, 2021	2019
April 16, 2021	2020
December 15, 2021	2020

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).		
<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. 		
Reminder: The Note date is based on all documentation in the file (paystub, bank statements, appraisal, etc.)		
Application Date	Note Date	Documentation
10/15/20 to 04/14/21	10/15/20 to 04/15/21	<ul style="list-style-type: none"> Most recent year's tax return Extension is not permitted
	04/15/21 to 06/30/21	<ul style="list-style-type: none"> Previous years' tax return, if filed If previous year is not filed, obtain previous two (2) years or per DU/LPA
	07/01/21 to 10/14/21	<ul style="list-style-type: none"> Most recent years' tax return <i>OR all of the following</i> 2020 Extension Previous two (2) years' tax returns or per DU/LPA Tax transcripts confirming "No Transcripts Available" for 2020
04/15/21 to 10/14/21	04/15/21 to 12/31/21	<ul style="list-style-type: none"> Most recent years' tax return <i>OR all of the following</i> 2020 Extension Previous two (2) years' tax returns or per DU/LPA Tax transcripts confirming "No Transcripts Available" for 2020

Conforming Underwriting Guide

	01/01/22 to 04/15/22	<ul style="list-style-type: none"> • Most recent years' tax return • Extension is not permitted
10/15/21 to 4/14/22	10/15/21 to 04/14/22	<ul style="list-style-type: none"> • Most recent years' tax return • 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.		

11.1 (i) 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
- 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

11.1 (j) When Tax Returns are Required

Tax returns are always required if the borrower

- is employed by a family member;
- 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

Conforming Underwriting Guide

- 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.

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 one (1) 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 (3) 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 	<ul style="list-style-type: none"> Alimony, child support, or separate maintenance Distributions from a retirement account Notes receivables Public assistance Royalty payment income

Conforming Underwriting Guide

<ul style="list-style-type: none"> • Foster care income • Interest and dividend income (unless evidence assets will be depleted) • Military income • Part-time, second job • Rental income • Self-employment income • Social Security, VA, or other government retirement annuity 	<ul style="list-style-type: none"> • Social Security (excluding retirement or long-term disability) • Trust income • VA benefits (excluding retirement or long-term retirement)
--	--

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	Two (2) or more years of receipt of variable income is recommended, however 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>

Conforming Underwriting Guide

	<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 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>	
	Fannie Mae DU	Freddie Mac LPA
	<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>If the trend of the amount of income is stable or increasing, the income should be averaged.</p> <ul style="list-style-type: none"> If the increase between the prior year(s) and year-to-date earnings exceeds 10%, additional analysis and documentation may be necessary to determine income stability in order to use the higher income amount. <p>If the trend is declining, use the year-to-date income to qualify. Do not use the previous higher levels unless there is documentation of a one-time occurrence (e.g., injury) that prevented the borrower from working or earning full income.</p> <ul style="list-style-type: none"> If the decline between the prior

Conforming Underwriting Guide

		year(s) and year-to-date earnings exceeds 10%, additional analysis may be necessary to determine income stability. Include the reason for the declining trend and support that the current income has stabilized.
--	--	---

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 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.

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	Borrowers re-entering the workforce after an extended absence, for any reason, may have stable employment. Documentation must be provided to support a two-year work history prior to the extended absence from the workforce.

Conforming Underwriting Guide

	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.
Furloughed Borrowers	If a borrower is furloughed or laid off, they are not considered actively employed and any income received may not be used for qualifying.
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>

11.4 Base Pay (Salary or Hourly)

Obtain one (1) of the following or follow DU or LPA:

- A completed Written Verification of Employment; or
- Most recent two (2) years' paystubs; and
- Most recent two (2) years' W-2s

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.

Follow AUS using the most recent Leave and Earnings Statement (LES) in lieu of paystub.

Military Reservists and National Guard Not Called to Active Duty	Use military Reserve or Guard income to qualify. Follow Second-job 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

Conforming Underwriting Guide

	pay or current employment income sources.
--	---

11.4 (a) 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 two (2) year 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.

1. **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.

11.4 (b) Bonus or 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 two (2) consecutive years. Income that has been received for 12 to 24 months may be considered as 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.

If the borrower has recently changed positions with his or her employer, determine the effect of the change on the borrower's eligibility and opportunity to receive bonus or overtime pay in the new position. Documentation from the employer is required to determine if the bonus or overtime will continue at least the same or greater level.

Obtain one (1) of the following or follow DU or LPA documentation requirements:

- A completed Written Verification of Employment; or

Conforming Underwriting Guide

- Most recent two (2) years' paystubs; 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.

11.4 (c) 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 two (2) years' paystubs; 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 bonus or overtime to accurately calculate the income.

11.5 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.

Self-employment income received for less than two (2) years, but not less than one (1) year, may be considered stable. A written analysis justifying the determination of stability and supporting documentation



Conforming Underwriting Guide

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.

11.5 (a) Verification of Income

See below for [TEMPORARY COVID REQUIREMENTS](#)

- 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

Conforming Underwriting Guide

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).

TEMPORARY COVID REQUIREMENTS

Profit and Loss Statement dated no more than 60 calendar days prior to the Note date.

Option One

- Unaudited 2020 YTD P&L, signed by the borrower. Month to month, quarterly or additional documentation may be necessary to show income trending
- Three (3) months of business bank statements no older than the latest three (3) months shown on the YTD P&L
 - Example: YTD P&L is through October 2020 account statements can be no older than August, September, and October. Personal bank statements eligible for small business that does not have a separate business account.
 - If the business bank statements do not support or conflict with information in the P&L, obtain additional statements or other documentation to determine trending and cash flow.

Option Two

- Audited 2020 YTD P&L
- Year-to-Date Profit and Loss Statement must contain all of the following information:
 - Signed by borrower
 - Cover most recent month preceding application date
 - Dated no more than 60 calendar days prior to Note date
 - Report business revenue
 - Report business expenses
 - Report Net Income
- NewRez Income Worksheet or other Cash Flow Analysis form
- Bank Statement and Profit and Loss Statement comparison worksheet
- Written analysis of all businesses owned explaining the following:
 - Nature of the business
 - How the business operates in a typical environment

Conforming Underwriting Guide

- How the business generates income
- Where the business operates (remotely or within an office)
- Number of employees
- Updated business plan or similar detailed explanation from borrower, as applicable
- Business receipts or purchase contracts, as applicable
- Additional information based on review below

Assessing Impact to Business

- Establish that borrower's income is stable and likely to continue at the same level being used for qualifying.
- Know the economic conditions related to borrower's business.
- Documentation and analysis of business must support that business has sufficient liquidity and is financially capable of producing stable monthly income for borrower.
- Consider pandemic-related factors, which may include, but not limited to, the following:
 - If the ability of the business to generate revenue or operate at full capacity has been negatively impacted by the pandemic, have business operations been modified to support continued revenue? Is continued business revenue supported by any other documentation or information supplied by the borrower (modified business plans) or obtained from other sources?
 - Impacts to the business operations, revenue and/or expenses, such as a break-down in supply chain that is needed to maintain the product, higher cost of expenses to obtain the product, or lack of consumer demand for product or services.
 - Impacts to the business operation, revenue and/or expenses due to temporary restrictions such as State shelter-in-place, stay at home or other similar State or local orders.
 - If temporary restrictions have recently been lifted, will the business continue to operate at a reduced level due to COVID-19 related factors, such as social distancing? If so, has the business been operating at this reduced level of revenue and/or increased level of expenses long enough to establish income stability and is this documented with more recent business bank statements evidencing this revenue flow or other equivalent information?
 - Is there a demand for the product or service currently offered by the business?
 - Is the business continuing to operate in the current location or an alternate location suitable for business operations?
 - Is the impact to the business operations negligible due to the nature of the business?
 - Does the business currently have documented liquid assets or access to capital for operating expenses that support the financial ability of the business to operate given current market

Conforming Underwriting Guide

and economic conditions? Are those assets comprised of or supplemented by loan proceeds from Small Business Administration (SBA) Paycheck Protection Program (PPP), Emergency Economic Injury Grant, Small Business Debt Relief Program, or any other similar COVID-19 related program?

- Is the business part of an industry that is experience increasingly negative pandemic-related impacts?

Resources, include but are not limited to:

- Reputable news sources and economic forecasts related to the business industry and pandemic progression
- Whether the business type is in what is considered a high contact-intensive industry and if the higher risk of exposure to COVID-19 may present an impact to the potential for income stability and/or continuance until the medical issues surrounding the pandemic are closer to being resolved, and whether or not there are State or local orders that temporarily restrict the business operation.

Establishing Monthly Income and Stability

- Establish current level of stable monthly income from provided documentation
- Compare the following using a Cash Flow Analysis
 - 2018 tax return to 2019 tax return to 2020 YTD P&L net business income, as applicable; or
 - 2019 tax return and 2020 YTD P&L net business income.
- When net business income is impacted, and the P&L is insufficient to determine the income is stable at a reduced level, obtain additional documentation to supplement the P&L to make the determination

Income Level Not Changed or Has Increased

- Cash Flow Analysis determined that the business income has not declined or is increasing
 - Use income from Cash Flow Analysis based on tax returns
 - YTD P&L and balance sheet cannot be used to support a higher level of income than the amount on the Cash Flow Analysis

Income Level Declined

- Cash Flow Analysis determined that the business income has declined

Conforming Underwriting Guide

- Determine if the income has stabilized
- Obtain additional documentation to support YTD P&L to determine stability, as necessary
- If the income has stabilized
 - Use no more than the current level of stable monthly income from the YTD P&L, bank statements, and applicable documentation
 - Adjustments (e.g., depreciation, etc.) may be made per standard guidelines
 - If the income declined and has not stabilized, the income is ineligible for qualifying

Business Assets

Loan proceeds from SBA PPP or other similar COVID-19 related programs are not considered business assets for the purposes of eligible funds to qualify, including funds for down payment, closing costs and reserves.

11.5 (b) Self-Employment Income Not Used for Qualification

Fannie Mae DU	Freddie Mac LPA
<p>A borrower who is being 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. The co-borrower's self-employment income or loss does not need to be documented or evaluated.</p> <p>Any business debt that the borrower is personally obligated must be included in the DTI.</p> <p>Additional information may be required at the underwriter's discretion.</p>	<p>A borrower who is being 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

Conforming Underwriting Guide

	<p>business loss that may have an impact on the stable monthly income.</p> <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 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. <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.
--	---

11.5 (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.

Conforming Underwriting Guide

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.

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.

11.5 (d) Use of Business Assets

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

11.6 Individual Tax Returns

11.6 (a) Income or Loss from a Sole Proprietorship

Conforming Underwriting Guide

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.

11.6 (a)(i) Recurring vs. Non-recurring Income and Expenses

Determine whether income is recurring or non-recurring.

Non-recurring income must be deducted in 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
- Casualty losses; as applicable.

11.6 (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	Obtain a copy of the <i>applicable Sale of Business</i>

Conforming Underwriting Guide

business property,	<i>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.

11.6 (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 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.

Conforming Underwriting Guide

11.7 Analyzing Partnership Returns for a Partnership or LLC

11.7 (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.

11.7 (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.

11.7 (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.

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.

Conforming Underwriting Guide

11.7 (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.

11.8 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.

11.8 (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 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

Conforming Underwriting Guide

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.

11.8 (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.

11.9 Analyzing Returns for a Corporation

11.9 (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.

11.9 (b) Determining the Corporation's Financial Position

After determining the income available to the borrower for qualifying purposes, evaluate the overall 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

Conforming Underwriting Guide

without having severe negative effects.

11.9 (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.

11.9 (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.

11.10 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 allowable adjustments used in analyzing the tax returns for the business, such as nonrecurring income and expenses, depreciation, and depletion.

Conforming Underwriting Guide

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.

11.11 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	<p>Current Ratio = Current Assets ÷ Current Liabilities</p> <p>Assets = cash, marketable securities, inventory, and accounts receivable</p> <p>Liabilities = debt and accounts payable</p>
Quick Ratio	
Definition	<p>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.</p> <p>The Quick Ratio is appropriate for business that rely heavily on inventory to generate income.</p>
Standard	1:1
Calculation	<p>Quick Ratio = (Current Assets - Inventory) ÷ Current Liabilities</p> <p>Assets = cash and accounts receivable</p> <p>Liabilities = debt and accounts payable</p>

Conforming Underwriting Guide

11.12 Rental Income – Fannie Mae DU

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.

When multiple sources of documentation are provided to verify rental income, the lowest calculated rental income will be used for qualification. 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.

11.12 (a) Rental Income from a One-unit Primary Residence or Second Home

Eligibility	<p>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.</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	<p>All of the following is required:</p> <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	<p>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.</p>

11.12 (b) Rental Income from 2-4 unit Primary Residence and 1-4 unit Investment Property

Conforming Underwriting Guide

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.
<ul style="list-style-type: none"> • Subject Investment Property Transactions <ul style="list-style-type: none"> ○ When rental income from the subject investment property is being used for qualification: <ul style="list-style-type: none"> • For a purchase transaction, apply a 50% vacancy factor; or • For a refinance transaction, evidence of the most recent two (2) months receipt of rental income; and • Three (3) months reserves are required in addition to standard reserve requirements per the product. 		

Conforming Underwriting Guide

Rental Income from Other Real Estate Owned		
NA	Yes	<ul style="list-style-type: none"> Most recent years' signed tax return, including Schedule E.
Other Real Estate Owned (REO) <ul style="list-style-type: none"> When rental income from the other REO is being used for qualification: <ul style="list-style-type: none"> Two (2) months receipt of rental income for each rental property owned; and Three (3) month reserves required for each rental property owned in addition to standard reserves require per the product. <p>Conversion of a Primary Residence to an Investment Property</p> <ul style="list-style-type: none"> When rental income is being used for qualification: <ul style="list-style-type: none"> Three (3) month reserves required for each rental property owned in addition to standard reserves require per the product; Proof of receipt of security deposit; and Proof of receipt of first month's rent, if required by lease. 		
Partial or No History of Receiving Rental Income on Tax Returns		
<p>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 a portion of the previous tax year, qualifying rental income may be determined by using:</p> <ul style="list-style-type: none"> 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. <p>Average the rental income over the number of months that the borrower used the property as a rental unit.</p>		
<p>If the property was acquired during or subsequent to the most recent tax filing year, then 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. 		
<p>If the rental property was out of service for an extended period, then</p> <ul style="list-style-type: none"> The Schedule E will reflect the costs for renovation or rehabilitation as repair expenses. 		

Conforming Underwriting Guide

<p>Additional documentation may be required to ensure that the expenses support 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.
<p>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.</p>

11.12 (c) Calculating Monthly Qualifying Rental Income or Loss

To determine the amount of rental income from the subject property that can be used for qualifying when the borrower is purchasing or refinancing a two- to four-unit primary residence or one- to-four investment property, use the following:

If the borrower...	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 	<p>there is no restriction on the amount of rental income that can be used.</p>
<ul style="list-style-type: none"> currently owns a primary residence (or has a current housing expense); and has less than one-year history of receiving rental income or documented property management experience 	<ul style="list-style-type: none"> for a primary residence, rental income in an amount not exceeding PITIA of the subject property can be added to the borrower's gross income; or for an investment property, rental income can be used to offset the PITIA of the subject property.
<ul style="list-style-type: none"> does not own a primary residence; and does not have a current housing expense 	<p>rental income from the subject property cannot be used.</p>
<p>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 	

Conforming Underwriting Guide

<p>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 day sin use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.</p>	
<p>The borrower must have at least a one-year history of receiving rental income in accordance with the above.</p>	
<p><u>Income Calculation</u></p> <p>If the property was in service</p> <ul style="list-style-type: none"> • 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. 	
<p>Lease Agreements or Form 1007 or Form 1025</p>	<p>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%.</p>

11.12 (d) 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 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.

Conforming Underwriting Guide

11.12 (e) 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.

Conforming Underwriting Guide

11.12 (f) 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

11.13 Rental Income – Freddie Mac LPA

The borrower must currently own a primary residence to use rental income to qualify when purchasing a new rental income property in the current calendar year. 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 there is documentation demonstrating the borrower has a minimum of one-year investment property management experience.

When determining stable monthly income, rental income generated from an accessory unit may be considered for a subject one (1) unit investment property. Rental income from the subject property second home cannot be used to qualify.

Conforming Underwriting Guide

11.13 (a) Rental Income from a One-unit Primary Residence

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.

11.13 (b) Rental Income from 2-4 unit Primary Residence and 1-4 unit Investment 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; or If a lease is not available, <i>Single-Family Comparable Rent Schedule</i> (Form 1007) or <i>Small Residential Income Property Appraisal Report</i> (Form 1025).
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) See below for Property Acquired During or Placed in Service in the Current Tax Year.
<ul style="list-style-type: none"> Subject Investment Property Transactions <ul style="list-style-type: none"> When rental income from the subject investment property is being used for qualification: <ul style="list-style-type: none"> For a purchase transaction, apply a 50% vacancy factor; or For a refinance transaction, evidence of the most recent two (2) months receipt of 		

Conforming Underwriting Guide

rental income; and <ul style="list-style-type: none"> Three (3) months reserves are required in addition to standard reserve requirements per the product. 		
Rental Income from Other Real Estate Owned		
NA	Yes	<ul style="list-style-type: none"> Most recent years' signed tax return, including Schedule E
Other Real Estate Owned (REO) <ul style="list-style-type: none"> When rental income from the other REO is being used for qualification: <ul style="list-style-type: none"> Two (2) months receipt of rental income for each rental property owned; and Three (3) month reserves required for each rental property owned in addition to standard reserves require per the product. <p>Conversion of a Primary Residence to an Investment Property</p> <ul style="list-style-type: none"> When rental income is being used for qualification: <ul style="list-style-type: none"> Three (3) month reserves required for each rental property owned in addition to standard reserves require per the product; Proof of receipt of security deposit; and Proof of receipt of first month's rent, if required by lease. 		
Partial or No History of Receiving Rental Income on Tax Returns		
<p>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 a portion of the previous tax year, qualifying rental income may be determined by using:</p> <ul style="list-style-type: none"> 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. <p>Average the rental income over the number of months that the borrower used the property as a rental unit.</p>		
<p>If the property was acquired during or subsequent to the most recent tax filing year, then confirm the purchase date using the settlement statement or other documentation.</p> <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 		

Conforming Underwriting Guide

<p>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</p> <ul style="list-style-type: none"> 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>
<p>If the subject property refinance or non-subject property purchased in current calendar year or placed in service as a rental property in current calendar year:</p> <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 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. Purchase date or conversion date, as applicable must be documented.
<p>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.</p>

11.13 (c) Calculating Monthly Qualifying Rental Income or Loss

When multiple sources of documentation are provided to verify rental income, the lowest calculated rental income will be used for qualification.

Rental Income Calculation	
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> <p>If the property was in service:</p> <ul style="list-style-type: none"> 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

Conforming Underwriting Guide

	<p>over the number of months that the borrower used the property as a rental unit.</p> <p>The Schedule E Rental Income Calculator may be used to assist in calculating rental income when using Schedule E.</p>
Lease Agreements	<p>Lease agreements must be current and fully executed, with a minimum original term of one (1) year. If the lease is in the automatically renewable month-to-month phase of an original one-year, then month-to-month is acceptable.</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>
Single-Family Comparable Rent Schedule or Small Residential Income Property Appraisal	<p>When using the Single-Family Comparable Rent Schedule (Form 1007) or Small Residential Income Property Appraisal Report (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>	

11.13 (d) Treatment of Income or Loss

If the rental income is from the borrower's primary residence:

Conforming Underwriting Guide

- 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.

11.14 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 Payments](#)
- [Assets \(Depletion\) Used as Income](#)
- [Auto Allowances and Expense Account Payments](#)
- [Boarder 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](#)
- [Housing or Parsonage Allowance](#)
- [Income Beginning after the Note Date](#)
- [Income Reported on IRS Form 1099](#)
- [Interest and Dividend Income](#)
- [Non-Occupying Co-Borrower Income](#)
- [Nontaxable Income](#)

Conforming Underwriting Guide

- [Notes Receivable Income](#)
- [Public Assistance](#)
- [Restricted Stock Units \(RSU\)](#)
- [Retirement Income](#)
- [Royalty Payments](#)
- [Seasonal Income](#)
- [Social Security Income](#)
- [Supplemental Security Income](#)
- [Survivor and Dependent Benefit Income](#)
- [Temporary Help Services](#)
- [Temporary Leave](#)
- [Tip Income](#)
- [Trust Income](#)
- [Union Members](#)
- [VA Benefits](#)

11.14 (a) Alimony and Child Support Payments

The following provides verification requirements for alimony and child support payments.

Documentation	<p>One (1) of the following is required:</p> <ul style="list-style-type: none"> • 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 other type of written legal agreement or court decree describing the payment terms for the alimony or child support; or • Any applicable state law document that mandates alimony or child support, which must specify the conditions under which payments must be made.
Current Receipt	<p>Document evidence of receipt of the payments for the most recent six (6) months with any of the following:</p> <ul style="list-style-type: none"> • Court records; • 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>

Conforming Underwriting Guide

	<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.

11.14 (b) Assets (Depletion) Used as Income

11.14 (b)(ii) Fannie Mae DU Asset Depletion

An income stream from the depletion of assets may be used as income based on compliance with the following tables.

For Fannie Mae DU transactions, there are two (2) options for using an income stream from the depletion of assets.

Fannie Mae DU Option 1

All of the following apply:

Conforming Underwriting Guide

- DU Approve/Eligible;
- 1-2-unit primary residence;
- 1-unit second home;
- Manufactured homes ineligible;
- Assets must be liquid and owned individually by the borrower;
 - Stocks, bonds, and mutual funds must be reduced by 30%;
 - Funds for closing, down payment, and reserves must be netted from the assets resulting in a net documented asset amount;
 - The initial minimum account value of the assets used to determine the income stream is \$500,000;
 - Acceptable assets
 - checking or savings accounts;
 - investments in stocks, bonds, mutual funds, certificates of deposit, money market funds, and trust accounts;
 - the amount vested in a retirement savings account (must be of retirement age); and
 - the cash value of a vested life insurance policy.
- Monthly Income Stream Calculation: To determine the monthly income stream, convert the borrower's net documented assets by the amortization terms of the mortgage (in months).
- Interest, dividends, and capital gains from the same or other financial assets (reported on the borrower's tax return) cannot be used as additional income.
- The assets used for the income stream calculation may be utilized for reserves. The reserves must be subtracted from the assets used to determine the Net Documented Assets for the income stream calculation.

	Purchase and Rate & Term Refi	Cash-out Refi
Seasoning	<ul style="list-style-type: none">Owned and seasoned for 12 months with credit score 720 or greaterOwned and seasoned for 24 months with credit score less than 720	Owned and seasoned for 24 months
LTV	80% LTV/CLTV	60% LTV/CLTV
Credit Score	<ul style="list-style-type: none">680 when LTV/CLTV < 70%720 when LTV/CLTV ≥ 70%	
Example		

Conforming Underwriting Guide

Mutual Funds	\$500,000
Funds for Closing (down payment, closing costs & reserves)	\$100,000
Remaining Funds	\$100,000
30% Required Reduction	\$120,000
Net Documented Assets	\$280,000
Income Stream: $\$280,000 \div 360 =$ Eligible Monthly Income	\$777.78
Special feature code 579 is required.	
Fannie Mae DU Option 2	
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	<u>Retirement Assets</u> <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

Conforming Underwriting Guide

	<p>costs for the transaction) must be subtracted to determine the income stream; and</p> <ul style="list-style-type: none"> 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; 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>	
	<p>1. Net documented assets equals the sum of the eligible documented assets minus:</p> <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. <p>2. Divide the "Net Documented Assets" by the amortization term of the loan (in months)</p>	
	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	-\$50,000

Conforming Underwriting Guide

	stream)	
	Total Eligible Documented Assets	=\$450,000
	Minus fund required for closing (down payment, closing costs, reserves)	-\$100,000
	Net Documented Assets	=\$350,000
	Monthly income calculation \$350,000/360 (or applicable term)	\$972.22/month
Ineligible Assets	<p>The following non-employment related assets are not eligible:</p> <ul style="list-style-type: none"> • Divorce proceeds • 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>	

11.14 (b)(iii) Freddie Mac LPA Asset Depletion

An income stream from the depletion of assets may be used as income based on compliance with the following tables.

For Freddie Mac LPA transactions, there are two (2) options for using an income stream from the depletion of assets.

Eligibility	<ul style="list-style-type: none"> • Maximum 80% LTV/CLTV/HCLTV • Purchase or rate & term refinance • 1-2 unit primary residence or 1-unit second home • Credit Score: 620
Asset Calculation	To determine the amount used to establish the debt payment-to-income

Conforming Underwriting Guide

	<p>ratio, use the net eligible assets (as described below), divided by 240.</p> <p>Net Eligible Assets is calculated by subtracting the following from the total eligible assets:</p> <ul style="list-style-type: none"> Any funds required to be paid by the borrower to complete the transaction (e.g., down payment and closing costs), Any gift funds and borrowed funds, and Any portion of assets pledged as collateral for a loan or otherwise encumbered.
Retirement Assets	<ul style="list-style-type: none"> 401k, Keogh, IRA, and SEP retirement accounts; Borrower must be sole owner of the asset; Asset must not currently be used as a source of income; 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); Borrower must be fully vested in the account; and Document with the most recent monthly, quarterly, or annual statement.
Lump-sum Distribution Funds not Deposited to an Eligible Retirement Asset	<p>If the lump-sum distribution funds have been deposited to an eligible retirement asset, follow the requirements for retirement assets described above.</p> <ul style="list-style-type: none"> Lump-sum distribution funds must be derived from a retirement account (e.g., 401(k), IRA) and must be deposited to a depository or non-retirement securities account; Borrower must have been the recipient of the lump-sum distribution funds; Parties not obligated on the loan may not have an ownership interest in the account that holds the funds from the lump-sum distribution; The proceeds from the lump-sum distribution must be immediately accessible in their entirety; and The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty or early distribution tax.
Depository Accounts	<ul style="list-style-type: none"> The borrower must solely own assets or, if asset is owned jointly,

Conforming Underwriting Guide

and Securities	<p>each asset owner must be a borrower on the loan and/or on the title to the subject property;</p> <ul style="list-style-type: none"> • At least one (1) borrower who is an account owner must be at least 62 years old; • As of the Note date, the borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty; and • Account funds must be located in a United States- or State-regulated financial institution and verified in U.S. dollars.
Assets from the sale of the Borrower's business	<ul style="list-style-type: none"> • The borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited to the depository or non-retirement securities account; • Parties not obligated on the loan may not have an ownership interest in the account that holds the proceeds from the sale of the borrower's business; • The proceeds from the sale of the business must be immediately accessible in their entirety; and • The sale of the business must not have resulted in the following: retention of business assets, existing secured or unsecured debt, ownership interest or seller-held notes to buyer of business.
Investor Feature Identifier	IFI H31 is required

11.14 (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.

11.14 (d) Boarder Income

See [11.12](#) Rental Income for allowances for boarder income.

Conforming Underwriting Guide

11.14 (e) 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).

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.

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.

Conforming Underwriting Guide

11.14 (f) Disability – Long Term

Long-term disability payments (Veterans 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 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
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>

Conforming Underwriting Guide

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. <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	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.	

11.14 (g) 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.

- Follow DU or LPA documentation requirements; and
- Most recent two (2) years' individual income tax returns with all schedules.

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.

Conforming Underwriting Guide

11.14 (h) Employment Contracts

If a borrower has an employment contract, it may be considered for the purposes of determining stable income.

11.14 (h)(i) 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.

11.14 (h)(ii) Other Industries

Fannie Mae DU	Freddie Mac LPA
<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</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

Conforming Underwriting Guide

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>region;</p> <ul style="list-style-type: none"> • 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>
--	---

11.14 (i) 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 U.S. currency.

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
<p>All of the following is required:</p> <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. 	<p>All of the following is required:</p> <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.

11.14 (j) Foster Care Income

Conforming Underwriting Guide

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
<p>Document the most recent two-year history of receipt of the income.</p> <p>If the borrower has not been receiving foster care income for two (2) years, the income is acceptable if:</p> <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. 	<p>Document the most recent two-year history of receipt of the income.</p>

11.14 (k) 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 employee, 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.

11.14 (l) Income Beginning after the Note Date

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.

Conforming Underwriting Guide

11.14 (I)(i) Fannie Mae DU

Fannie Mae Option One – Paystub Obtained After Closing and Before Delivery
<ul style="list-style-type: none"> • Obtain an executed copy of the borrower’s offer or contract for future employment and anticipated income; • The borrower must begin employment within 90 days of the Note date; and • An exception is required for tracking.
Fannie Mae DU Option Two - Paystub Not Obtained Before Closing or Delivery
<p>Income from future employment may be acceptable if all of the following are met:</p> <ul style="list-style-type: none"> • Purchase transaction; • 1-unit primary residence; • Must qualify using borrower's fixed base income; • Cannot be employed by a family member or by an interested party to the transaction. • The employment offer: <ul style="list-style-type: none"> ○ Is non-contingent. If there are contingencies to the offer, any contingencies or conditions of 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, position, type, and rate of pay. • The borrower’s start date must be no earlier than 30 days prior to the Note date or no later than 90 days after the Note date. <ul style="list-style-type: none"> ○ If the borrower’s start date is the Note or more than 30 days prior to the Note date, obtain the employment offer or contract and a VVOE that confirms active employment status. ○ If the borrower’s start date is no more than 90 days after the Note date, obtain the employment offer or contract. • In addition to the reserves required by DU or for the transaction, document one (1) of the following: <ul style="list-style-type: none"> ○ Financial reserves to cover PITIA for six (6) months; or ○ Financial reserves to cover the monthly obligations included in the DTI ratios, including the subject property PITIA, for the number of months between the Note date and the

Conforming Underwriting Guide

employment start date, PLUS, one (1) additional month PITIA.

Financial reserves may include financial reserves and current income.

Current income refers to net income that is currently being received by the borrower (or co-borrower), may or may not be used for qualifying, and may or may not continue after the borrower starts employment under the offer or contract. For this purpose, the amount of income the borrower is expected to receive between the note date and employment start date may be used. If the current income is not being used for qualifying, it can be documented using income documentation, such as a paystub, but a verification of employment is not required.

Special Feature Code 707 and an exception is required for delivery purposes.

11.14 (I)(ii) 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 offer.
 - 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

Conforming Underwriting Guide

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) month reserves; 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 After Closing and Prior to Delivery

Income from future employment may be acceptable if all of the following are met:

- Must be underwritten by LPA;
- Purchase, Rate & Term and Cash-out Refinance; and
- Must be borrower's new primary employment or future salary increase with current employer.

When there are more than 15 calendar days between the Note date and the start date of the new employment, the following apply:

- In addition to the reserves required by LPA or for the transaction, document the following:
 - Financial reserves to cover the monthly obligations included in the DTI ratios, including the subject property PITIA, for the number of months between the Note date and the employment start date, PLUS, one (1) additional month PITIA MINUS
 - The borrower's verified gross income expected between the Note Date and Start Date of new employment.
- A partial month is counted as one (1) month for the purpose of this calculation.

Required Documentation

- Copy of the employment offer letter or employment contract that:
 - Is fully executed and accepted by the borrower; and
 - Includes the terms of employment, including but not limited to, employment start date and annual income based on non-fluctuating earnings

Conforming Underwriting Guide

- Paystub, written VOE or third-party employment verification supporting the income used for qualifying the borrower; and
- Documentation of additional funds, as required above.

An exception is required for delivery purposes.

11.14 (m) 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.

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);
- Most recent years' individual income tax return; and
- Any additional documentation necessary to support use of the income and its stability.

11.14 (n) 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	<p>Verify the borrower's ownership of the assets on which the interest or dividend income as earned.</p> <p>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, based on the most recent tax return, and one (1) of the following</p>	

Conforming Underwriting Guide

	<p>is required:</p> <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.

11.14 (o) 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.

11.14 (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.

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

Conforming Underwriting Guide

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 status of income.

To determine the amount to adjust ("gross up") the borrower's income, use:

- 25% of the nontaxable income; or
- 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%.

11.14 (p)(iii) 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.

Conforming Underwriting Guide

- 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
- VA benefits

11.14 (q) Notes Receivable

Ongoing revenue received from Note income may be eligible for loan qualification. Payments on a Note executed within the past 12 months, regardless of the duration, may not be used as stable income.

A copy of the Note is required to evidence the terms including the amount, frequency, and duration of payments and to verify that the income can be expected to continue for a minimum of three (3) years.

Document regular receipt of the income for the most recent 12 months with one of the following:

- Bank statements evidencing receipt of income;
- Cancelled checks from payor;
- Most recent tax return; or
- Equivalent documentation.

11.14 (r) Public Assistance

Public assistance (e.g., Temporary Assistance for Needy Families (TANF), etc.) 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 benefit verification letter(s) or other equivalent documentation from applicable agency.

Verification of current receipt is required with one (1) of the following:

Conforming Underwriting Guide

- The benefit verification letter, 1099, or third-party documentation showing type of income type, source, amount; or
- Most recent one (1) month bank statement or other equivalent documentation evidencing receipt of the income.

11.14 (s) Restricted Stock Units (RSU)

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	
History of Receipt and Continuance	<ul style="list-style-type: none"> • Two (2) year consecutive 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 (3) 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:

Conforming Underwriting Guide

	<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 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 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).
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> <ul style="list-style-type: none"> Multiply the 52-week average stock price (as of the application date) by the total number of vested shares distributed (pre-tax) to the borrower in the past two (2) years, then divide by 24. <p>(e.g., if 200 vested shares were distributed (pre-tax) in the past two (2) years and the 52-week 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></p>

Conforming Underwriting Guide

	<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
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 payout of RS or RSU W-2 for the most recent 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 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

Conforming Underwriting Guide

	<ul style="list-style-type: none"> 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).
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>Multiply the 52-week 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 (e.g., if 50 vested shares were distributed (pre-tax) in the past year and the 52-week 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>Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12</p>

11.14 (t) Retirement Income

11.14 (t)(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;

Conforming Underwriting Guide

- Copy of signed individual income tax returns;
- W-2s or 1099 forms; or
- Other proof of receipt.

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 (3) years. Eligible account balances may be combined for the purpose of determine whether the three (3)-year continuance requirements is met.

Document that the borrower has unrestricted access without penalty to the accounts and has sufficient assets to evidence continuance for three (3) years from the date of application.

11.14 (u) 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.

For fixed amount occurring with regular frequency, a lesser history of receipt may be needed to determine the amount and stability of the income.

Conforming Underwriting Guide

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.

Document that the borrower has unrestricted access without penalty to the accounts and has sufficient assets to evidence continuance for three (3) years from the date of application.

Conforming Underwriting Guide

11.14 (v) 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
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, 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. 	
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 (3) years from the</p>	<p><u>Less Than Two Year History of Receipt</u></p> <ul style="list-style-type: none"> • Confirm that the income has

Conforming Underwriting Guide

	date of the application.	<p>been received for at least 12 months.</p> <ul style="list-style-type: none"> Royalty contract(s) and/or lease agreements must evidence continuance for a minimum of three (3) 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 (3) years from the date of the application.
--	--------------------------	--

11.14 (w) 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
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.	
Continuance	NA	Not required unless documentation indicates that income will not continue or has a defined expiration date.
Seasonal	<ul style="list-style-type: none"> Unemployment compensation 	<ul style="list-style-type: none"> Unemployment compensation

Conforming Underwriting Guide

Unemployment Compensation	<p>must be clearly associated with seasonal employment.</p> <p>Unemployment benefits must have been received for the past two (2) years to be considered stable income.</p> <ul style="list-style-type: none"> The most recent two (2) years' individual income tax returns with all schedules is required. 	<p>must be clearly associated with seasonal employment.</p> <ul style="list-style-type: none"> 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.
---------------------------	--	---

11.14 (x) Social Security Retirement Income

	Fannie Mae DU	Freddie Mac LPA
Documentation for Borrower's Own Account/Work Record	<p>Document with a copy of Social Security Award letter or document with evidence of current receipt with one (1) of the following:</p> <ul style="list-style-type: none"> Pay statement; 1099; or Bank statement. 	
Documentation for Drawing on Another Person's Account/Work Record	<p>Document with:</p> <ul style="list-style-type: none"> Copy of Social Security Award letter; Proof or current receipt; and Evidence of three (3) 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. 	

11.14 (y) Supplemental Security Income

Conforming Underwriting Guide

Supplemental Security Income (SSI) may be an acceptable source of income. The source, payment amount, payment frequency, and current receipt must be documented. Documentation 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
Documentation	Document SSI with the SSI Award letter and current receipt with one (1) of the following: <ul style="list-style-type: none"> • Bank statement; • Pay statement; or • Equivalent documentation. 	Document SSI and current receipt with one (1) of the following: <ul style="list-style-type: none"> • SSI Award letter; • 1099; • Bank statement; or • Equivalent documentation.
Newly Established Income	<p>Verification of current receipt is not required. Document the finalized terms of the new income with the SSI Award letter.</p> <p>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.</p> <p>Verification of current receipt is not required.</p>	
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.	

11.14 (z) Survivor and Dependent 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), source, payment amount, payment frequency, and current receipt.

Type of Benefit	Fannie Mae DU	Freddie Mac LPA
Survivor Benefits Received for	Document with a copy of Social Security Award letter and evidence	Document income type and current receipt with one (1) of the following:

Conforming Underwriting Guide

Dependent Child and Surviving Spouse	of current receipt with one (1) of the following: <ul style="list-style-type: none"> • Bank statement; • Pay statement; or • Equivalent documentation. 	<ul style="list-style-type: none"> • Social Security Award letter; • 1099; • Bank statement; or • Equivalent documentation.
Newly Established Income	Verification of current receipt is not required. 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 (3) year continuance is required.</p> <p>Surviving Spouse - Evidence of continuance is not required.</p>	

11.14 (aa) 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.

11.14 (bb) 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

Conforming Underwriting Guide

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;
- 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;
- Amount of regular employment income the borrower received prior to leave; and
- All available liquid assets used to supplement the reduced income for the duration of leave must be verifiable.

Borrower Returning 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; and • Assets required to support the payment may not be counted towards available reserves.

Conforming Underwriting Guide

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.

11.14 (cc) 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.

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.

Conforming Underwriting Guide

- 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.

11.14 (dd) Trust Income

	Fannie Mae DU	Freddie Mac LPA
Documentation	<p>All of the following is required:</p> <ul style="list-style-type: none"> • Copy of the fully executed trust agreement or trustee's statement specifying the amount, frequency, and duration of payments; and • Evidence of current receipt with a bank statement or equivalent 	<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 payment amount and frequency (e.g., monthly, quarterly, etc.) and duration of payments. Evidence of current receipt with a bank statement or equivalent; and • Evidence of sufficient assets to support the qualifying income (letter from trustee, bank statements) <p><u>Variable 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 payment terms; • Most recent two (2) years' individual income tax returns; and

Conforming Underwriting Guide

		<ul style="list-style-type: none"> Evidence of sufficient assets to support the qualifying
History of Receipt and Continuance	Trust income must continue for at least three (3) years from the date of the application.	<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 (3) years from 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 (3) years from the date of the application.</p>
Age of Documentation	Unless this income is received monthly, documentation of current receipt of the income is not required to comply with age of documentation requirements.	

11.14 (ee) Union Members

Union members may hold several jobs during a year.

	Fannie Mae DU	Freddie Mac LPA
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 	

Conforming Underwriting Guide

	<p>employment and unemployment income. See Seasonal Income for borrowers who receive unemployment compensation.</p> <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 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. 	
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. <p>All other requirements for Future Income above must be met.</p>	<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.

Conforming Underwriting Guide

11.14 (ff) 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.

11.15 Unacceptable Sources of Income

Income from sources considered ineligible include, but is not limited to:

- Income derived from the subject property with land being leased to another party
- Income derived from business activity that may be permitted by State law but is prohibited by Federal law
- Income determined to be temporary or one-time in nature
- 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 (MCC)
- Mortgage interest differential (MID) income
- 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

Conforming Underwriting Guide

Chapter 1J Appraisal Requirements

Contents

Chapter 1J Conforming Appraisal Requirements.....	1
1J.1 Appraiser Requirements.....	4
1J.1 (a) Appraiser Requirements	4
1J.1 (b) Appraiser Trainees.....	5
1J.2 Unacceptable Appraisal Practices	5
1J.3 Appraisal Report Forms and Exhibits.....	6
1J.3 (a) List of Appraisal Report Forms	7
1J.3 (b) Appraiser Certifications and Limiting Condition.....	11
1J.3 (c) Appraisal Attachments.....	12
1J.3 (d) Appraisal Assignment.....	13
1J.3 (e) Electronically Transmitted Appraisal Reports	13
1J.3 (f) Appraisal Waiver Options	14
1J.4 Definition of Market Value.....	15
1J.5 Appraisal Review.....	16
1J.5 (a) Subject Section	16
1J.5 (b) Contract Section	17
1J.5 (b)(i) Owner of Record.....	18
1J.5 (c) Neighborhood Analysis	18
1J.5 (c)(i) Neighborhood Boundaries	19
1J.5 (c)(ii) Neighborhood Characteristics.....	19
1J.5 (c)(iii) Factors that Affect Value and Marketability of Properties in the Neighborhood	19
1J.6 Site Section	24
1J.6 (a) Site Analysis	24
1J.6 (b) Subject Property Zoning.....	24
1J.6 (c) Highest and Best Use	25

Conforming Underwriting Guide

1J.6 (d) Multiple Parcel Requirements	26
1J.6 (e) Hobby Farm	27
1J.6 (f) Adjoining Properties	28
1J.6 (g) Site Utilities.....	28
1J.6 (h) Off-site Improvements	28
1J.6 (i) Community Owned or Privately Maintained Streets	28
1J.6 (j) Special Flood Hazard Areas.....	30
1J.6 (k) Gas, Oil, and Subsurface Mineral Rights	30
1J.6 (l) Improvements	30
1J.6 (l)(i) Conforming of Improvement to Neighborhood	30
1J.6 (l)(ii) Unique Housing Types	30
1J.6 (l)(iii) Actual and Effective Age	31
1J.6 (l)(iv) Remaining Economic Life	31
1J.6 (l)(v) Energy Efficient Improvements	32
1J.6 (l)(vi) Layout and Flood Plans	33
1J.6 (l)(vii) Gross Living Area.....	33
1J.6 (l)(viii) Gross Building Area.....	34
1J.6 (l)(ix) Accessory Dwelling Units (ADU)	35
1J.6 (l)(x) Addition without Permits	37
1J.6 (l)(xi) Properties with Outbuildings.....	37
1J.6 (m) Selection of Condition, Quality and Other Characteristic Ratings	38
1J.6 (m)(i) Property Condition Requirements	39
1J.6 (m)(ii) Property Condition Ratings	39
1J.6 (m)(iii) Identifying Property Condition	41
1J.6 (m)(iv) Not Updated, Updated, and Remodeled	41
1J.6 (m)(v) Appraisal Completed "As Is"	42
1J.6 (m)(vi) Quality of Construction Rating.....	43
1J.6 (m)(vii) Identifying Quality of Construction	44
1J.6 (m)(viii) Physical Deficiencies that Affect Safety, Soundness, or Structural Integrity of the Subject Property	45

Conforming Underwriting Guide

1J.6 (m)(ix) Infestation, Dampness, Settlement.....	45
1J.6 (n) Environmental Hazards.....	45
1J.6 (n)(i) Appraisal Requirements	46
1J.6 (n)(ii) Disclosure Requirements.....	46
1J.6 (o) Sales Comparison Approach	47
1J.6 (o)(i) Data and Validation Sources of Comparable Sales	47
1J.6 (o)(ii) Prior Sales History of the Subject and Comparable Sales.....	48
1J.6 (p) Comparable Sales	48
1J.6 (p)(i) Selection of Comparable Sales	48
1J.6 (p)(ii) Minimum Number of Comparable Sales.....	49
1J.6 (p)(iii) Age of Comparable Sales	49
1J.6 (p)(iv) Additional Requirements for Detached Condominium Units.....	50
1J.6 (p)(v) Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDs .	50
1J.6 (p)(vi) Rural Properties	52
1J.6 (p)(vii) Use of Foreclosures and Short Sales.....	52
1J.6 (q) Adjustments to Comparable Sales	52
1J.6 (q)(i) Analysis of Adjustments.....	52
1J.6 (q)(ii) Sales or Financing Concessions	53
1J.6 (q)(iii) Date of Sale and Time Adjustments	54
1J.6 (q)(iv) Appraiser's Comments and Indicated Value in the Sales Comparison Approach	54
1J.6 (r) Condo Appraisal Requirements.....	55
1J.6 (s) Cooperative Appraisal Requirements.....	55
1J.6 (s)(i) Comparable Selection Requirements for Co-op Share Loans in Existing Projects.....	56
1J.6 (s)(ii) Comparable Selection Requirements for Co-op Share Loans in New (or Recently Converted) Projects.....	56
1J.6 (t) Leasehold Appraisal Requirements.....	56
1J.6 (t)(i) Appraisal Requirements for Leaseholds	57
1J.6 (t)(ii) Comparable Selection Requirements for Leaseholds	57
1J.6 (u) Mixed-use Property Appraisal Requirements	57
1J.6 (v) Manufactured Housing Appraisal Requirements	58

Conforming Underwriting Guide

1J.6 (v)(i) Manufactured Housing Appraisal Site Requirements	59
1J.6 (v)(ii) Manufactured Housing Appraisal Comparable Selection Requirements	59
1J.6 (v)(iii) Manufactured Housing Appraisal Cost Approach Requirements	59
1J.6 (v)(iv) Sources of Manufactured Housing Data	60
1J.6 (w) Special Assessment or Community Facilities Districts Requirements	61
1J.6 (w)(i) Special Assessment Districts	61
1J.6 (w)(ii) Community Facilities Districts (Mello-Roos)	62
1J.6 (x) Cost Approach	63
1J.6 (y) Income Approach	63
1J.6 (z) Valuation and Final Reconciliation	64
1J.6 (z)(i) Reconciling Multiple Opinions of Market Value	64
1J.6 (z)(ii) Changes to the Appraised Value	64
1J.6 (z)(iii) Guidance on Addressing Appraisal Deficiencies	65

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 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).

Conforming Underwriting Guide

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
- Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation. Comply with the Appraiser Independence Requirements (AIR).

1J.1 (b) Appraiser Trainees

An unlicensed or uncertified appraiser, or trainee is permitted to perform a significant or all of the appraisal (if qualified to do so). If an unlicensed or uncertified individual provides significant professional assistance, they must sign the left side of the appraiser certification as the appraiser if:

- They are working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor;
- The right side of the appraiser certification is signed by that supervisory appraiser; and
- It is acceptable under state law.

1J.2 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

Conforming Underwriting Guide

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 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.

1J.3 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.

Conforming Underwriting Guide

1J.3 (a) List of Appraisal Report Forms

See below for [TEMPORARY COVID REQUIREMENTS](#)

<p><i>Uniform Residential Appraisal Report</i> (Fannie Mae Form 1004/Freddie Mac Form 70)</p>	<p>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.</p> <p>The appraisal report must be UAD compliant.</p>
<p><i>Individual Condominium Unit Appraisal Report</i> (Fannie Mae Form 1073/Freddie Mac Form 465)</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</i> (Fannie Mae Form 1004C/Freddie Mac Form 70B)</p>	<p>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.</p>
<p><i>Small Residential Income Property Appraisal Report</i> (Fannie Mae Form 1025/Freddie Mac Form 72)</p>	<p>Use for appraisals of two- to four-unit properties. An interior and exterior property inspection is required.</p>
<p><i>Appraisal Update/Completion Report</i> (Fannie Mae Form 1004D/Freddie Mac Form 442)</p>	<p><i>The Appraisal Update and/or Completion Report</i> is used for all one- to 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</p>

Conforming Underwriting Guide

	<p>to perform at least an exterior-only 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>
<p><i>Desktop Underwriter Property Inspection Report</i> (Fannie Mae Form 2075)</p>	<p>The <i>Desktop Underwriter Property Inspection Report</i> is not an appraisal 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</p>

Conforming Underwriting Guide

	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.
<i>Field Review Appraisal</i> (Fannie Mae Form 2000/Freddie Mac Form 1032)	<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
Hybrid or Bifurcated Appraisals	Not permitted

TEMPORARY COVID REQUIREMENTS

Loan Purpose	LTV	Occupancy	Ownership of Loan being Refinanced	Permitted Appraisal
Purchase and new construction ¹	Up to 97%	Primary residence	NA	Interior and Exterior appraisal, Desktop appraisal, or Exterior-only appraisal ¹
	≤85%	Second home Investment property	NA	Interior and Exterior appraisal, Desktop appraisal, or Exterior-only appraisal ¹
	>85%	Second home	NA	Interior and Exterior

Conforming Underwriting Guide

				appraisal
Rate & Term Refinance (LCOR and NCO)	Standard guidelines	All	Fannie Mae-owned Freddie Mac-owned	Interior and Exterior appraisal, or Exterior- only appraisal
			Not Fannie Mae-owned Not Freddie Mac-owned	Interior and Exterior appraisal
			NA	
Cash-out Refi				
Completion Reports	<p>Properties appraised completed “subject to” require an Appraisal Update and/or Completion Report (Form 1004D/442).</p> <p>If no completion report is available due to COVID-19 related issues, a signed letter from the borrower confirming that the property was completed with any of the following evidencing completion will be permitted:</p> <ul style="list-style-type: none">• Photographs;• Paid invoices indicating completion;• Occupancy permits; or• Other substantially similar documentation.			
¹ Exterior-only appraisal not permitted on new construction loans.				

TEMPORARY COVID REQUIREMENTS

If construction of the property has not yet begun or is partially complete, and the appraisal report will be completed "subject to completion per plans and specifications," provide the appraiser with, or ensure that the builder has provided the appraiser with the following:

- Plans and specifications;
- Survey and/or plot plan;
- Current photos of the subject property.
 - If construction has not yet begun, a photograph of the site and down the street in both directions
 - If construction is partially complete, a photograph is required of the following:
 - A front view of the subject property;
 - A rear view of the subject property;
 - A street scene (i.e., a photograph down the street in both directions);
 - The following interior photos are required when construction is at a stage in which they are available

Conforming Underwriting Guide

- The kitchen of the subject property;
 - All bathrooms of the subject property;
 - The main living area of the subject property;
 - Basement, including all finished rooms; and
 - A copy of the complete, ratified sales contract, and all addenda.
- A signed Builder Certification attesting that the information provided is true and correct must be included in the loan file.
- Completion Reports for New Construction Properties where the appraisal report was completed "subject to completion per plans and specifications," the Completion of Construction Certification will be acceptable if a completed *Appraisal Update and/or Completion Report* (Form 1004D/442) cannot be obtained as a result of COVID-19 related issues.

1J.3 (b) 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 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-

Conforming Underwriting Guide

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.3 (c) 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	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, examples of any physical deterioration, examples of recent property updates. Interior photographs on proposed or under construction properties may be taken by the appraiser at time of final inspection.	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

Conforming Underwriting Guide

Street map showing the location of the subject property and comparable sales.	X	X
<i>Single Family Comparable Rent Schedule</i> (Form 1007/100) for all one-unit investment properties, if applicable (not required when rental income is not being used to qualify).	X	X

1J.3 (d) Appraisal Assignment

An appraisal assignment is the transfer of the appraisal from one lender to another lender.

The original lender must attest to their appraisal independence policies. NewRez can only consider accepting an appraisal transfer request when it is evident the appraisal report was ordered by a lender unaffiliated with the loan originator and for a qualified borrower.

The original lender must email the following documentation to the Appraisal Support team and identify the need for a transferred appraisal to appraisals@newrez.com:

- Color PDF of the appraisal;
- Appraiser Independence Certification;
- Appraisal XML file;
- Submission Summary Report (SSR);
- 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.3 (e) 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

Conforming Underwriting Guide

- The appraiser electronically transmits the electronic appraisal or inspection report directly to Client.

Electronically transmitted appraisal reports must comply with Electronic Verification requirements and must be in a standard format as outlined in Required Appraisal Forms.

1J.3 (f) Appraisal Waiver Options

Desktop Underwriter and Loan Product Advisor may offer an option to waive the appraisal requirement. Below is the eligibility criteria that must be met in order to exercise the waiver option.

	DU Appraisal Waiver	LPA Automated Collateral Evaluation (ACE)
Eligible	<ul style="list-style-type: none"> • DU Approve/Eligible • 1-unit • Primary residence • Second home • Investment property refinances • Condo units • Purchase, rate & term refinance, and cash-out refinance 	<ul style="list-style-type: none"> • LPA Accept • 1-unit • Primary residence • Second home • Condo units • Purchase, rate & term refinance, and cash-out refinance
Ineligible	<ul style="list-style-type: none"> • DU Approve/Ineligible • Construction to permanent financing • 2- to 4-units • Co-ops • Leasehold properties • Manufactured housing • Investment property purchases • Texas Home Equity transactions • Gifts of equity • Transactions where either the purchase price or estimated value is \$1,000,000 or more • Loans for which the mortgage insurance provider requires an 	<ul style="list-style-type: none"> • LPA Caution • Construction to permanent financing • 2- to 4-units • Co-ops • Leasehold properties • Manufactured housing • Investment properties • Texas Home Equity transactions • Properties with resale restrictions • Non-arm's length transactions • Purchase of REO properties • Transactions where either the purchase price or estimated value is \$1,000,000 or more

Conforming Underwriting Guide

	<p>appraisal</p> <ul style="list-style-type: none"> • An appraisal has been obtained • Disaster-impacted areas 	<ul style="list-style-type: none"> • Loans for which the mortgage insurance provider requires an appraisal • An appraisal has been obtained • Disaster-impacted areas
	<p>An appraisal waiver or ACE may not be offered, and an appraisal must be obtained when:</p> <ul style="list-style-type: none"> • DU or LPA is unable to identify ineligible criteria above; • It is required by law to obtain an appraisal; • Rental income is being used to qualify; and • There is information known about the property that would warrant an appraisal, such as: <ul style="list-style-type: none"> ○ The property is in a known disaster area; ○ A contaminated site or hazardous substance exists affecting property or neighborhood; and ○ Adverse physical property conditions known based on review of documentation in file. 	

1J.4 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

Conforming Underwriting Guide

- 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.

1J.5 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.

1J.5 (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

Conforming Underwriting Guide

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.

1J.5 (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

Conforming Underwriting Guide

- 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.5 (b)(i) Owner of Record

Transaction Type	Requirements
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.5 (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.

Conforming Underwriting Guide

1J.5 (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 neighborhood from another. Appraisers should not reference a map or other addendum as the only example of the neighborhood boundaries.

1J.5 (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.5 (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

Conforming Underwriting Guide

- 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 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. 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.

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.

Degree of Development and Growth Rate	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.
---------------------------------------	--

Conforming Underwriting Guide

	<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 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 Stable Declining	Shortage In-balance Over-supply	Under three months Three- to six-months 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 months., which must be explained by the appraiser.</p> <p>When completing the One-Unit Housing Trends, the trends must be</p>		

Conforming Underwriting Guide

	<p>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 reviewed to ensure that only the contributory value of the over-improvement is reflected in the analysis.</p>

Conforming Underwriting Guide

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> <p>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</p>

Conforming Underwriting Guide

	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 with 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.
--	--

1J.6 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.6 (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 acres of an un-subdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel.

See our Product Profiles for restrictions.

1J.6 (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);
- Illegal use under the zoning regulations; or
- That there is no local zoning.

Conforming Underwriting Guide

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
<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.6 (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 do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report.

Conforming Underwriting Guide

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.6 (d) Multiple Parcel Requirements

Fannie Mae DU	Freddie Mac LPA
<p>The subject property may consist of more than one 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 • Two separate deeds are not permitted. <p>Parcels must be adjoined to each other, with the following exception:</p>	<p>The subject property may consist of more than one 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 (adjoining parcel may not have an additional 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; and • When differences in sites exist between the subject property and the comparable sales, any adjustments or lack of adjustments made to the comparable sales for significant differences must be explained in the

Conforming Underwriting Guide

<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.	comments area or on an attached addendum. The appraisal must explain the effect these differences have on the subject property's value or marketability.
---	--

1J.6 (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;
- 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

Conforming Underwriting Guide

- The commercial/agricultural use must be allowed by zoning and the subject must conform to zoning.

1J.6 (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.6 (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.6 (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 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.6 (i) Community Owned or Privately Maintained Streets

Conforming Underwriting Guide

1J.6 (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 requirements listed above, the property may still be eligible.

1J.6 (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 evaluate and explain the effect these differences have on the subject property's value or marketability.

Mutual easement agreements 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.

Conforming Underwriting Guide

1J.6 (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.6 (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.6 (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.6 (l)(i) Conforming 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 marketing factor.

1J.6 (l)(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

Conforming Underwriting Guide

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 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.6 (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 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.6 (I)(iv) Remaining Economic Life

Conforming Underwriting Guide

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.6 (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.

If the solar panels are...	Then the appraiser....
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

Conforming Underwriting Guide

	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.6 (I)(vi) Layout and Flood 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.6 (I)(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 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 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.

Conforming Underwriting Guide

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.

1J.6 (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.

Conforming Underwriting Guide

1J.6 (I)(ix) Accessory Dwelling Units (ADU)

A one-unit property that includes one accessory dwelling unit may be acceptable. 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, or a small addition to the primary dwelling.

When reporting the living area of an ADU, it should not be included with the gross living area 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.

Whether a property is a one-unit with an ADU, or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal.

The following applies when the ADU complies with local zoning, legal non-conforming zoning, or no zoning.

Fannie Mae DU	Freddie Mac LPA
<ul style="list-style-type: none"> • The property is one-unit; • The ADU must be subordinate in size to the primary dwelling and contribute less to the value of the primary dwelling; • The ADU has the following separate features from the primary dwelling: <ul style="list-style-type: none"> ○ Means of ingress/egress ○ Kitchen ○ Sleeping area ○ Bathing area ○ Bathroom 	<ul style="list-style-type: none"> • The property is one-unit; • The ADU must be subordinate in size to the primary dwelling and contribute less to the value of the primary dwelling; • The ADU has the following separate feature from the primary dwelling: <ul style="list-style-type: none"> ○ Means of ingress/egress ○ Kitchen ○ Bathroom • The ADU has a separate entrance and is independent of the primary dwelling unit;

Conforming Underwriting Guide

<ul style="list-style-type: none"> • 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 primary dwelling with no expectation of privacy; • 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; • At least one 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; and • The borrower qualifies without considering any rental income from the ADU. 	<ul style="list-style-type: none"> • A second kitchen by itself does not constitute an ADU; • The removal of a stove does not change the ADU classification; • At least one comparable sale, when available, 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; • If there are no comparable sales with an ADU available, a comparable sale in the subject neighborhood without an ADU as long as the appraiser can justify and support such use, and • The borrower qualifies without considering any rental income from the ADU.
---	---

If the property contains an ADU that is not allowed under zoning may be eligible under the following conditions.

Fannie Mae DU	Freddie Mac LPA
<ul style="list-style-type: none"> • 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"> • Confirmation that the existence will not jeopardize future hazard insurance claims that might need to be filed for the property.

Conforming Underwriting Guide

<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 comparable sales with the same non-compliant zoning 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 closed sales. 	<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 that the improvements represent a use that does not comply with zoning. • At least two comparable sales with the same non-compliant zoning are provided demonstrating that the improvements are typical for the market area.
--	--

1J.6 (I)(x) 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.

1J.6 (I)(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

Conforming Underwriting Guide

	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.6 (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:

- 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 that specific sales as a comparable sale in future reports. When a comparable sales is used in a subsequent appraisal, the ratings and descriptions of that property should not change from one 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.

Conforming Underwriting Guide

1J.6 (m)(i) Property Condition Requirements

- The appraiser report must express an 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;
- The appraiser must consider and describe the overall condition and quality of the property 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. The appraiser should be specific about needed repairs, additional features, modernization, etc., and should provide a supporting addenda, if necessary.

1J.6 (m)(ii) Property Condition Ratings

For UAD compliant appraisals, the appraiser must assign one 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
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

Conforming Underwriting Guide

	<p>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>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>

Conforming Underwriting Guide

1J.6 (m)(iii) Identifying Property Condition

It would be inappropriate to select either a lower or higher overall rating on the basis of one or two 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 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).

Properties with a C5 or C6 condition at time of inspection should be appraised subject to all repairs and 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.

1J.6 (m)(iv) 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	Little or no updating or modernization. This description includes, but is not limited to, new homes. 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

Conforming Underwriting Guide

	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.
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 existing structure.</p>
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.6 (m)(v) 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 (1) 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).**

Conforming Underwriting Guide

1J.6 (m)(vi) Quality of Construction Rating

For UAD compliant appraisals, the appraiser must assign one 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 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	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

Conforming Underwriting Guide

	dwelling meets minimum building codes and are constructed with inexpensive stock materials with limited refinements and upgrades. *Fenestration-the design and disposition of windows and other exterior openings of a building.
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.

1J.6 (m)(vii) 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 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.

Conforming Underwriting Guide

1J.6 (m)(viii) 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 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.6 (m)(ix) 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.6 (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

Conforming Underwriting Guide

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.

1J.6 (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.6 (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

Conforming Underwriting Guide

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 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.6 (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.6 (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.

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 sale or financing of the subject property; however, the appraiser must verify the data with a

Conforming Underwriting Guide

party that does not have a financial interest in the subject transaction.

1J.6 (o)(ii) Prior Sales History of the Subject and Comparable Sales

The appraiser is required to report the three year subject property and 12-month comparable sales history.

1J.6 (p) Comparable Sales

1J.6 (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. 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, 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

Conforming Underwriting Guide

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.6 (p)(ii) Minimum Number of Comparable Sales

A minimum of three 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 closed comparable sales, these transactions may be included as additional support.

1J.6 (p)(iii) Age of Comparable Sales

Fannie Mae DU	Freddie Mac LPA
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	Comparable sales that have closed within the last six 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

Conforming Underwriting Guide

<p>conditions.</p> <p>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.</p>	<p>when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.</p> <p>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.</p>
--	--

1J.6 (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.

1J.6 (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.

The appraiser must first attempt to use:

- One (1) comparable sale from the subject subdivision or project;
- One (1) comparable sale from outside the subject subdivision or project; or

Conforming Underwriting Guide

- One (1) comparable sale from inside or outside the subject subdivision or project.

If there are no closed sales inside a new subject project or subdivision, the appraiser may use the following.

Fannie Mae DU	Freddie Mac LPA
<p><u>Five or More Units</u></p> <ul style="list-style-type: none"> • Two pending sales in lieu of one closed sale in the subject subdivision or project; and • Three closed comparable sales from outside the subject subdivision or project. <p><u>Two- to Four-Units</u></p> <ul style="list-style-type: none"> • One pending sale in lieu of one closed sale in the subject subdivision or project; and • Three closed comparable sales from outside the subject subdivision or project. <p>The comparable sale from inside the subject project or subdivision can be a sale by the builder or developer of the subject 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.</p> <p>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</p>	<ul style="list-style-type: none"> • One pending sale from inside the subject project or subdivision; and • Three closed comparable sales from outside the subject subdivision or project. <p>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.</p> <p>The comparable sale from inside the subject project or subdivision can be a sale by the builder or developer of the subject property.</p> <p>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.</p>

Conforming Underwriting Guide

to concessions and upgrades for each builder sale.	
--	--

1J.6 (p)(vi) 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.

1J.6 (p)(vii) 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.6 (q) Adjustments to Comparable Sales

1J.6 (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.

Conforming Underwriting Guide

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.6 (q)(ii) Sales or Financing Concessions

Comparable sales that include sales or financing concessions must be adjusted to reflect the impact, if 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

Conforming Underwriting Guide

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 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.6 (q)(iii) 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. 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.6 (q)(iv) Appraiser's Comments and Indicated Value in the Sales Comparison Approach

Conforming Underwriting Guide

The appraiser must provide 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.6 (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.6 (s) Cooperative Appraisal Requirements

Appraisers must consider and report, among other things, the following:

- The number of shares attributable to the unit;
- The number of shares issued and outstanding for the co-op corporation;
- The name of the lienholder, the lien position, and the amount and repayment terms of all project blanket financing;
- The pro rata share of the blanket mortgage payments that are attributable to the unit, as determined by dividing the number of shares attributable to the unit by the total number of project shares;
- The pro rata share of each lien that is attributable to the unit;

Conforming Underwriting Guide

- Any tax abatements or exemptions that are attributable to the unit;
- The remaining term for any tax abatements or exemptions and provisions for escalation of real estate taxes, which is the dollar amount by which the taxes will increase and the year in which the increase will occur; and
- Any monthly maintenance fees, including:
 - utility charges if they are part of these fees;
 - monthly special assessments;
 - ground rent,
 - other fees for the use of the facilities that are attributable to the unit; and
 - the fee type, amount, and term (if applicable) of those other fees.

1J.6 (s)(i) Comparable Selection Requirements for Co-op Share Loans in Existing Projects

The following is required for comparable sale selection in existing co-op projects:

- Two closed or settled sales from within the subject project, if available; and
- One closed or settled sale from a competing project.

Note: Use of comparable sales located outside of the established subject neighborhood must be explained in the appraisal analysis.

1J.6 (s)(ii) Comparable Selection Requirements for Co-op Share Loans in New (or Recently Converted) Projects

The following is required for co-op share loans in new or recently converted projects:

- One closed or settled sale from the subject project, if one is available; and
- Two closed or settled sales from outside of the project.

If closed or settled sales are not available in the subject project, appraisers must use sales from competing projects.

1J.6 (t) Leasehold Appraisal Requirements

A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" give the

Conforming Underwriting Guide

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.

1J.6 (t)(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.6 (t)(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.6 (u) 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

Conforming Underwriting Guide

- property; and
- Report the market value of the property based on the residential characteristics, rather than the business use or any special business-use modifications that were made.

See the Mixed-use Property in Chapter [1D](#) Property Types and our Product Profiles for more information.

1J.6 (v) 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

Conforming Underwriting Guide

- 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.6 (v)(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.

1J.6 (v)(ii) Manufactured Housing Appraisal Comparable Selection Requirements

The appraiser must select comparable sales of similar manufactured homes to address the marketability and comparability of a manufactured home (multi-width to multi-width homes). The appraiser must use a minimum of two (2) comparable sales of similar manufactured homes. 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.

1J.6 (v)(iii) 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 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 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

Conforming Underwriting Guide

- identify sales of manufactured homes that are similar enough to the subject property to use as comparable sales.

1J.6 (v)(iv) 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 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.

Conforming Underwriting Guide

1J.6 (w) 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.6 (w)(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
- 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

Conforming Underwriting Guide

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.6 (w)(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 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.

Conforming Underwriting Guide

1J.6 (x) Cost Approach

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.

1J.6 (y) Income Approach

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 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.

Conforming Underwriting Guide

1J.6 (z) 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.6 (z)(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 appraisals to 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.6 (z)(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

Conforming Underwriting Guide

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.6 (z)(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 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 opinions of market value in order to arrive at a final value conclusion.



FHA Underwriting Guide

Chapter 2A Eligibility

Contents

Chapter 2A Eligibility	1
2A.1 Overview	3
2A.2 Home Ownership Centers	3
2A.3 FHA Connection	3
2A.4 Excluded Parties	4
2A.5 Delinquent Federal Debt	5
2A.5 (a) Delinquent Federal Non-Tax Debt (CAIVRS)	5
2A.5 (b) Delinquent Federal Tax Debt	6
2A.6 Loan Application	7
2A.7 Identity Verification	8
2A.8 Social Security Number Validation	8
2A.9 Documentation Age	9
2A.9 (a) Handling of Documents	10
2A.9 (b) Documents and Disclosures	11
2A.9 (c) Form HUD-92564-CN, For Your Protection: Get a Home Inspection	13
2A.9 (d) Signature Requirements for All Application Forms	14
2A.9 (e) Use of Electronic Signatures	14
2A.10 Occupancy Types	16
2A.10 (a) Primary Residence	16
2A.10 (a)(i) Exceptions to Borrower Having More than One Primary Residence FHA-Insured Mortgage	16
2A.10 (a)(ii) Military Personnel	17
2A.10 (b) Secondary Primary Residence	18
2A.10 (c) Investment Property	18



FHA Underwriting Guide

2A.11 Borrower Eligibility	18
2A.11 (a) U.S. Citizen	19
2A.11 (b) Non-U.S. Citizen	19
2A.11 (b)(i) Permanent Resident Alien	19
2A.11 (b)(ii) Non-Permanent Resident Alien	19
2A.11 (c) Non-Occupant Borrower, Guarantor, and Co-Signer	23
2A.11 (c)(i) Non-Occupant Borrower	23
2A.11 (c)(ii) Guarantor or Co-Signer	24
2A.12 Ownership Interests	24
2A.12 (a) Life Estate	24
2A.12 (b) Leasehold Estate	25
2A.13 Loans to Trusts	27
2A.13 (a) Inter Vivos Revocable Trust	27
2A.13 (b) Trust and Trustee Requirements	28
2A.13 (c) Certification of Trust	29
2A.13 (d) Title and Title Insurance Requirements	29
2A.13 (e) Ineligible Trust	29
2A.14 Ineligible Programs	30



FHA Underwriting Guide

2A.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 FHA 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 TOTAL Mortgage Scorecard. **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.

2A.2 Home Ownership Centers

FHA maintains four 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 NewRez has



FHA Underwriting Guide

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 prohibits loans where any company, lender, vendor, individual, or lender employee (loan originator, loan processor, or loan underwriter) who are material parties to the transaction are listed on NewRez's Exclusionary List, HUD's [Limited Denial of Participation](#) list or the Federal General Services Administration (GSA) [Excluded Party](#) list found in the System for Award Management (SAM).

NewRez's Exclusionary List, HUD's LDP list, and SAM must be checked to confirm eligibility for all participants involved in the transaction and must be evidenced in the loan file.

Borrower	<p>A borrower is not eligible for an FHA-insured mortgage if they are suspended, debarred, or otherwise excluded from participating in HUD programs.</p> <p>A borrower is not eligible if they appear on the NewRez Exclusionary List or either of the following exclusionary lists:</p> <ul style="list-style-type: none">• HUD Limited Denial of Participation (LDP) list; and• System for Award Management (SAM) Advanced Search-Exclusion. <p>Follow the appropriate procedures defined by SAM.</p> <p>The "Yes" box on form HUD-92900-LT must be checked if the borrower appears on either LDP or SAM list.</p>
Other Parties to the Transaction	<p>If anyone participating in the transaction is listed on NewRez's Exclusionary List, HUD's LDP list or in SAM as being excluded from participation in HUD transaction, the loan is not eligible. This may include but is not limited to:</p> <p>This may include but is not limited to:</p> <ul style="list-style-type: none">• Seller (except when selling the primary residence)• Listing and selling real estate agent• Builder

FHA Underwriting Guide

	<ul style="list-style-type: none"> • Developer • Loan originator • Loan processor • Underwriter • Appraiser • Closing agent • Title company • Notary • 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)
--	--

2A.5 Delinquent Federal Debt

2A.5 (a) Delinquent Federal Non-Tax Debt (CAIVRS)

Verification	<p>Borrowers with delinquent federal non-tax debt, including deficiency judgments, and other debt associated with past FHA-insured mortgages are ineligible. Information on delinquent on 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.</p>
Resolution	<p>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.</p> <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)

FHA Underwriting Guide

	months of scheduled payments on time. The borrower may not prepay scheduled payments in order to meet the required minimum of three 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.5 (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 of the following ways:

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 months of scheduled payments on time. The borrower may not prepay scheduled payments in order to meet the required minimum of three months payments. <p>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.</p>
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.

FHA Underwriting Guide

	Verification of sufficient funds to satisfy these obligations must be documented, if applicable.
--	--

2A.6 Loan Application

The initial Uniform Residential Loan Application (URLA) and page two 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.

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 withing 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.

FHA Underwriting Guide

See the Chapter [6A](#) Fraud chapter for red flag indicators.

2A.7 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.8 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 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, W-2s, tax returns obtained directly from the IRS,

FHA Underwriting Guide

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 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.9 Documentation Age

See below for [TEMPORARY COVID REQUIREMENTS](#)

Age of Credit Documents	All documents must not be more than 120 days old on the disbursement. 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	<p>The effective date of the appraisal report must not be more than 120-days on the disbursement date.</p> <p>The 120-day validity period for an appraisal may be extended for 30 days if:</p> <ul style="list-style-type: none"> • The loan was approved prior the expiration of the original appraisal (by HUD or lender); or • The borrower signed a valid sales contract prior to the expiration date of the appraisal. <p>The reuse of an appraisal for a subsequent transaction is not permitted.</p>
Appraisal Update	The original appraisal may be updated if the initial appraisal, with no extension, has not yet expired. The updated appraisal is valid for 240 days after the effective date of the initial appraisal report being updated. Use the

FHA Underwriting Guide

	<p><i>Appraisal Update and/or Completion Report</i> (Form 1004D/70) to update the initial appraisal.</p> <p>A new appraisal is required when one of the following exists:</p> <ul style="list-style-type: none"> • The appraisal date is more than 240 days 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>
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.

TEMPORARY COVID REQUIREMENTS

Income and asset documentation must be 60 days old as of the Note date for all loans (existing and new construction):

2A.9 (a) Handling of Documents

Documents relating to the employment, income, assets, or credit are not acceptable if they have been handled by or transmitted from or through the equipment of unknown parties or interested parties.

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	All documents obtained from an internet website must be validated by examining portions of printout(s) downloaded from the internet including:

FHA Underwriting Guide

	<ul style="list-style-type: none"> • The Uniform Resource Locator (URL) address; and • The date and time the documents were printed. <p>The URL or main website listed in the URL (if page is password protected) must be visited to verify that the website exists. Print out evidence to show that the URL and website was visited.</p> <p>Documentation obtained through the internet must contain the same information as would be found in an original hard copy of the document.</p>
--	--

2A.9 (b) Documents and Disclosures

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>
Amendatory Clause	<p>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.</p>
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.

FHA Underwriting Guide

	<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 a.t 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 <i>Informed Consumer Choice Disclosure</i> if the borrower may qualify for a similar non-FHA insured mortgage product.
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	<p>If the property was built before 1978, the property seller must disclose any information known about lead-based paint and lead-based paint hazards, 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.

FHA Underwriting Guide

	<p>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:</p> <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. <ul style="list-style-type: none"> • 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.
--	--

2A.9 (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

FHA Underwriting Guide

Streamline Refinance without an Appraisal	No
---	----

2A.9 (d) Signature Requirements for All Application Forms

All borrowers must sign and date:

- The initial and final Uniform Residential Loan Application (URLA);
- Page two 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.9 (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.

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 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	Electronic signatures are acceptable on the following types of documents: <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	The process for electronically signing authorized documents must

FHA Underwriting Guide

Signature with the Authorized Document	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>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 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 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>

FHA Underwriting Guide

2A.10 Occupancy Types

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.

2A.10 (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.

A borrower may have only one primary residence at any time and may only have one FHA loan. To prevent circumvention of the restrictions on making FHA-insured mortgages to investors, FHA generally will not insure more than one primary residence loan to any borrower.

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

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

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

2A.10 (a)(i) Exceptions to Borrower Having More than One Primary Residence FHA-Insured Mortgage

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</p>
------------	---

FHA Underwriting Guide

	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 requirements above.
Increase in Family Size	<p>Satisfactory evidence must be provided to evidence that:</p> <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 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.10 (a)(ii) Military Personnel

Military personnel, who cannot physically reside in a property because they are on active duty, are still 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.

FHA Underwriting Guide

2A.10 (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 vacation home.

Secondary primary residences are not permitted.

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.10 (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 Profiles for eligibility.

2A.11 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

FHA Underwriting Guide

permitted.

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. See the Loans to Trusts section in this chapter. In addition, title held in the name of a limited liability company (LLC) or land trust 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.

2A.11 (a) U.S. Citizen

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

2A.11 (b) Non-U.S. Citizen

2A.11 (b)(i) Permanent Resident Alien

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 of the following:

- A copy of a valid and current Permanent Resident card (Green Card-Form I-551) front and back; and
- A passport stamped "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.11 (b)(ii) 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. A non-permanent resident status may or may not permit employment. Asylees and refugees may also be eligible under this classification. Refugee or asylee status granted by the USCIS is automatically eligible to work in the U.S. The EAD is not required but

FHA Underwriting Guide

documentation of refugee or asylee status is required.

The borrower may be eligible for a primary residence with verification one of the following Visa types and an Employment Authorization Document (EAD) issued by USCIS.

Eligible Visa Types		
Visa Type	Visa Description	EAD (I-766) Required?
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	Yes, for spouse
G-2	Representative of a recognized or member foreign government	No
G-3	Representative of non-recognized or non-member government	Yes, for spouse
G-4	Appointment - designated international organization	Yes, for spouse
G-5	Employee of G-1, G-2, G-3, or G-4	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
TN	Professionals Under the North American Free Trade Agreement (NAFTA), also known as a TN (Treaty NAFTA)	No

FHA Underwriting Guide

	visa, for citizens of Canada and Mexico, under the terms of the NAFTA.	
<p>Expiring Visas: If the authorization for temporary residency status will expire within one 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.</p>		

Borrowers who are here under Deferred Action for Childhood Arrivals (DACA; EAD Category C33) are eligible with a valid EAD.

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

- Deferred Enforced Departure;
- Diplomatic Immunity;
- Humanitarian Parole; and
- Temporary Protected Status.

Ineligible Visa Types	
Visa Type	Visa Description
A-1	Official foreign government (ambassador, public minister, career diplomat)
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.
A-3	Employee of A-1 or A-2
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
C-3	Transit to the United States (Foreign Government officials)
C-4	Transit - Department of Homeland Security

FHA Underwriting Guide

C-1/D	Transit - Certified crew member combination
CR1/CR6	Spouse of a U.S. Citizen - married for less than two 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 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"

FHA Underwriting Guide

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
R-1	Temporary Religious Worker Visa
R-2	Spouse or child of R-1
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.11 (c) Non-Occupant Borrower, Guarantor, and Co-Signer

2A.11 (c)(i) Non-Occupant Borrower

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



FHA Underwriting Guide

- Do not occupy the subject property as a primary residence;
- Have 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.

2A.11 (c)(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;
- Have 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.12 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.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.

FHA Underwriting Guide

2A.12 (b) Leasehold Estate

A leasehold estate is an estate or interest in real property held by virtue of a lease or sublease.

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 association at an earlier date; • 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'

FHA Underwriting Guide

	<p>association dues and any taxes on improvements;</p> <ul style="list-style-type: none"> • 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 by the Secretary or so long as the Secretary owns the leasehold; • 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</p>

FHA Underwriting Guide

	<p>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 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.13 Loans to Trusts

2A.13 (a) Inter Vivos Revocable Trust

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

FHA Underwriting Guide

action is not intended to influence the lending process in any way, and (iv) they understand the legal implications of this decision.

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.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 of the requirements below:

- The trust is established by one 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 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;
- The loan may not be Texas Equity Loan subject to Article XVI, Section 50(a) (6) and 50(g) of the

FHA Underwriting Guide

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.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.

2A.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; and
- 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.

2A.13 (e) Ineligible Trust

The following trusts are ineligible:

- Blind Trusts

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

FHA Underwriting Guide

borrower has control over the trust assets.

- Community Land Trusts

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.

- 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.

- 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.

2A.14 Ineligible Programs

The following programs are not eligible:

- 203(K) Rehabilitation Mortgage
- Energy Efficient Mortgages (EEM)
- Good Neighbor Next Door
- Graduated Payment Mortgage (GPM)
- Growing Equity Mortgages (GEM)
- Hope for Homeowners
- HUD REO Program (Wholesale)
- Indian Reservations (Section 184 mortgage)



FHA Underwriting Guide

Chapter 2B Transactions

Contents

Chapter 2B Transactions	1
2B.1 Purchase Mortgage	2
2B.1 (a) Owner of Record and Chain of Title	3
2B.1 (b) Conflict of Interest	4
2B.1 (c) Property Flipping	4
2B.1 (d) Identity of Interest Transactions (non-arm's length transaction)	5
2B.2 Refinance Mortgage	7
2B.3 Other Rate and Term Refinance Transactions	9
2B.3 (a) Short Pay Off	9
2B.3 (b) Buy Out Title Equity Holder	9
2B.3 (c) Owelty Liens-Texas Only	10
2B.3 (d) Refinance Existing FHA Section 203(k) Loan	10
2B.3 (e) Inherited Properties	10
2B.3 (f) Texas Equity Refinance	11
2B.4 Installment Land Contracts	12
2B.5 HUD Employee Loans	12
2B.6 Building on Own Land (DTC, Retail and JV only)	12
2B.7 HUD Real Estate Owned Properties (REO) (DTC, Retail and JV only)	14
2B.7 (a) Sale Contract	14
2B.7 (b) Ordering Case Numbers	15
2B.7 (c) Appraisal Requirements	15
2B.7 (d) Maximum Mortgage Amount	15
2B.7 (e) Work Completion Escrows	15



FHA Underwriting Guide

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.

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.**

The borrower(s) name(s) must match the FHA Connection ([FHAC](#)), the sales contract, and the Note.

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.

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

FHA Underwriting Guide

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 (with the exception of mortgage insurance).

2B.1 (a) Owner of Record and Chain of Title

The seller must be the owner of record. The transaction may not involve any sale or assignment of the sales contract.

The file must contain evidence that the seller is the owner of record. 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

FHA Underwriting Guide

- 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.

2B.1 (b) Conflict of Interest

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; 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.

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 21.6 FHA Appraisal and Property for second appraisal requirements.</p>

FHA Underwriting Guide

	<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; • 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. <p>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.</p>

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:

FHA Underwriting Guide

- 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%.

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) month immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.
Builder's Employee Purchase	The 85% LTV restriction may be exceeded if an employee of a builder, who is not a family member, purchase one of the builder's new houses or models as a primary residence.
Corporate Transfer	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.
Tenant Purchase	The 85% LTV restriction may be exceeded if the current tenant purchased the property where the tenant has rented for at least six (6) month immediately predating the sales contract. A lease or other written evidence to verify tenancy and occupancy is required.
Non-occupying	Non-occupying Borrower transactions are eligible up to 75% LTV. The

FHA Underwriting Guide

Borrower	<p>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.

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 following refinance transaction types are acceptable.

<p>No Cash-out Refinance</p> <p>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.</p> <p>There are three (3) types of No Cash-out Refinance mortgages.</p>	
Rate and Term Refinance	<p>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.</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);

FHA Underwriting Guide

	<ul style="list-style-type: none"> • 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. <ul style="list-style-type: none"> ○ Regardless of the age of a HELOC, if draws in excess of \$1,000 were 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,

FHA Underwriting Guide

	<p>and/or a change from an ARM to a Fixed Rate Mortgage that results in a financial benefit to the borrower.</p> <ul style="list-style-type: none"> • Combined Rate refers to the interest rate on the new mortgage plus the MIP. • See our Product Profiles 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 is not limited to a specific purpose. A property being refinanced that is owned free and clear is considered a cash-out refinance.
See our Product Profiles for complete requirements for all refinance transactions.	

2B.3 Other Rate and Term Refinance Transactions

2B.3 (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 FHA-insured mortgage.

2B.3 (b) Buy Out Title Equity Holder

A refinance transaction that results in a buyout of the other party's interest in his or her 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.

See our Product Profiles for complete guidelines.

FHA Underwriting Guide

2B.3 (c) 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 (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
- 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, 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;



FHA Underwriting Guide

- 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 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)(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 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 Profiles apply to Texas Equity Loans unless limited by the Texas Constitution or the requirements in this Texas Equity Loans section.

Second homes and investment properties that are not classified as homestead are not subject to the restrictions in Article XVI, Section 50(a)(6) and 50(g) of the Texas Constitution or the NewRez Texas Equity Loan requirements specified in this section.

FHA Underwriting Guide

2B.4 Installment Land Contracts

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 the Home Ownership Center (HOC) for final underwriting approval.

2B.6 Building on Own Land (DTC, Retail and JV only)

Building on Own Land refers to a product of the 203(b) program used to finance the construction of a dwelling on land already owned by the borrower for at time of case number assignment. **The date of land acquisition by borrower must be documented.**

The borrower must have contracted with a builder to construct the improvements. The builder must be a licensed general contractor. The borrower may act as the general contractor, only if the borrower is a licensed contractor.

FHA Underwriting Guide

Maximum Mortgage	<p>The maximum mortgage amount is calculated using the appropriate purchase LTV percentage of the Adjusted Value. The Adjusted Value is the lesser of:</p> <ul style="list-style-type: none"> • The appraised value; or • The documented acquisition costs. <p>Acquisition Costs of the property includes:</p> <ul style="list-style-type: none"> • Builder's appraised value; or • Borrower-paid documented acquisition costs; and • Either <ul style="list-style-type: none"> ○ The value of the land as shown in the site value of the appraisals if land is owned greater than six (6) months at the time of case assignment; or ○ The lesser of the cost of the land or appraised value if the land is owned six (6) months or less at the time of case assignment. • Interest and other costs associated with a construction loan obtained by the borrower to fund construction
Minimum Required Investment (MRI)	<p>The mortgage is calculated using the appropriate purchase LTV limits however; the Closing Disclosure or similar legal document may be prepared as a refinance transaction.</p> <p>If the land was given as a gift to the borrower, verify that the donor was not a prohibited source. Standard gift documentation must be provided 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>

FHA Underwriting Guide

	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.
--	---

2B.7 HUD Real Estate Owned Properties (REO) (DTC, Retail and JV only)

A HUD Real Estate Owned (REO) Property, also known as a HUD Home or a HUD-owned home, refers to a one- to four-unit residential property acquired by HUD as a result of a foreclosure or other means of acquisition on an FHA-insured mortgage, whereby the Secretary of HUD becomes the property owner and offers it for sale to recover the mortgage insurance claim that HUD paid to the mortgagee.

2B.7 (a) Sale Contract

The sales contract for HUD owned properties will be completed on HUD-9548, Sales Contract Property Disposition Program, any applicable addenda, which will establish the purchase price, price discount, eligibility for \$100 Down, and meet the requirements for the Sales Contract.

Sales Contract Terms	Line 4 of the sales contract will specify the Insured HUD REO Property Purchase Program under which the borrower is applying, the down payment, and the mortgage amount. Regardless of the Insured HUD REO Property Purchase Program entered on Line 4, eligibility of the borrower and the specific program must be determined.
\$100 Down	Where the borrower has been approved for the \$100 Down sales incentive, the amount of the cash down payment specified on Line 4 will be \$100. This down payment program allows borrower to purchase HUD REO properties using FHA insured financing with a minimum \$100 down payment instead of the standard 3.5% down payment requirement. Line 4 of the HUD Sales Contract form HUD-9548 must reflect \$100 down payment.
Closing Costs and Sales Commission Paid by HUD	The amount on Line 5 specifies the amount of closing costs that HUD will pay on behalf of the borrower. The amounts on Line 6a and 6b represent the sales commission HUD will pay to the selling and listing broker.



FHA Underwriting Guide

2B.7 (b) Ordering Case Numbers

A new case number is always required. Select "Real Estate Owned w/Appraisal" for Processing Type and enter the case number of the HUD REO property in the Prior Case Number field. The HUD REO property case number can be found on the top right-hand corner of form HUD-9548.

2B.7 (c) Appraisal Requirements

A new appraisal is always required in accordance with standard appraisal requirements. See Chapter [21](#) FHA Appraisal and Property requirements.

HUD REO properties must either meet FHA Minimum Property Requirements or the property is designated as insurable with repair escrows (repairs must be complete for all loans underwritten by NewRez).

2B.7 (d) Maximum Mortgage Amount

See our Product Profiles for the maximum mortgage amount and LTV requirements.

2B.7 (e) Work Completion Escrows

Financed repair escrows to a maximum of \$11,000 (\$10,000 plus mandatory 10% contingency cushion) are permitted. NewRez LLC must hold repair escrow and approve disbursement. Refer to the Appraisal chapter for specific requirements for work completion escrows.

FHA Underwriting Guide

Chapter 2C Financing

Contents

Chapter 2C Financing.....	1
2C.1 Determining Adjusted Value.....	3
2C.1 (a) Purchase Mortgage.....	3
2C.1 (b) No-Cash-out Refinance Mortgage	3
2C.1 (c) Cash-out Refinance Mortgage	3
2C.2 Calculating Loan to Value (LTV) Ratios.....	3
2C.2 (a) Calculating Loan to Value Ratios.....	3
2C.2 (b) Calculating Combined Loan to Value Ratios	3
2C.2 (c) Permanently Modified HELOC.....	4
2C.3 Financing Repair Escrow.....	4
2C.3 (a) Purchase Transactions.....	4
2C.4 Secondary Financing	8
2C.4 (a) Secondary Financing Provided by Governmental Entities and HOPE Grantees	8
2C.4 (a)(i) Required Documentation	9
2C.4 (b) Secondary Financing Provided by HUD-Approved Nonprofits.....	10
2C.4 (b)(i) Documentation	11
2C.4 (c) Family Members.....	11
2C.4 (d) Private Individuals and Other Organizations	12
2C.5 Property Assessed Clean Energy (PACE)	13
2C.5 (a) Purchase Transactions.....	13
2C.5 (b) Refinance Transactions.....	14
2C.6 Principal Curtailments	14
2C.7 Mortgage Insurance Premiums (MIP).....	14
2C.7 (a) Upfront Mortgage Insurance Premium	14



FHA Underwriting Guide

2C.7 (b) Annual (or Periodic) Mortgage Insurance Premium 15





FHA Underwriting Guide

2C.1 Determining Adjusted Value

2C.1 (a) Purchase Mortgage

The Adjusted Value is the lesser of:

- Purchase price less any inducements to purchase; or
- Property value.

2C.1 (b) No-Cash-out Refinance Mortgage

The Adjusted Value is:

- Properties acquired less than 12 months from the date of the case number assignment:
 - The lesser of the purchase price plus any documented improvements; or
 - Property value.
- Properties acquired 12 months or more from the date of the case number assignment and properties acquired by the borrower within 12 months by an inheritance or gift from a family member; use the property value.

2C.1 (c) Cash-out Refinance Mortgage

The Adjusted Value is the appraised value.

2C.2 Calculating Loan to Value (LTV) Ratios

2C.2 (a) Calculating Loan to Value Ratios

LTV ratio is calculated by dividing the first mortgage amount, excluding financed UFMIP, by the Adjusted Value.

2C.2 (b) Calculating Combined Loan to Value Ratios

The CLTV ratio is calculated by dividing the sum of the first mortgage amount, excluding financed



FHA Underwriting Guide

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.

2C.2 (c) 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.

The permanently modified HELOC must be documented with the one (1) of the following:

- 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:
 - 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.

2C.3 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.3 (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) or purchasing a HUD REO property that needs less than \$10,000 repairs, plus a 10% contingency, (\$11,000) to meet HUD MPR.

Financing HUD REO repairs is not eligible for Wholesale Clients.

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:

FHA Underwriting Guide

- The repairs are required by the appraiser to meet HUD Minimum Property Requirements (MPR);
- 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 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.

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.

Scenario 1		
Financing Repair Escrow for Purchase (not a HUD REO transaction)		
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	$\$97,947 \times 1.75\% = \$1,714$	Calculate UFMIP



FHA Underwriting Guide

1.75% (rounded down to the nearest dollar)		
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)		

Scenario 2		
Financing Repair Escrow for No Cash-out Refinance (not a HUD REO transaction)		
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	\$96,500 x 1.75% = \$1,688	UFMIP



FHA Underwriting Guide

dollar)		
Add UFMIP to Base Loan Amount	$\$96,500 + \$1,688 = \$98,188$	Total Loan Amount

Scenario 3		
Financing Repair Escrow for HUD REO Purchase with 3.5% Down Payment		
Adjusted Value (Lesser of Sales Price less any inducements to purchase or Appraised Value)	\$100,000	
Repair Estimate	\$4,500	
Multiply by the Adjusted Value	$\$100,000 \times 96.5\% = \$96,500$	Preliminary Base Loan Amount before Escrow Repair
Preliminary Base Loan Amount + Repair Estimate	$\$96,500 + 4,500 = \$101,000$	Base Loan Amount
Multiply Base Loan Amount with 1.75% (rounded down to nearest dollar)	$\$101,000 \times 1.75\% = \$1,767$	UFMIP
Add UFMIP to Base Loan Amount	$\$101,000 + \$1,767 = \$102,767$	Total Loan Amount
A minimum of 110% of the cost of the repairs must be held in escrow. This amount must be listed on Line 4 of the HUD REO Sales Contract.		

Scenario 4		
Financing Repair Escrow for HUD REO Purchase with \$100 Down Payment		
Adjusted Value (Lesser of Sales Price less any inducements to purchase or Appraised Value)	\$100,000	
Subtract \$100 from the Adjusted Value	$\$100,000 - \$100 = \$99,900$	Preliminary Base Loan Amount before Escrow Repair
Repair Estimate	\$4,500	
Base Loan Amount + Repair Estimate	$\$99,900 + \$4,500 = \$104,400$	Total Loan Amount LTV = 104.40%
Multiply Base Loan Amount with	$\$104,400 \times 1.75\% = \$1,827$	UFMIP

FHA Underwriting Guide

1.75% (rounded down to nearest dollar)	$\$104,400 + \$1,827 =$ \$106,227	
A minimum of 110% of the cost of the repairs must be held in escrow. This amount must be listed on Line 4 of the HUD REO Sales Contract.		

2C.4 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.4 (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

FHA Underwriting Guide

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 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 (10) 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:

- The functions performed are limited to the Governmental Entity's secondary financing program; and
- 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.4 (a)(i) Required Documentation

The following information must be furnished by the provider of the secondary financing:

- 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 Underwriting Guide

- 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 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.

Where a nonprofit assisting a Governmental Entity with its secondary financing programs is not a HUD-approved nonprofit, a documented agreement must be provided that:

- The functions performed by the nonprofit are limited to the Governmental Entity's secondary financing program; and
- The secondary financing legal documents (Note and Deed of Trust) name the Governmental Entity as the Mortgagee.

Mortgages subject to secondary financing have guidelines for LTV/CLTV ratios, terms, and disclosures of the second Mortgage. See our Product Profiles for LTV/CLTV guidelines. Any secondary lien must be subordinate to the NewRez first mortgage and be recorded as such.

2C.4 (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

FHA Underwriting Guide

- 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.4 (b)(i) Documentation

All of the following information must be provided by the provider of the secondary financing:

- Documentation showing the amount of funds provided to the borrower for each transaction; and
- Copies of the Mortgage and Note.

The nonprofit information must be entered into FHAC and the governmental entity, as applicable.

2C.4 (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 (10) 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:

FHA Underwriting Guide

- 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.

All of the following information must be furnished by the provider of the secondary financing:

- Documentation showing the amount of funds provided to the borrower for each transaction; and
- Copies of the Mortgage and Note.

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 NewRez.

2C.4 (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;

FHA Underwriting Guide

- 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 be 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 (10) 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 following information must be provided by the provider of the secondary financing:

- Documentation showing the amount of funds provided to the borrower for each transaction; and
- Copies of the Mortgage and Note.

2C.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 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.5 (a) Purchase Transactions

FHA Underwriting Guide

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.5 (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.

See Chapter [2](#) FHA Appraisal and Property Requirements, [2I.15](#) Property Assessed Clean Energy (PACE) for appraisal requirements when a PACE or PACE-like loan exists.

2C.6 Principal Curtailments

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the loan.

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.7 Mortgage Insurance Premiums (MIP)

FHA collects a one-time Upfront Mortgage Insurance Premium (UFMIP) and an annual insurance premium, also referred to as the periodic or monthly MIP, which is collected in monthly installments.

2C.7 (a) Upfront Mortgage Insurance Premium

Most products require the payment of UFMIP, which may be financed into the loan amount. 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.



FHA Underwriting Guide

The UFMIP is not refundable, except in connection with the refinancing to a new FHA-insured mortgage. See our FHA Refinance Product Profiles.

2C.7 (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.

Duration of Annual MIP	
LTV	New
≤90%	11 years
>90%	Loan term

FHA Underwriting Guide

Chapter 2D Property Types

Contents

Chapter 2D Property Types.....	1
2D.1 Eligible Property Types.....	2
2D.1 (a) Single-Family Residence	2
2D.1 (b) Modular Home.....	2
2D.1 (c) Two-Unit Property	2
2D.1 (d) Three- to Four-Unit Property	2
2D.1 (e) Hotel and Transient Use Certifications (HUD-92561)	2
2D.1 (f) Condominium	3
2D.1 (f)(i) Site Condos	3
2D.1 (g) Planned Unit Development (PUD)	4
2D.1 (h) New Construction.....	4
2D.1 (h)(i) Required Documentation for New Construction.....	6
2D.1 (i) Manufactured Home	7
2D.1 (i)(i) Manufactured Home Construction Classification.....	8
2D.1 (i)(ii) Manufactured Homes Eligibility	8
2D.1 (i)(iii) Modifications to the Manufactured Home	10
2D.1 (i)(iv) Perimeter Enclosure.....	10
2D.1 (i)(v) Trade Equity	10
2D.1 (i)(vi) Flood Zones	11
2D.1 (i)(vii) Ineligible Manufactured Home Property Types	11
2D.1 (j) Mixed-Use Property.....	12
2D.1 (k) Properties with Leased Equipment	12
2D.1 (l) Deed/Resale Restriction.....	13
2D.2 Ineligible Property Types	13

FHA Underwriting Guide

2D.1 Eligible Property Types

2D.1 (a) Single-Family Residence

A detached, semi-detached, or attached single-family dwelling, including town homes and row homes, 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 (3)-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

FHA Underwriting Guide

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 (1) of a group of five (5) or more dwellings owned by the borrower within a two (2) block radius.

2D.1 (f) 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 (2) 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.

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 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 FHA-approved.

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.**

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 requirements, see the Insurance Requirements on the Policies and Procedures Intranet page.

FHA Underwriting Guide

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:

- 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 requirements, see the Insurance Requirements on the Policies and Procedures Intranet page.

2D.1 (h) New Construction

New construction refers to Proposed Construction, Under Construction and Properties Existing Less than One Year.

Proposed Construction	<p>A property where no concrete or permanent material has been placed. Digging of footing is not considered permanent.</p> <p>Obtain one (1) of the following:</p> <ul style="list-style-type: none">• Copies of the building permit (or equivalent) and Certificate of Occupancy (CO) (or equivalent); or• Three (3) inspections (footing, framing and final) performed by the
-----------------------	--

FHA Underwriting Guide

	<p>local authority with jurisdiction over the Property or an ICC certified RCI or CI (for Modular Housing, footing and final only); or</p> <ul style="list-style-type: none"> In the absence of such ICC certified RCI or CI, obtain three (3) inspections (footing, framing and final) performed by a disinterested third party, who is a registered architect or a structural engineer and has met the licensing and bonding requirements of the state in which the property is located.
Under Construction	<p>The period from the first placement of permanent material to 100% completion with no Certificate of Occupancy (CO) or equivalent.</p> <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 jurisdiction 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 and has met the licensing and bonding requirements of the state in which the property is located.
Existing Less than One Year	<p>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.</p> <p>The sale of an occupied property that has been completed less than one (1) year from issuance of the CO or equivalent is considered an Existing property.</p> <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 jurisdiction 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 and has met the

FHA Underwriting Guide

	licensing and bonding requirements of the state in which the property is located.
--	---

2D.1 (h)(i) Required Documentation for 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 structural engineer must be reported on form HUD-92051, *Compliance Inspection Report*, or on an appropriate state-sanctioned inspection form;
- 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; and
- When a third party, who is a registered architect or structural engineer 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.

FHA Underwriting Guide

The appraiser must be provided with the following:

- A fully executed form HUD-92541, 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.

All new construction must meet HUD's Minimum Property Requirements (MPR) and Minimum Property Standards (MPS).

2D.1 (i) Manufactured Home

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 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	Moving the manufactured home unit previously installed or occupied to

FHA Underwriting Guide

Manufactured Home	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).

2D.1 (i)(i) Manufactured Home Construction Classification

Different construction categories may require specific types of documentation.

1. Existing Construction

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.

2. Pre-Approval

Pre-approval of property refers to situation where property has been appraised and DE Lender has issued form HUD -92800.5B *Conditional Commitment Direct Endorsement Statement of Appraised Value* before construction started.

Ten-year warranty refers to an agreement between the borrower and a plan issuer, which contains warranties regarding the construction and structural integrity of the subject property. The plan must be a HUD-accepted insured ten-year protection plan.

3. New Construction

New construction refers to Proposed Construction, Under Construction and Properties Existing Less than One Year.

New construction manufactured homes are ineligible.

2D.1 (i)(ii) Manufactured Homes Eligibility

Manufactured homes must meet all of the following eligibility requirements:

FHA Underwriting Guide

- 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 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.

FHA Underwriting Guide

- If the data plate is missing or the appraiser is unable to locate it, the appraiser must report this in the appraisal report and is not required to obtain the data plate information from another source.

See Chapter [2](#) FHA Appraisal and Property Requirements, [2.1.3](#) Manufactured Home Measurement Protocols and Sales Comparison Approach requirements.

2D.1 (i)(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.

If the appraiser observes additions or structural changes to the original manufactured home, one (1) of the following must be obtained:

- An inspection by the state or local jurisdiction administrative agency that manufactured homes for compliance; and
- 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 adequately 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

FHA Underwriting Guide

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 of the following:

- A FEMA-issued Letter of Map Amendment (LOMA) that removes the property from the SFHA 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.

For additional requirements, see the Insurance Requirements on the Policies and Procedures Intranet page.

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 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;

FHA Underwriting Guide

- A manufactured home on a leasehold estate;
- A manufactured home with deed restrictions;
- A manufactured home with a manufactured home ADU or storage unit;
- A manufactured home with a mixed-use;
- A manufactured home with subordinate financing,
- A manufactured housing attached units located in a condo or PUD project ;
- Construction-to-permanent; and
- New construction

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.

See Chapter [2J](#) FHA Appraisal and Property Requirements, [2J.9\(e\)](#) Non-Residential Use of a Property for additional guidance.

2D.1 (k) 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

FHA Underwriting Guide

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 (I) 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;
- 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:



FHA Underwriting Guide

- 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
- 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
- Other transient housing
- Private clubs
- Properties located in Airport Runway Clear Zones
- Properties located within designated Coastal Barrier Resource System (CBRS) areas
- Properties not suitable for year-round occupancy
- Properties with individual water purification systems
- 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., geodesic home, berm homes, shouses, barndominiums)
- Working farm, ranch, or orchard

Not all property types listed above are ineligible under all Loan Programs. See our Product Profiles.



FHA Underwriting Guide

Chapter 2E Underwriting

Contents

2E.1 FHA TOTAL Mortgage Scorecard	2
2E.1 (a) TOTAL Access.....	2
2E.1 (b) Data Entry	3
2E.1 (c) New Versions of TOTAL	3
2E.1 (d) Feedback Certificates: Risk Classifications	3
2E. (d)(i) TOTAL Risk Classifications	4
2E.1 (e) TOTAL Resubmission Tolerance Levels for Rescoring	6
2E. (e)(i) Inaccuracy of Debt	7
2E.1 (f) Final Underwriting Decisions.....	7
2E.1 (g) Documentation of Final Underwriting Review Decision	7
2E.1 (h) HUD Employee Mortgages	8
2E.1 (i) Notification of Borrower of Approval and Term of the Approval	8
2E.2 Manual Underwriting	8



FHA Underwriting Guide

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.

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;

FHA Underwriting Guide

- Freddie Mac LPA;
- Loan-Score Decisioning Systems; and
- Meriden Link, Inc.

TOTAL Feedback Findings created from these engines are acceptable.

2E.1 (b) 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. See applicable Underwriting Guide chapter, our Product Profiles, and Overlay Matrix for underwriting overlays.

2E.1 (c) 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.

2E.1 (d) Feedback Certificates: Risk Classifications

FHA Underwriting Guide

2E.1 (e) 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> <p>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.</p>
Refer	Any loan receiving a Refer recommendation must be manually underwritten and are not eligible.
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 and is not eligible.</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;

NewRez does not purchase Manual Downgrade or

FHA Underwriting Guide

<p>Manual</p> <p>Underwriting</p>	<ul style="list-style-type: none"> • The borrower has \$1000 or more collectively in disputed derogatory credit accounts. The following may be excluded: <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 <ul style="list-style-type: none"> ▪ 3x30; or ▪ 1x60 and 1x30; or ▪ 1x90; or ▪ that the borrower has made less than three (3) consecutive payments 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:
---	--

FHA Underwriting Guide

	<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. <ul style="list-style-type: none"> • 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.

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)

FHA Underwriting Guide

2E. (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.

Form HUD-92900-LT, <i>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</p>
---	---

FHA Underwriting Guide

	must be documented with the circumstances or other reasons that were evaluated in making the decision to approve the mortgage in the Remarks section.
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.1 (i) HUD Employee Mortgages

If the borrower is a HUD employee, the underwriter must condition the loan on 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.1 (j) 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.

2E.2 Manual Underwriting

Manual underwriting is not permitted, including a TOTAL Approve/Accept or Refer that is manually downgraded.

FHA Underwriting Guide

Chapter 2F Credit

Contents

Chapter 2F Credit	1
2F.1 Documentation Standards	2
2F.2 Credit Report Standards	2
2F.2 (a) Credit Report Red Flags	3
2F.2 (b) Frozen Credit	3
2F.2 (c) Updated Credit Report or Supplement to the Credit Report	3
2F.3 Credit Scores	3
2F.3 (a) Credit Scores	3
2F.4 Selection and Validation of Credit Scores.....	4
2F.4 (a) Selection	4
2F.4 (b) Authorized User Account	4
2F.5 Inquiries and Undisclosed Liabilities.....	4
2F.5 (a) Undisclosed Debt Other than a Mortgage.....	5
2F.5 (b) Undisclosed Mortgage Debt.....	5
2F.6 Housing Payment History	6
2F.6 (a) Mortgage Forbearance	6
2F.7 Significant Derogatory Credit.....	7
2F.7 (a) Waiting Period Requirements.....	7
2F.7 (b) Delinquent Credit.....	8



FHA Underwriting Guide

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 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.

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 (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 years.

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 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 (3) 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.

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.



FHA Underwriting Guide

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) 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 (b) Frozen Credit

Any borrower with **one (1) or** more repositories with frozen credit on their credit report must have their credit unfrozen **and be rescored through TOTAL**.

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 (c) Updated Credit Report or Supplement to the Credit Report

A new credit report must be obtained and rescored through TOTAL if the underwriter identifies inconsistencies between any information in the loan file and the original credit report **and be rescored through TOTAL**.

2F.3 Credit Scores

2F.3 (a) Credit Scores

A credit score represents a comprehensive view of a borrower's credit history risk factors, and are required for all loans, per our Product Profiles. 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.

FHA Underwriting Guide

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. All borrowers must have a credit score.

Number of Scores	Score
3	Middle Score
2	Lower of the two
1	Use score

2F.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.

Authorized user accounts are not valid trade lines **for establishing the borrower's credit history**.

2F.5 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 for and approved or obtained, a verification of that debt must be provided and included in the borrower's monthly obligations.

FHA Underwriting Guide

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.5 (a) 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; and
- Determine that the additional debt will not be used to meet the borrower's minimum required investment.

2F.5 (b) Undisclosed Mortgage Debt

When an existing mortgage debt is not listed on the credit report and not considered by TOTAL, 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;
- 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.



FHA Underwriting Guide

Manually underwritten loans are not permitted.

2F.6 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 along with any late charges assessed for payments made beyond the 15-day grace period. A letter of explanation and supporting documentation is required when payments are made beyond the month due.

2F.6 (a) 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

FHA Underwriting Guide

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.

See our Product Profiles for housing payment history requirements and mortgage payment forbearance requirements.

2F.7 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.7 (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.

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.**

FHA Underwriting Guide

Derogatory 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 deed or other legal documents evidencing the date of the 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>Chapter 13 bankruptcy must have been discharged two (2) or more years from 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> <p>The borrower must document that their current situation indicates that the events which led to the bankruptcy are not likely to recur.</p>

2F.7 (b) Delinquent Credit

Delinquent Federal Tax Debt and Non-Tax Debt	See Chapter 2A Loan Eligibility.
Judgments	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,

FHA Underwriting Guide

	<p>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 (3) months scheduled payments in a timely manner. 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 (3) months is required. Payments must be included in the DTI ratio; • The judgment will not supersede the new loan; • 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>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 (1) 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

FHA Underwriting Guide

	<p>monthly payment must be included in the borrower's DTI ratio; or</p> <ul style="list-style-type: none"> 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> <p>Unless excluded under state law, collection accounts of a non-borrowing spouse in a community property state are included in the cumulative balance.</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>An explanation of charge off is not required.</p> <p>Charge-off accounts do not need to be included in liabilities or debts.</p>
Consumer Credit Counseling	<p>A borrower who has participated in consumer credit counseling may be eligible. Follow the AUS decision. No explanation or other documentation is needed.</p>
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. <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 and are not eligible.</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.

FHA Underwriting Guide

	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 are not eligible.
Non-Derogatory Disputed Accounts	<p>Non-derogatory disputed accounts are disputed accounts:</p> <ul style="list-style-type: none">• Have a zero balance; and• Have no late payments within the past 24 months; and• 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> <p>Non-derogatory disputed accounts are excluded from the \$1,000 cumulative balance limit.</p>



FHA Underwriting Guide

Chapter 2G Assets

Contents

Chapter 2G Assets.....	1
2G.1 Minimum Down Payment and Cash to Close	3
2G.1 (a) Estimating Settlement Requirements.....	3
2G.1 (b) Foreign Assets.....	5
2G.2 Reserve Requirements	6
2G.3 Interested Party Contributions (IPC).....	6
2G.3 (a)(i) Interested Party Contributions.....	7
2G.3 (a)(ii) Inducements to Purchase	8
2G.4 Asset Sources	9
2G.4 (a) Financial Institution Accounts	10
2G.4 (b) Business Funds.....	12
2G.4 (c) Cash on Hand	13
2G.4 (d) Down Payment Assistance	13
2G.4 (e) Earnest Money Deposit	16
2G.4 (f) Employer Assistance Benefits.....	16
2G.4 (f)(i) Relocation Guaranteed Purchase	16
2G.4 (f)(ii) Employer Assistance Plans	17
2G.4 (g) Equity from Other Assets	17
2G.4 (g)(i) Sale of Personal Property.....	17
2G.4 (g)(ii) Sale of Real Estate	17
2G.4 (h) Gift Funds	18
2G.4 (i) Income Tax Refund.....	20
2G.4 (j) Life Insurance-Cash Value	21
2G.4 (k) Loans Secured by Financial Assets.....	21

FHA Underwriting Guide

2G.4 (l) Notes Receivable/Repayment of Loans.....	22
2G.4 (m) Private Savings Clubs.....	23
2G.4 (n) Real Estate Commission	23
2G.4 (o) Rent Credit for Option to Purchase	23
2G.4 (p) Retirement Accounts	24
2G.4 (p)(i) Down Payment and Closing Costs.....	24
2G.4 (p)(ii) Cash Reserves	24
2G.4 (q) Secondary Financing.....	25
2G.4 (r) Stocks, Bonds, Mutual Funds	25
2G.4 (s) Trade Equity.....	26
2G.4 (t) Trust Funds	26
2G.5 Unacceptable Asset Sources	26



FHA Underwriting Guide

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.

All down payment funds and cash to close (including funds used to satisfy any debt being paid off) must be documented and verified. A detailed review of the Closing Disclosure is required to ensure that excessive seller and lender credits do not compromise the borrower's Minimum Required Investment (MRI) of 3.5%.

Closing costs, prepaids and other fees may not be applied towards the borrower's MRI.

The borrower's MRI must be provided by an eligible source. Funds for the borrower's MRI must not come from:

- The seller of the property (seller may be family giving gift of equity; see Gift of Equity section);
- Any other person or entity who financial 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 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

FHA Underwriting Guide

In addition to the minimum required investment, additional expenses must be included in the total amount of cash needed to close.

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 insurance premiums, MIP, real estate taxes, and per diem interest.
Non-realty or personal items (paid for separately, outside of the sale 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 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	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>

FHA Underwriting Guide

	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.
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> <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	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.

2G.1 (b) Foreign Assets

The borrower's source of funds for the down payment and/or closing costs must comply with the

FHA Underwriting Guide

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.

See the OFAC Policy and Procedures on the Policies and Procedures Intranet Site.

2G.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. 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); 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.**

2G.3 Interested Party Contributions (IPC)

Third party contribution 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 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.

FHA Underwriting Guide

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 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)(i) 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.

Interest 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

FHA Underwriting Guide

2G.3 (a)(ii) 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 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; and
- Sales commission on the borrower's present residence; 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

FHA Underwriting Guide

	<p>sales commission on the sale of the borrower's present home, and</p> <ul style="list-style-type: none"> 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 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 Assets](#)
- [Cash on Hand](#)
- [Down Payment Assistance](#)
- [Earnest Money Deposit](#)
- [Employer Assistance Benefits](#)
- [Equity from Other Assets](#)
- [Gifts](#)
- [Income Tax Refund](#)
- [Life Insurance – Cash Value](#)
- [Loans Secured by Financial Assets](#)
- [Notes Receivable/Repayment of Loans](#)

FHA Underwriting Guide

- [Private Savings Clubs](#)
- [Rent Credit/Lease with Option to Purchase](#)
- [Retirement Accounts](#)
- [Secondary Financing](#)
- [Stocks, Bonds, and Mutual Funds](#)
- [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.

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.

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 two (2) months account statements or the most recent quarterly account statement. 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> <ul style="list-style-type: none"> • Account statements must clearly identify:
--------------------	--

FHA Underwriting Guide

	<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 ○ 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 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>Written VODs are not acceptable as standalone documentation. A VOD must be system-generated from the financial institution.</p> <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</p>

FHA Underwriting Guide

	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.
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 excess of 1% of the Adjusted Value. 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 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. Business tax returns must be in the loan file. The following must be in the loan file:

- The borrower must be the majority owner of the business;

FHA Underwriting Guide

- The use of these funds must be documented as having no negative impact on the business's livelihood; and
- Business assets may not be used for reserves.

2G.4 (c) Cash on Hand

Cash on hand refers to cash held by the borrower outside of a financial institution. Cash in 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) 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. To view our interactive DPA site to determine if a DPA is approved, [click here](#).

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.4](#) 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.

FHA Underwriting Guide

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.

<p>Gifts from Charitable Organizations that Lose or Give Up Their Federal Tax Exempt Status</p>	<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 • 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.
<p>Gift from Governmental Entity</p>	<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 (1) 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.

FHA Underwriting Guide

	<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 legal 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 entity to satisfy the obligation or liability may result in a determination that the funds were provided by a prohibited source</p>
Disaster Relief Grants	<p>Disaster relief grants refer to grants from a governmental entity that provide immediate housing assistance to individuals displaced due to a natural disaster. Disaster relief grants may be used for the borrower's MRI.</p>
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 of DIL or assigned to the Secretary of HUD; and

FHA Underwriting Guide

	○ Comply with all other FHA requirements.
--	---

2G.4 (e) 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.

One (1) of the following must be documented:

- A copy of the cancelled check;
- A copy of the deposit check and proof the check was cashed; or
- 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 (f) 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, [26.4](#) Secondary Financing.

A salary advance cannot be considered as assets to close.

2G.4 (f)(i) Relocation Guaranteed Purchase

The net proceeds from the relocation guaranteed purchase may be used as cash to close. The net proceeds is 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 indicating 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

FHA Underwriting Guide

and net proceeds from the sale.

2G.4 (f)(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 provide evidence of sufficient funds for closing.

2G.4 (g) Equity from Other Assets

2G.4 (g)(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:

- 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 (g)(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 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.

FHA Underwriting Guide

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 plus all outstanding liens) = Estimated sales proceeds

Net proceeds based on listing price

Use 90% of listing price minus all outstanding liens = Estimated sales proceeds

The 10% adjustment factor must be adjusted depending on market conditions in the area.

2G.4 (h) 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.

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; • Specify the date the funds were transferred; • 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; • 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;

FHA Underwriting Guide

	<ul style="list-style-type: none"> • 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; • 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. If the gift funds are verified in the borrower's account; obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the borrower's account. 2. If the gift funds are not verified in the borrower's account; obtain the certified check or money order or cashier's check or wire transfer or other official check evidencing payment to the borrower or settlement agent, and the donor's bank statement evidencing sufficient funds for the amount of the gift. <p>When the gift funds are paid directly to the settlement agent, verify that the settlement agent received the funds from the donor for the amount of the gift and that the funds were from an acceptable source. A bank statement evidencing sufficient funds for the amount of the gift must also be provided because the funds are not already verified in the borrower's account. See #2 above.</p> <p>If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the donor must provide written</p>

FHA Underwriting Guide

	<p>evidence that the funds were borrowed from an acceptable source, and not from a party to the transaction, including the lender.</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 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>
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.

2G.4 (i) 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.

FHA Underwriting Guide

2G.4 (j) 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 (k) Loans Secured by Financial Assets

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 assets;• Promissory Note; and• Loan proceeds. <p>The monthly payment must be included in the DTI ratio unless excluded as outlined in the Chapter 2H Liabilities and Debt Ratios.</p> <p>Only an independent third party may provide the borrowed funds. The seller, real estate agent or broker, lender or other interested party may</p>
-----------------------------------	---

FHA Underwriting Guide

	<p>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 assets; • Promissory Note; and • Loan proceeds.
Disaster Relief Loans	<p>Disaster Relief Loans refer to loans from a governmental entity that provide immediate housing assistance to individuals displaced due to a natural disaster.</p> <p>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.</p> <p>A copy of the promissory note must be provided.</p> <p>Any monthly payment must be included in the DTI ratio.</p>

2G.4 (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:

FHA Underwriting Guide

- 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 (m) 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 (n) 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 (o) Rent Credit for Option to Purchase

FHA Underwriting Guide

Rent credits refer to the amount of the rental payment that exceeds the appraiser's estimate of fair 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 (p) 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 (p)(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 (p)(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

FHA Underwriting Guide

considered as reserves (e.g., PERS or like accounts).

To account for any applicable withdrawal penalties or income tax, a "net" withdrawal must be 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 (q) 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.

Eligible Uses		
	Down Payment	Borrower-Paid Closing Costs/Prepays
Government or Instrumentality of Government Entity	Yes	Yes
Charitable Organization (Approved IRS tax exempt charity or organization)	No	Yes
Relative	Yes	Yes

See Secondary Financing or Subordinate Financing section in Chapter [2C](#) Financing for more information.

2G.4 (r) Stocks, 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.

FHA Underwriting Guide

Stock options and non-vested restricted stocks are not an eligible asset source for reserves.

Evidence of liquidation is not required.

2G.4 (s) 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 (t) 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
- If the assets are required for closing, proof of receipt is required.

2G.5 Unacceptable Asset Sources

Sources of funds considered ineligible include, but is not limited to:

FHA Underwriting Guide

- Cash advance on a revolving charge account
- Cash for which the source cannot be verified (e.g., garage sales)
- Cryptocurrency (e.g., Bitcoin)
- 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



FHA Underwriting Guide

Chapter 2H Liabilities and Debt Ratios

Contents

Chapter 2H Liabilities and Debt Ratios.....	1
2H.1 Monthly Housing Expense	2
2H.1 (a) Real Estate Taxes.....	2
2H.1 (b) Tax Abatements	2
2H.1 (c) Condominium Utility Expense	2
2H.2 Monthly Obligations.....	3
2H.1 (a) Alimony and Child Support Payments	3
2H.1 (b) Authorized User Accounts	4
2H.1 (c) Business Debt	4
2H.1 (d) Co-signed Loans.....	5
2H.1 (e) Court-ordered Assignment of Debt.....	5
2H.1 (f) Federal Debt	5
2H.1 (g) Home Equity Lines of Credit	6
2H.1 (h) Installment Debt.....	6
2H.1 (i) Lease Payments.....	7
2H.1 (j) Loans Secured by Financial Assets	7
2H.1 (k) Mortgage Assumptions	8
2H.1 (l) Negative Income.....	8
2H.1 (m) Non-borrowing Spouse Debt in Community Property States	8
2H.1 (n) Other Real Estate Owned.....	10
2H.1 (o) Private Savings Clubs.....	10
2H.1 (p) Revolving Charges/Lines of Credit.....	11
2H.1 (q) Student Loans.....	12
2H.1 (r) Undisclosed Debt.....	12



FHA Underwriting Guide

2H.3 Obligations Not Considered Debt.....	12
---	----

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
- 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

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. Use 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

FHA Underwriting Guide

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

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](#)
- [Co-Signed Loans](#)
- [Court-Ordered Assignment of Debt](#)
- [Federal Debt](#)
- [Home Equity Lines of Credit](#)
- [Installment Debt](#)
- [Lease Payments](#)
- [Loans Secured by Financial Assets](#)
- [Mortgage Assumptions](#)
- [Non-borrowing Spouse Debt in Community Property States](#)
- [Other Real Estate Owned](#)
- [Private Savings Clubs](#)
- [Revolving Charges/Lines of Credit](#)
- [Student Loans](#)
- [Undisclosed Debt](#)

2H.1 (a) Alimony and Child Support Payments

2H.2 (a)(i) Alimony

FHA Underwriting Guide

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.

2H.2 (a)(ii) Child Support

Child support and other maintenance payments must be included in the DTI ratio.

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.

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.1 (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 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.1 (c) Business Debt

FHA Underwriting Guide

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.

2H.1 (d) 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.1 (e) 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 shows the ordering of the ex-spouse to make the payments.

The payments history of the debt need not be taken into consideration after the transfer date occurred or assignment to another party.

2H.1 (f) Federal Debt

FHA Underwriting Guide

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 is must be provided.

See Chapter [2A](#) Loan Eligibility for complete eligibility when the borrower has federal debt.

2H.1 (g) 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 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.1 (h) 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 (10) 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.

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.

A timeshare is considered an installment loan and not a mortgage debt.

2H.2 (h)(i) Deferred Installment Debt



FHA Underwriting Guide

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.

Refer to section [2H.1 \(q\)](#) for Student Loan requirements.

2H.2 (h)(ii) Pay Off or Pay Down of Debt

Paying off an installment debt is permitted with the following:

- 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.
- Document funds came from an acceptable source and no new debt was incurred.

Paying down installment debt to fewer than ten months to qualify for the mortgage is not permitted.

For information about deferred student loans, see [2H.1 \(p\)](#) Student Loans below.

2H.1 (i) 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.

2H.1 (j) 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

FHA Underwriting Guide

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\(k\)](#) Loans Secured by Financial Assets for documentation requirements.

2H.1 (k) 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.1 (l) 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.1 (m) 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-



FHA Underwriting Guide

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;
- 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. 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
- 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
---------------------------------	--	----------------------	--

FHA Underwriting Guide

Arizona	Married and domicile in same state	Yes	No
California	Married and domicile in same state	Yes	No
Idaho	Married and domicile in same state	Yes	No
Louisiana	Married and domicile in same state	Yes	No
Nevada	Married and domicile in same state	Yes	Yes
New Mexico	Married and domicile in same state	Yes	No
Texas	Married and domicile in same state	Yes	Yes
Washington	Married and domicile in same state	Yes	Yes
Wisconsin	Married and domicile in same state	Yes	Yes

2H.1 (n) 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.1 (o) 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.

FHA Underwriting Guide

2H.1 (p) 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.

Payoff Revolving Debt for Qualification	<ul style="list-style-type: none"> 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 when the account is paid in full (paying down to zero balance) at closing, documentation from the creditor and/or updated credit supplement must be provided within 30 days prior to closing confirming the current account balance. The Closing Disclosure must reflect pay off of the outstanding balance as indicted on the creditor's statement and/or updated credit supplement statement. Document funds came from an acceptable source and no new debt was incurred. The account does not have to be closed.
Open 30-Day Charge Accounts	<p>A 30-day charge account refers to a credit arrangement that requires payment in full on the account every month.</p> <p>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.</p> <p>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.</p>

FHA Underwriting Guide

	There must be sufficient funds to pay off the balance in excess of the funds and reserves required to close the loan.
--	---

2H.1 (q) Student Loans

All student loans must be included in the DTI, regardless of the payment type or status of payments.

If the payment used for the monthly obligation is less than 1% of the outstanding balance reported on the credit report and less than the monthly payment reported on the credit report, the following is required:

- 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.

Regardless of the payment status, use either the **greater of:**

- 1% of the outstanding balance on the loan; or
- The **actual documented payment**

OR

- The actual documented payment provided the payment will fully amortize the loan over its term.

2H.1 (r) **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

FHA Underwriting Guide

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
- Collection 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
- Medical collections
- Open accounts with zero balances
- Utilities
- Union dues
- Voluntary recurring debt or deductions, when not associated with another type of obligation

FHA Underwriting Guide

Chapter 2I Employment and Income

Contents

Chapter 2I FHA Employment and Income	1
2I.1 Income Documentation	4
2I.1 (a) IRS Form 4506-C	4
2I.1 (a)(i) General Requirements	4
2I.1 (a)(ii) Prior to Closing Requirements	4
2I.1 (a)(iii) At Closing Requirements	4
2I.1 (a)(iv) Completing IRS Form 4506-C.....	5
2I.1 (b) Tax Transcripts	5
2I.1 (c) Paystubs.....	6
2I.1 (d) W-2 Form.....	7
2I.1 (e) Written Verification of Employment (WVOE)	8
2I.1 (f) Verbal Confirmation of Employment	8
2I.1 (g) Tax Returns	11
2I.1 (h) Allowable Age of Individual Income Tax Returns	12
2I.2 Stable Monthly Income	13
2I.2 (a) Continuity of Income	14
2I.2 (b) Variable Income	14
2I.2 (c) History of Receipt	14
2I.3 Base Pay, Bonus, Overtime, and Commission	16
2I.3 (a) Base Pay (Salary or Hourly).....	16
2I.3 (b) Second-Job Employment.....	16
2I.3 (c) Part-time to Full-time Employment.....	17
2I.3 (d) Past Employment	17
2I.3 (e) Bonus or Overtime.....	17

FHA Underwriting Guide

21.3 (f) Commission Income	18
21.3 (g) Military Income	18
21.4 Self-Employed Income	18
21.4 (a) Income Documentation.....	19
21.4 (b) Analysis and Calculation of Self-Employed Income	20
21.4 (c) Analyzing the IRS 1040 Individual Income Tax Return	20
21.4 (d) Analyzing IRS Form 1120 , U.S. Corporation Income Tax Return	21
21.4 (e) Analyzing IRS Form 1120S, U.S. Income Tax Return for an S Corporation.....	22
21.4 (f) Analyzing IRS Form 1065, U.S. Return of Partnership Income.....	22
21.5 Rental Income	23
21.5 (a) Rental Income from Subject Property	23
21.5 (b) Rental Income from Other Real Estate Owned.....	24
21.5 (c) Treatment of Income or Loss.....	26
21.6 Other Income Sources	27
21.6 (a) Alimony and Child Support Payments	28
21.6 (b) Annuity Income	29
21.6 (c) Automobile Allowance/Expense Account Payments	29
21.6 (d) Boarder Income	29
21.6 (e) Capital Gains and Losses	30
21.6 (f) Disability – Long Term	30
21.6 (g) Employment by a Family Owned Business.....	31
21.6 (h) Expected Income.....	31
21.6 (i) Foster Care Income	32
21.6 (j) Interest and Dividend Income	32
21.6 (k) Nontaxable Income.....	32
21.6 (l) Notes Receivable	33
21.6 (m) Public Assistance.....	34
21.6 (n) Retirement Income	34
21.6 (o) Seasonal Income	35
21.6 (p) Social Security Disability Income.....	35



FHA Underwriting Guide

- 21.6 (q) Social Security Retirement Income 36
- 21.6 (r) Temporary Leave 36
- 21.6 (s) Tip Income 38
- 21.6 (t) Trust Income..... 39
- 21.6 (u) Unemployment Income 39
- 21.6 (v) Union Members 39
- 21.6 (w) VA Benefits 40
- 21.7 Unacceptable Sources of Income 40



FHA Underwriting Guide

2I.1 Income Documentation

2I.1 (a) IRS Form 4506-C

2I.1 (a)(i) General Requirements

- All borrower(s) are required to complete, sign and date IRS Form 4506-C, authorizing the Client or its assigns, to obtain income information when qualifying income must be documented with individual tax returns.
- 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 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.

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.

FHA Underwriting Guide

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 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"> 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 			

2I.1 (b) Tax Transcripts

Tax transcript(s) may be required, at the underwriter's discretion, when individual income tax return(s)

FHA Underwriting Guide

must be used for loan qualification (e.g., self-employment, rental income, employment by a family member, as applicable).

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.

21.1 (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;
- Paystubs must not have any alterations;
- The original source of the information must be a third party, such as the borrower's human

FHA Underwriting Guide

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.

21.1 (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; 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).

FHA Underwriting Guide

21.1 (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.

21.1 (f) Verbal Confirmation of Employment

See below for [TEMPORARY COVID REQUIREMENTS](#)

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

FHA Underwriting Guide

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	<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>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 within 30 calendar days from the Note date.</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

FHA Underwriting Guide

	<p>licensing agency; or</p> <ul style="list-style-type: none"> 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>
--	---

TEMPORARY COVID REQUIREMENTS

Wage Earner

- Re-verification of employment within ten (10) days of the Note date is waived provided
 - that the lender is not aware of any loss of employment by the borrower; and
 - for purchase transactions, evidence that the borrower has a minimum of two (2) months PITI reserves; and
 - a year-to-date paystub or direct verification of income (e.g., The Work Number) for the pay period that immediately precedes the Note date. (Bank statements showing direct deposit from the borrower's employment is not eligible).

Self Employed Borrower

- Verification that the borrower's business remains operational must be done within ten (10) calendar days of the Note date and may be verified in any of the following ways:

FHA Underwriting Guide

- Evidence of current work (executed contracts or signed invoices that indicate the business is operating on the day the lender verifies self-employment);
- Lender certification that the business is open and operating (lender confirmed through a phone call or other means);
- Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled).

2I.1 (g) 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 (DU only).

The following standards apply with using Income Tax Returns to verify income.

<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	<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>

FHA Underwriting Guide

	<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.
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>

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, 2021	2019
April 16, 2021	2020
December 15, 2021	2020

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).

FHA Underwriting Guide

<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. 		
Reminder: The Note date is based on all documentation in the file (paystub, bank statements, appraisal, etc.)		
Application Date	Note Date	Documentation
10/15/20 to 04/14/21	10/15/20 to 04/14/21	<ul style="list-style-type: none"> • Most recent year's tax return • Extension is not permitted
	04/15/21 to 06/30/21	<ul style="list-style-type: none"> • Previous years' tax return, if filed • If previous year is not filed, obtain previous two (2) years or per AUS
	07/01/21 to 10/14/21	<ul style="list-style-type: none"> • Most recent years' tax return • <i>OR all of the following</i> • 2020 Extension • Previous two (2) years' tax returns • Tax transcripts confirming "No Transcripts Available" for 2020
04/15/21 to 10/14/21	04/15/21 to 12/31/21	<ul style="list-style-type: none"> • Most recent years' tax return • <i>OR all of the following</i> • 2020 Extension • Previous two (2) years' tax returns • Tax transcripts confirming "No Transcripts Available" for 2020
	01/01/22 to 04/15/22	<ul style="list-style-type: none"> • Most recent years' tax return • Extension is not permitted
10/15/21 to 4/14/22	10/15/21 to 04/14/22	<ul style="list-style-type: none"> • Most recent years' tax return • 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.		

2I.2 Stable Monthly Income

The continuity of stable and predictable income must be demonstrated. Consider the length of the

FHA Underwriting Guide

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 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.

21.2 (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.

21.2 (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.

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 (c) History of Receipt

FHA Underwriting Guide

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 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 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>

FHA Underwriting Guide

	<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 his or her current job for six (6) months or more at the time of case number assignment; and • A two (2) year work history prior to the absence from the work force is documented.
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 discussion to extend the furlough.</p>

21.3 Base Pay, Bonus, Overtime, and Commission

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 documentation requirements.

21.3 (b) 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.

FHA Underwriting Guide

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 (c) 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 (d) Past Employment

If a borrower does not meet the employment history recommendation for the two (2) years prior to the date of case number assignment, one (1) or a combination of the following must be provided:

- Third-party verification of employment; and/or
- W-2s, VOEs, or evidence supporting enrollment in school or the military.

21.3 (e) Bonus or Overtime

Bonus or overtime 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 or overtime that has been received for less than two (2) years may be considered effective income if it is documented that the bonus or overtime has been consistently earned over a period of not less than 12 months and it is reasonably likely to continue.

All of the following must be provided:

FHA Underwriting Guide

- Current paystub(s);
- Most recent two (2) years' W-2s;
- Verbal re-verification of employment; and
- Written Verification of Employment, employer letter or equivalent itemizing bonus and overtime income.

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.

21.3 (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 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 documentation requirements.

21.3 (g) 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.

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.

21.4 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.

FHA Underwriting Guide

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 and is not eligible.

2I.4 (a) Income Documentation

The following income documentation is required for self-employed borrowers:

- Most recent two (2) years' individual income tax returns;
- 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 mortgage 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 filed. A balance sheet is not required for self-employed borrowers filing Schedule C income.

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.

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.

FHA Underwriting Guide

21.4 (b) Analysis and Calculation of Self-Employed Income

Self-employment income is calculated by using the lesser of:

- The average gross self-employment income earned over the previous two (2) years; or
- The average gross self-employment income earned over the previous one (1) year.

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 (c) 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. Depreciation, depletion, amortization, and casualty losses 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 (Schedule D)	<p>Capital gains or losses generally occur only one (1) time and should not be 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>

FHA Underwriting Guide

	<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 (d) 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 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.

FHA Underwriting Guide

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 (e) 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 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 (f) 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.

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.

FHA Underwriting Guide

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.

21.5 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..

21.5 (a) Rental Income from Subject Property

See below for [TEMPORARY COVID REQUIREMENTS](#)

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 subject property:</p> <ul style="list-style-type: none"> • Most recent two (2) years' signed 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, etc.). 	<p>When the borrower does not have a history of rental income from the subject since the previous tax filing:</p> <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) • <i>Operating Income Statement</i> (Form 216/998) showing fair market rent; and • Prospective lease, if available. • If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.).
<p>Income Calculation</p> <p>The net subject property rental income must be added to the borrower gross income. The borrower's total mortgage payment may not be reduced by the net subject property rental income.</p>	

FHA Underwriting Guide

<p>When the borrower has a history of receiving rental income from the subject property, obtain the most recent two (2) years' signed tax returns including Schedule E</p>	<p>When the borrower does not have a history of receiving rental income, including a property being vacated, since the previous tax filing, obtain an appraisal evidencing market rent and at least 25% equity in the property. The appraisal does not have to be completed by an FHA Roster Appraiser.</p> <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) • <i>Operating Income Statement</i> (Form 216/998) showing fair market rent; and • Prospective lease, if available.
--	--

TEMPORARY COVID REQUIREMENTS
<p>The use of rental income from the subject 2-4 unit property requires one (1) of the following:</p> <ul style="list-style-type: none"> • Reduce the effective income associated with the calculation of rental income by 25%; or • Verification of six (6) months PITI reserves; or • Evidence of the most recent two (2) months' receipt of rental income for each rental property owned and being used to qualify (for properties with a history of receiving rental income).

21.5 (b) Rental Income from Other Real Estate Owned

See below for [TEMPORARY COVID REQUIREMENTS](#)

Rental income for other real estate owned may be considered effective income.

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.

FHA Underwriting Guide

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 subject property:</p> <ul style="list-style-type: none"> • Most recent two (2) years' signed 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, etc.). 	<p>When the borrower does not have a history of rental income from the subject since the previous tax filing:</p> <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) • <i>Operating Income Statement</i> (Form 216/998) showing fair market rent; and • Prospective lease, if available. • If the property has been owned less than two (2) years, document the date of acquisition (e.g., deed, Closing Disclosure, etc.).
Income Calculation	
<ul style="list-style-type: none"> • Average the amount shown on Schedule E. • Add back depreciation 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.). 	<p>Deducted the PITI from the lesser of:</p> <ul style="list-style-type: none"> • The monthly operating income reported on Fannie Mae Form 216/Freddie Mac Form 998; or • 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.).

TEMPORARY COVID REQUIREMENTS

The use of rental income from other real estate owned requires one (1) of the following:

FHA Underwriting Guide

- Reduce the effective income associated with the calculation of rental income by 25%; or
- Verification of six (6) months PITI reserves; or
- Evidence of the most recent two (2) months' receipt of rental income for each rental property owned and being used to qualify (for properties with a history of receiving rental income).

And all of the following

- The use of rental income from other real estate owned requires evidence of the most recent two (2) months' receipt of rental income for each rental property owned, and
- Three (3) months' reserves required for each rental property owned in addition to standard reserve requirements per product (unless obtaining six (6) month PITI reserves)

21.5 (c) Treatment of Income or Loss

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.
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 vacancies and maintenance, or 25% of the fair market rent.
Rental Income/Loss from Other Property Owned	<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

FHA Underwriting Guide

	be counted as a monthly obligation.
--	-------------------------------------

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](#)
- [Capital Gains and Losses](#)
- [Disability - Long-Term](#)
- [Employment by a Family-Owned Business](#)
- [Expected Income](#)
- [Foster Care Income](#)
- [Interest and Dividend Income](#)
- [Nontaxable Income](#)
- [Notes Receivable Income](#)
- [Public Assistance](#)
- [Retirement Income, Pension, and IRA Distribution](#)
- [Seasonal Income](#)
- [Social Security Disability Income](#)
- [Social Security Retirement Income](#)
- [Temporary Leave](#)
- [Tip Income](#)
- [Trust Income](#)
- [Unemployment Income](#)
- [Union Members](#)
- [VA Benefits](#)

FHA Underwriting Guide

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.

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 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
- Any applicable state law document that mandates alimony or child support, which must specify the conditions under which payments must be made.

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.
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>

FHA Underwriting Guide

	<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. <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. 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.</p>
--	--

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

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.

FHA Underwriting Guide

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.

21.6 (e) 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 (f) Disability – Long Term

Long-term disability payments (Veterans 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 concerning the nature of the disability may not be requested or the medical condition of the borrower may not 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

FHA Underwriting Guide

- 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 individual income tax return; or
- Most recent bank statement.

21.6 (g) Employment by a Family Owned Business

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, or official letter from CPA 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 years' W2s; and
- Most recent two years' individual income tax returns, including all schedules.

21.6 (h) 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 must be provided:

- Written document from employer confirming that the existence and amount of expected income is guaranteed;
- Verification of Employment from the new employer verifying all terms of the employment and start 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.

FHA Underwriting Guide

21.6 (i) Foster Care Income

Foster care income may be considered effective income provided the income has been received for the last two 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 (j) 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 statement.

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.

21.6 (k) 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 non-taxable. 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. Develop an "adjusted gross income" for the borrower.

FHA Underwriting Guide

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
- Military Allowances
- Retirement, Pension, Annuity Income, or IRA Distributions
- Social Security Disability Income
- Social Security Retirement Income
- Supplemental Social Security Income
- VA Benefits

21.6 (I) 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.

FHA Underwriting Guide

If the amount of note receivable income fluctuates, an average over the last 12 months must be calculated to determine effective income.

21.6 (m) Public Assistance

Public assistance (e.g., Temporary Assistance for Needy Families (TANF), etc.) may be considered effective income provided the income has been received for the last two years and 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
- Two (2) year history of receipt of income.

21.6 (n) Retirement Income

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 accounts.

Pension	<p>One (1) of the following must be provided:</p> <ul style="list-style-type: none"> • Most recent individual income tax return with all schedules; • Most recent bank statement showing the deposit; and • Pension or retirement letter from former employer.
Retirement IRA, 401(k), or Keogh	<p>The most recent IRA or 401(k) statement and one (1) of the following must be provided:</p> <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 years, develop the average over the time</p>

FHA Underwriting Guide

	of receipt.
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 (o) 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 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 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 years 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 years. If income received cannot meet these requirements, it should only be considered a compensating factor.

21.6 (p) 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.

FHA Underwriting Guide

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 (q) 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).

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.

21.6 (r) Temporary Leave

FHA Underwriting Guide

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;
- 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;
- Amount of regular employment income the borrower received prior to leave; and
- All available liquid assets used to supplement the reduced income for the duration of leave must be verifiable.

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

FHA Underwriting Guide

	<ul style="list-style-type: none"> 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.

21.6 (s) 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 years. Tip income that has been received for less than two years may be considered effective income if it is documented that the tip income has been consistently earned over a period of not less than 12 months and it is reasonably likely to continue.

All of the following must be provided:

- Current paystub(s);
- Most recent two (2) years' W-2s;
- Verbal re-verification of employment; and
- Written Verification of Employment, employer letter or equivalent itemizing bonus and overtime income.

Effective income must be calculated as the lesser of:

FHA Underwriting Guide

- The average income earned over the prior two years (if less than two years, the length of time the income has been earned); or
- The average earned over the previous year.

21.6 (t) 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 (u) Unemployment Income

Unemployment income, such as those received by seasonal workers, must have been received for the past two years and must be likely to continue for the next three (3) years.

All of the following must be provided:

- Most recent two 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 (v) 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' 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.

FHA Underwriting Guide

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.

21.6 (w) 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:

- Housing Choice Voucher Program (Section 8)
- 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
- 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
- Mortgage interest differential (MID) income
- Non-incident 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 (except Employment-Related Assets as Qualifying income described above)
- VA education benefits

FHA Underwriting Guide

Chapter 2J Appraisal Requirements

Contents

Chapter 2J FHA Appraisal Requirements	1
2J.1 Appraiser Requirements.....	5
2J.1 (a) Appraisal Integrity.....	5
2J.1 (b) Appraiser Independence.....	5
2J.1 (c) Commencement of the Appraisal	6
2J.2 Electronic Appraisal Delivery Portal	7
2J.3 Unacceptable Appraisal Practices	7
2J.4 Appraisal Effective Date.....	8
2J.5 Transferred Appraisals	9
2J.6 Ordering a Second Appraisal	9
2J.6 (a) Second Appraisal by Original Lender	10
2J.6 (b) Second Appraisal by Second Lender	10
2J.7 Appraisal Report Forms and Exhibits.....	11
2J.7 (a) Conditional Commitment/Direct Endorsement Statement of Appraised Value	11
2J.7 (b) Appraisal Forms	11
2J.7 (b)(i) Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442).....	12
2J.7 (b)(ii) Photographs, Exhibits and Map Requirements.....	13
2J.7 (b)(iii) Appraisal Attachments.....	14
2J.8 Appraisal Report Review	15
2J.8 (a) DE Underwriter Responsibilities	15
2J.8 (b) Appraiser Responsibilities	16
2J.8 (c) Minimum Property Requirements (MP) and Minimum Property Standards (MPS)	16
2J.8 (d) Defective Conditions.....	17
2J.8 (d)(i) Inspections by a Qualified Individual or Entity	17

FHA Underwriting Guide

2J.8 (e) Legal and Land Use Considerations	18
2J.8 (f) Externalities	20
2J.8 (g) Site Conditions	22
2J.8 (g)(i) Access to Property	22
2J.8 (g)(ii) On Site Hazards and Nuisances	23
2J.8 (g)(iii) Topography	23
2J.8 (g)(iv) Grading and Drainage	23
2J.8 (g)(v) Suitability of Soil	24
2J.8 (g)(vi) Land Subsidence and Sinkholes	24
2J.8 (g)(vii) Oil or Gas Wells	25
2J.8 (g)(viii) Hydrogen Sulfide Gas Wells (Sour Gas Wells)	26
2J.8 (g)(ix) Slush Pits	26
2J.8 (g)(x) Flood Zones	26
2J.8 (g)(xi) Coastal Barrier Resources Systems (CBRS)	28
2J.8 (g)(xii) Lava Zones	28
2J.8 (g)(xiii) Mineral, Oil and Gas Reservations or Leases	28
2J.8 (g)(xiv) Excess and Surplus Land	28
2J.8 (g)(xv) Soil Contamination	29
2J.8 (g)(xvi) Residential Underground Storage Tanks	29
2J.8 (h) Characteristics of Property Improvements	30
2J.8 (h)(i) Living Unit	30
2J.8 (h)(ii) Access to Living Unit	30
2J.8 (h)(iii) Non-Standard House Styles	31
2J.8 (h)(iv) Accessory Dwelling Unit (ADU)	31
2J.8 (h)(v) Additional Manufactured Home on Property	32
2J.8 (h)(vi) Leased Equipment, Components and Mechanical Systems	32
2J.8 (h)(vii) Gross Living Area	32
2J.8 (h)(viii) Appliances	34
2J.8 (h)(ix) Swimming Pools	34
2J.8 (h)(x) Mechanical Components and Utilities	35

FHA Underwriting Guide

2J.8 (h)(xi) Roof	38
2J.8 (h)(xii) Structural Conditions	38
2J.8 (h)(xiii) Attic	39
2J.8 (h)(xiv) Foundation	39
2J.8 (h)(xv) Basement	39
2J.8 (h)(xvi) Sump Pumps	40
2J.8 (h)(xvii) Crawl Space	40
2J.8 (h)(xviii) Utility Services	41
2J.8 (h)(xix) Environmental	42
2J.8 (i) Repair Requirements	43
2J.8 (j) Water Supply Systems	45
2J.8 (j)(i) Public Water Supply System	45
2J.8 (j)(ii) Community Water Systems	45
2J.8 (j)(iii) Individual Water Supply Systems (Well)	45
2J.8 (j)(iv) Shared Wells	48
2J.8 (j)(v) Individual Residential Water Purification Systems	52
2J.8 (k) Sewage Systems	52
2J.9 Development of Market Value	53
2J.9 (a) Sales Comparison Approach	53
2J.9 (a)(i) Comparable Sales Selection	54
2J.9 (a)(ii) Comparable Sales Inside and Outside Established Subdivision or Projects.....	55
2J.9 (a)(iii) Comparable Sales Inside and Outside New Subdivisions or Projects	55
2J.9 (a)(iv) Sales Concessions.....	55
2J.9 (a)(v) Bracketing	56
2J.9 (a)(vi) Adjustments.....	57
2J.9 (a)(vii) Market Condition (Time) Adjustments	57
2J.9 (a)(viii) Changing Markets	57
2J.9 (a)(ix) Effective Age and Remaining Economic Life	58
2J.9 (b) Cost Approach	59
2J.9 (c) Income Approach	59

FHA Underwriting Guide

2J.9 (d) Final Reconciliation and Conclusion	59
2J.9 (e) Reconsideration of Value	60
2J.10 Leasehold Interest.....	60
2J.11 Mixed-Use Properties	61
2J.12 Manufactured Housing	61
2J.13 HUD Real Estate Owned Properties	62
2J.13 (a) Appraisal Report and Conditions	62
2J.13 (b) Sales Comparison Approach	63
2J.13 (b)(i) Conditions	63
2J.13 (b)(ii) Inspections	63
2J.13 (b)(iii) Statement of Insurability	63
2J.14 Property Assessed Clean Energy (PACE).....	64

FHA Underwriting Guide

2J.1 Appraiser Requirements

2J.1 (a) Appraisal Integrity

Appraisers must follow FHA guidance and comply with the Uniform Standards of Professional Appraisal Practice (USPAP), including the Competency Rule, when completing appraisals.

2J.1 (b) Appraiser Independence

The FHA Appraiser Independence 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.

Mortgagees and third parties working on behalf of mortgagees must not:

- Compensate the appraiser at a rate that is not commensurate in the market area of the property being appraised with the assignment type, complexity and scope of work required for the appraisal services being performed.
- Withhold or threaten to withhold timely payment or partial payment for an appraisal report.
- Prohibit the appraiser from recording the fee paid for the performance of the appraisal in the appraisal report.
- Condition the ordering of an appraisal report or the payment or the payment of an appraisal fee, salary, or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from an appraiser.
- Provide to the appraiser, appraisal company, appraisal management company or any entity or person related to the appraiser, appraisal company or management company, stock or other financial or non -financial benefits.
- Order, obtain, use, or pay for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction unless: 1) there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such appraisal is clearly and appropriately noted in the loan file, or 2) such appraisal or automated valuation model is done pursuant to written, re-established bona fide pre- or post-funding appraisal review or quality

FHA Underwriting Guide

control process or underwriting guidelines, and so long as the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value.

- Withhold or threaten to withhold future business for an appraiser or demoting or terminating or threatening to demote or terminate an appraiser in order to influence an appraiser to arrive at a predetermined or desired value.
- Make expressed or implied promises of future business, promotions, or increased compensation for an appraiser in order to influence an appraiser to arrive at a predetermined or desired value.
- Allow the removal of an appraiser from a list of qualified appraisers or the addition of an appraiser to an exclusionary list, used by any entity, without prompt written notice to such appraiser, which notice shall include written evidence of the appraiser's illegal conduct, a violation of the USPAP or state licensing standards, improper or unprofessional behavior or other substantive reason for removal.
- Request that an appraiser provide an estimated, predetermined, or desired valuation in an appraisal report prior to the completion of the appraisal report or requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report.
- Provide to the appraiser an anticipated, estimated, encouraged, or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase must be provided.
- Perform any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity or impartiality or violates law, regulation, or requirement.

2J.1 (c) 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 contact 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

FHA Underwriting Guide

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.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.

FHA Underwriting Guide

- Incomplete interior and exterior visual inspections of the subject property or lack of a visual inspection for the exterior of the comparable sales.
- 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 handling 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 Effective 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

FHA Underwriting Guide

purposes and was performed by an FHA Roster Appraiser.

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 NewRez 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. The appraiser is not required to provide the appraisal to NewRez. The client 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.

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 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.

FHA Underwriting Guide

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 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. NewRez must pay for the second appraisal.

Material deficiencies on appraisals are those deficiencies that have a direct impact on value and marketability. 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;
- 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 statement 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; and
- 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 purchase 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](#).

FHA Underwriting Guide

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 Appraisal Report Forms and Exhibits

See below for [TEMPORARY COVID REQUIREMENTS](#)

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.

2J.7 (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 (1) copy of the Direct Endorsement Statement of Appraised Value must be provided to the borrower, one (1) copy must be included in the FHA Case binder and one (1) copy is retained in the loan file. The borrower should be advised to read the front and back of this form.

2J.7 (b) Appraisal Forms

The appraisal form and attachments must be prepared by an FHA approved appraiser. 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

FHA Underwriting Guide

<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

TEMPORARY COVID FLEXIBILITIES		
Transaction Type	Exterior-Only	Interior/Exterior Appraisal
Purchase	Yes	Yes
Rate & Term Refi Simple Refi	Yes	Yes
Streamline Refi	NA	NA
Cash-out Refi	No	Yes
New Construction <ul style="list-style-type: none"> Purchase Build on Own Land 	No	Yes

2J.7 (b)(i) Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442)

Appraisers may perform an update of a previously completed appraisal when requested by the lender. The appraiser must incorporate the original report being updated by attachment.

An update to the appraisal may only be ordered if NewRez:

- Is the intended user of the original appraisal; or
- Has received permission from the original client and the appraiser.

An update to the appraisal may only be used if:

- It is performed by the FHA appraiser who performed the original appraisal, who is currently

FHA Underwriting Guide

- in good standing on the FHA Appraiser Roster;
- The property has not declined in value;
- The building improvements that contribute value to the property can be observed from the street or a public way;
- The exterior inspection of the property reveals no deficiencies or other significant changes.
- The update of appraisal was ordered NewRez and completed by the appraiser prior to the expiration of the initial 120-day period; and
- The original appraisal report was not previously updated.

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 must indicate so on the form and a photo is not required.

2J.7 (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.

FHA Underwriting Guide

Minimum Photograph Requirements	
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, 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 substantially 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.7 (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.

- FHA Case Number Assignment screen and Appraisal Logging screen printed from the FHAC;
- Photographs as required above;

FHA Underwriting Guide

- 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;
- Any state specific forms relating to property; and
- Market Conditions Addendum to the Appraisal Report ([Form 1004MC/71](#)).

The Market Conditions Addendum to the Appraisal Report must be completed for all appraisals.

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 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 for; 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.

Other Fannie Mae appraisal forms, which are used for streamlined appraisal or a qualitative sales comparison analysis, such as Fannie Mae Forms 2055 or 2065, are not acceptable.

2J.8 Appraisal Report Review

2J.8 (a) DE Underwriter Responsibilities

The DE underwriter:

- Must evaluate the appraisal and any supporting documentation to determine if the property

FHA Underwriting Guide

- 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; and
- 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.

2J.8 (b) Appraiser Responsibilities

The appraiser must:

- Observe, analyze, and report that the property meets HUD's MPR and MPS;
- Provide preliminary verification that HUD's Property Acceptability Criteria have been met;
- Provide an appraised value for the subject property; and
- 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.8 (c) Minimum Property Requirements (MP) 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 refer to regulatory requirements relating to the safety, soundness, and security of New Construction.

When examination 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

FHA Underwriting Guide

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.8 (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.

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.8 (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;

FHA Underwriting Guide

- 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 possible 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.8 (e) Legal and Land Use Considerations

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

FHA Underwriting Guide

	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. <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"> • Of 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</p>

FHA Underwriting Guide

	<p>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 for acceptable deed restrictions.</p>
--	--

2J.8 (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.

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	For properties located in Runway Clear Zones (also known as Runway Protection Zones) at civil airports or within Clear Zones at military airfields he following applies:

FHA Underwriting Guide

	<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 provided that it is determined that the property complies with Department of Defense guidelines.</p>
Proximity to High Pressure Gas Lines	<p>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.</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</p>

FHA Underwriting Guide

	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.
Smoke, Fumes, and Offensive or Noxious Odors	The appraiser must notify the NewRez if excessive smoke, chemical fumes, noxious odors, stagnant ponds or marshes, poor surface drainage or excessive dampness threaten the health and safety of the occupants or the marketability of the property. The appraiser consider the effect of the of any of these conditions that exist and do not threaten the occupants or marketability.
Stationary Storage Tanks	<p>The appraiser must notify the NewRez of the deficiency of MPR or MPS if the subject property line is located within 300 feet of an above ground stationary storage tank with 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.8 (g) Site Conditions

2J.8 (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 appraiser must notify the NewRez of the deficiency of MPR or MPS if the property does not 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.

The appraiser must:

- Note whether there is safe pedestrian access and adequate vehicular access to the site and analyze any effect on value or marketability;
- Report evidence of a permanent easement; and
- Ask if a maintenance agreement exists and comment on the condition of the private road.

FHA Underwriting Guide

2J.8 (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
- 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.8 (g)(iii) Topography

The appraiser must notify NewRez of the deficiency of MPR or MPS if the surface and subsurface water is not 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.8 (g)(iv) Grading and Drainage

The appraiser must:

FHA Underwriting Guide

- Check for readily observable evidence of grading and drainage problems (proper drainage control measures may include gutters and downspouts or appropriate grading or landscaping to divert the flow of water away from the foundation);
- Make the appraisal report subject to repair if the grading does not provide positive drainage away from the improvements; and
- Note any readily observable evidence of standing water adjacent to the foundation that indicates improper drainage.

2J.8 (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.

2J.8 (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 appraiser must notify NewRez of the deficiency of MPR or MPS if there is probable or imminent danger of land subsidence.

The appraiser must analyze and report:

- Any readily observable conditions of the surface of the land that indicate potential problems from subsidence or the potential for lack of support for the surface of the land or building

FHA Underwriting Guide

foundations; and

- The depth or extent of mining operations and the site of operating or abandoned shafts or tunnels to determine if the danger is imminent, probable, or negligible.

The underwriter must determine eligibility or the need to require the purchase of subsidence insurance.

2J.8 (g)(vii) Oil or Gas Wells

Operating for Proposed	<p>The appraiser must:</p> <ul style="list-style-type: none"> • Examine the site for the existence of any readily observable evidence of an oil or gas well and report the distance from the dwelling; and • Notify the NewRez of the deficiency of MPR or MPS if the dwelling is 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. <p>If the dwelling is located within 75 feet of an operating oil or gas well, reject the property unless mitigations measures are completed.</p>
Abandoned Well	<p>If the appraiser notes an abandoned gas or oil well on the subject site or an adjacent property, the appraiser must cease work and notify NewRez.</p> <p>The appraiser may resume work when the NewRez provides a letter from the local jurisdiction or the appropriate state agency stating that the subject well was permanently abandoned in a safe manner.</p> <p>The appraiser may only complete the appraisal on a property located near a gas well that emits hydrogen sulfide if the minimum clearance has been established by a petroleum engineer. The appraiser must assess any impact that the location of the well has on the value and marketability of the property.</p> <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>

FHA Underwriting Guide

	If the property contains any abandoned petroleum product wells, the underwriter must ensure that a qualified petroleum engineer has inspected the property and assessed the risk, and that the appropriate state authorities have concurred on clearance recommendations.
--	---

2J.8 (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 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.

2J.8 (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.8 (g)(x) Flood Zones

The appraisal must indicate the FEMA zone designation, the map panel number and map date. If the property appears to be 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, the appraisal indicate "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.

FHA Underwriting Guide

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 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).

New Construction	<p>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:</p> <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 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	<p>When any portion of the residential improvements is determined to be located within an SFHA, insurance under FHIP must be obtained.</p>
Condominiums	<p>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.</p>
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; and • A FEMA National Flood Insurance Program (NFIP) Elevation Certificate



FHA Underwriting Guide

	(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.
--	---

2J.8 (g)(xi) Coastal Barrier Resources Systems (CBRS)

The appraiser must notify NewRez of the deficiency of MPR or MPS if the property is located within a Coastal Barrier Resources System (CBRS) designated area).

Properties located in a Coastal Barrier Resources System (CBRS) are not eligible.

2J.8 (g)(xii) Lava Zones

The appraisal must indicate if the subject property is located in a Lava Flow Hazard Zone and provide the Zone Number.

2J.8 (g)(xiii) 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.8 (g)(xiv) 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.

FHA Underwriting Guide

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.

2J.8 (g)(xv) Soil Contamination

Soil contamination refers to the presence of manmade 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.

The appraiser must:

- Check readily observable evidence of soil contamination and hazardous substances in the soil; and
- Report the proximity to dumps, landfills, industrial sites, or other sites that could contain hazardous wastes that may have a negative influence on the marketability and/or value of the subject property.

2J.8 (g)(xvi) 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.

FHA Underwriting Guide

2J.8 (h) Characteristics of Property Improvements

2J.8 (h)(i) Living Unit

The appraiser must notify of the deficiency of MPR or MPS if each living unit does not 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;
- Heating adequate for healthful and comfortable living conditions;
- Domestic hot water; and
- Electricity adequate for lighting, cooking and for mechanical equipment used in the living unit.

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.8 (h)(ii) Access to Living Unit

The appraiser must:

- Notify NewRez of the deficiency of MPR or MPS 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;
- For an attached dwelling, the access may be by means of alley, easement, common area, or passage through the dwelling; and
- Report when the property has security bars on bedroom windows or doors. There must be an emergency release latch for at least one (1) window in each bedroom where security bars

FHA Underwriting Guide

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.8 (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.

2J.8 (h)(iv) 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.

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.

The appraiser must notify NewRez of the deficiency in MPR or MPS if more than one (1) ADU is located on the subject property.

FHA Underwriting Guide

More than one (1) ADU located on the subject property is ineligible.

2J.8 (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. See 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.

2J.8 (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 underwriter must ensure that the property value does not include the value of any equipment, including an energy system, that 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.8 (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.

The appraiser must:

- Identify non-contiguous living area and any effect on functional utility;
- Ensure that finished basements and unfinished attic areas are not included in the total GLA; and
- Use the same measurement techniques for the subject and comparable sales and report the building dimensions in a consistent manner.

FHA Underwriting Guide

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.

<p>Additions and Converted Space</p>	<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 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.</p> <p>The appraiser must:</p> <ul style="list-style-type: none"> • Analyze and report differences in functional utility when selecting comparable properties of similar functional utility when selecting comparable sales of similar GLA that do not include converted living space; • Include an explanation detailing the composition of the GLA reported for the comparable sales, functional utility of the subject and comparable properties, and market reaction, if the converted living spaces are included in the GLA; and • Not add an ADU or secondary living area to the GLA.
<p>Partially Below-Grade Habitable Space</p>	<p>Partially Below-Grade Habitable Space refers to living area constructed partially below grade but has the full utility of GLA.</p>

FHA Underwriting Guide

	<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>
Bedrooms	<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.</p>

2J.8 (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.

The appraiser must:

- Note appliances present in the house at the time of observation and indicate whether that appliance is considered personal property or real property;
- The appraiser must operate all conveyed appliances and observe their performance; and
- Indicate the deficiency of MPR or MPS if any conveyed appliances are inoperable.

2J.8 (h)(ix) Swimming Pools

The appraiser must:

- Report readily observable defects in a non-covered pool that would render the pool

FHA Underwriting Guide

inoperable 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 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.

2J.8 (h)(x) Mechanical Components and Utilities

The appraiser must notify NewRez of the deficiency of MPR or MPS if mechanical systems do not appear:

- To have reasonable future utility, durability, and economy;
- To be safe to operate;
- To be protected from destructive elements; and
- To 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;

FHA Underwriting Guide

- Condition for repair or further inspection if the systems appear to be damaged or do not appear to function properly; and
- Note whether the utilities were on or off if the property is vacant.

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.

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 appraiser must notify NewRez of the deficiency of MPR or MPS if the permanently installed heating system does not:</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;
-----------------------------	---

FHA Underwriting Guide

	<ul style="list-style-type: none"> • 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>
Electrical System	<p>The appraiser must notify NewRez of the deficiency of MPR or MPS if the electrical system is not 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 appear to be 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 appraiser must notify NewRez of the deficiency of MPR or MPS if the plumbing system does not 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

FHA Underwriting Guide

	<p>pressure-relief valve with piping to safely divert escaping steam or hot water;</p> <ul style="list-style-type: none">• 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.
Hot Water Heater	The appraiser must turn on the hot water heater to ensure that the water heater is operating properly.

2J.8 (h)(xi) Roof

The appraiser must notify NewRez of the deficiency of MPR or MPS if the roof covering does not 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.

The appraiser must report:

- If the roof does not prevent entrance of moisture or provide reasonable future utility, durability, and economy of maintenance. If the roof does not have a remaining physical life of at least two (2) years;
- If the roof presents a health and safety hazard; and
- The roofing material type and condition in the Improvements section.

If the roof has less than two (2) years of remaining life it must be inspected by a professional roofer.

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.8 (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

FHA Underwriting Guide

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.8 (h)(xiii) 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 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.

2J.8 (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.8 (h)(xv) Basement

The appraiser must report and notify the deficiency of MPR or MPS if the basement is not free of dampness, wetness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the structure.

FHA Underwriting Guide

2J.8 (h)(xvi) Sump Pumps

The appraiser must report and notify NewRez of the deficiency of MPR or MPS if the sump pump is not 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.

2J.8 (h)(xvii) Crawl Space

The appraiser must visually observe all areas of the crawl space and notify NewRez of the deficiency of MPR and MPS when the crawl space does not satisfy any 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.

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.

FHA Underwriting Guide

2J.8 (h)(xviii) 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 appraiser must notify NewRez of the deficiencies of MPR or MPS if utilities are not 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;
- 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 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.

FHA Underwriting Guide

2J.8 (h)(xix) 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.

Lead-Based Paint	<p>The appraiser must note the condition and location of all defective paint and require repair.</p> <p>The underwriter must confirm that the property is free of lead paint hazards on properties built on or before 1978.</p> <p>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.</p> <p>See Chapter 2A for Lead Based Paint disclosures if the property was built on or before 1978.</p>
Methamphetamine Contamination	<p>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.</p> <p>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.</p> <p>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</p>

FHA Underwriting Guide

	<p>must include a copy of the certification with the appraisal report.</p> <p>The appraiser must analyze and report any long-term stigma caused by the property's contamination and any impact on value or marketability.</p> <p>If 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.</p>
Wood Destroying Insects/Organism, Termites	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

2J.8 (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.

Regardless of the appraiser's suggested repairs, the underwriter will determine which repairs or

FHA Underwriting Guide

inspections are required and listed on *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 *HUD 92800.5B*.

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	<p>The appraiser may complete an as-is appraisal for existing properties when minor property deficiencies, which generally 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.</p> <p>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.</p> <p>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.</p>
Defective Conditions Requiring Repairs	<p>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.</p>
Conditions Requiring Inspection by a Qualified Individual or Entity	<p>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.</p>

FHA Underwriting Guide

2J.8 (j) Water Supply Systems

2J.8 (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 to meet the requirements of the health authority with jurisdiction unless:

- The appraiser indicates deficiencies with the water or notifies the lender that the water is unsafe; or
- The health authority with jurisdiction issues a public notice indicating that the water is unsafe.

The appraiser must:

- Report any readily observable or known deficiencies with the water;
- Notify the lender when water is determined to be unsafe, report, and provide a cost to cure; and
- Address any impact on value and marketability and make the appropriate adjustments.

2J.8 (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.

If the property is on a Community Water System, the appraiser must note the name of the water company on the appraisal report.

2J.8 (j)(iii) Individual Water Supply Systems (Well)

When an Individual Water Supply System is present, the lender must ensure that the water quality

FHA Underwriting Guide

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.

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; • 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	<p>A valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority must be obtained.</p>
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 the local jurisdiction recognizes and permits

FHA Underwriting Guide

	<p>such a location, that it is common to for the market area, and does not adversely affect marketability unless the well is located within the foundation walls of a new construction dwelling in an arctic or sub-arctic region;</p> <ul style="list-style-type: none"> • 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. The appraiser must report whether such systems are readily accepted by the local market and that the water supply system may violate MPR or MPS; and • 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; • 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</p>
--	--

FHA Underwriting Guide

	<p>homeowner or 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> <p>Requirements for the location of wells are located in CFR § 200.926d (f) (3).</p>
--	---

Individual Water Supply for Minimum Property Requirements for Existing Construction	
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

2J.8 (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 that meets the requirements below.

Confirm that a shared well:

FHA Underwriting Guide

- 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 ERA'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 living units or properties.

<p>Well Water Testing Requirements</p>	<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; • Located in close proximity to dumps, landfills, industrial sites, farms (pesticides) or other sites that could contain hazardous wastes; 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</p>
--	--

FHA Underwriting Guide

	other party that is acceptable to the local health authority. The borrower/owner or other interested party cannot collect and/or transport the sample.
Required Documentation	A valid water test from the local health authority or a lab qualified to conduct water testing in the jurisdictional state or local authority must be obtained.

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:	
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: <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,

FHA Underwriting Guide

	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.
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

FHA Underwriting Guide

	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.8 (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.8 (k) 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 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 disposals system is repaired or replaced and complies with local health department standards.

FHA Underwriting Guide

2J.9 Development of Market Value

Market Value refers to the most probably price which a property should bring in a competitive and open market under all conditions 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

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.9 (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

FHA Underwriting Guide

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.9 (a)(i) Comparable Sales Selection

Property Characteristics	<p>Comparable sales should be selected based on similar location and physical characteristics, not sales price.</p> <p>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.</p>
Transaction of Characteristics	<p>An arm's length transaction refers to a transaction between unrelated parties and meet the requirements of market value.</p> <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

FHA Underwriting Guide

	<ul style="list-style-type: none"> • 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 reasons for lack of sales data must be included.</p>

2J.9 (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.

2J.9 (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.9 (a)(iv) Sales Concessions

Adjustments to the comparable sales must be made for special or creative financing or sales concessions. No adjustment are necessary for those costs, which are normally paid sellers as a

FHA Underwriting Guide

result of tradition or law in a market area; those costs are readily identifiable since the seller pays these costs in virtually 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.

2J.9 (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.

FHA Underwriting Guide

2J.9 (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.9 (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.

2J.9 (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	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. Generally, 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

FHA Underwriting Guide

	<p>effective date of the appraisal.</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 the trend appears to be 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.

A minimum of two (2) active listings or pending sales must be included and 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.9 (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

FHA Underwriting Guide

is less than 30 years. The mortgage term must be less than or equal to the remaining economic life of the property.

2J.9 (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.9 (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 similar to the subject, an appropriate adjustment should be applied.

2J.9 (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 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

FHA Underwriting Guide

appraiser must disclose the name and role in developing the appraisal report.

2J.9 (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.10 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.

Calculation of the Leasehold Interest
Value of leased Fee = Ground Rent divided by Capitalization Rate
Value of Leasehold = Value of Fee Simple minus Value of Leased Fee

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).

FHA Underwriting Guide

- 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.11 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:

- 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.12 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 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

FHA Underwriting Guide

- 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.

2J.13 HUD Real Estate Owned Properties

An appraisal must be ordered on a HUD REO property to establish list price or subsequent price adjustments.

Under "Assignment Type" in the "Subject" section of the appraisal, the appraiser must mark the box labeled "Other" and indicate that the property is a HUD REO Property.

2J.13 (a) Appraisal Report and Conditions

This appraisal report should be on the applicable appraisal report with all applicable addenda including specific REO addenda and forms completed by the appraiser and meet minimum property requirements (MPR).

The appraiser must inspect the interior and exterior of the property. The appraiser must describe any differences found between the Property Condition Report (PCR) and the appraiser's observations. The appraiser must support this description with photographs when warranted.

If the utilities are off at the time of 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.

The following standard FHA appraisal package is required for all REO property appraisals:

- Complete property -specific appraisal report;
- All required exhibits;
- A copy of the Property Condition Report (PCR);
- *For Your Protection Get a Home Inspection*; and

FHA Underwriting Guide

- *Radon Gas and Mold Notice and Release Agreement HUD 9548E* - must be included for all single-family home REO transactions.

2J.13 (b) Sales Comparison Approach

When considering comparable sales, the appraiser must note the conditions of the sale and the motivation of the sellers and purchasers.

In some markets, non-arm's length sales constitute the majority of recent transactions of similar properties and thus are significant in the analysis of the subject. This assignment is to estimate market value, so REO sales, short sales and other non-arm's length transactions must not automatically be chosen as comparable sales. If there is compelling evidence in the market to warrant their use, the appraiser must provide additional explanation and support in the "Analysis" section of the sales comparison approach.

Transfers to a lender or entity that owns the mortgage by deed of trust, through foreclosure sale or sheriff's sale, are not acceptable as comparable sales.

2J.13 (b)(i) Conditions

The "as is" value can be impacted by conditions. If the property has an illegal use or an extraordinary condition, the appraiser must estimate the cost to bring the property into compliance with zoning or typical marketability. The appraiser must report whether any grandfathered use is allowed. The appraiser may contact the Asset Management (AM) contractor for guidance and clarification when appraising a HUD home that is impacted by extraordinary circumstances.

For manufactured housing, a certification that the foundation complies with the PFGMH is not required.

2J.13 (b)(ii) Inspections

The underwriter is responsible for reviewing any required inspections, repairs or certifications required by the appraiser.

2J.13 (b)(iii) Statement of Insurability

The appraiser must include a Statement of Insurability in the "Comments" section of the appraisal

FHA Underwriting Guide

report.

Insurable	The appraiser must state that the property is insurable if, at the time of the appraisal, the property meets MPR and MPS without needing repairs.
Insurable with Repair Escrow	If the property requires no more than \$5000 repair escrow, the appraiser must state that the property is insurable with a repair escrow.
Uninsurable	If the cost of repairs is greater than \$5000, the appraiser must state that the property is uninsurable.
Lead-Based Paint	<p>If the appraiser observes defective paint in a home that was built before 1978, the appraiser will note all areas affected on the addendum.</p> <ul style="list-style-type: none"> Repairs ≤\$4000: HUD will stabilize (inspect and remedy) if under contract for FHA 203(b) financing Repairs >\$4000: HUD will not stabilize (will not inspect or remedy). If under contract for FHA financing, the loan is only insurable using under the 203(k) program and therefore not eligible for financing with NewRez.

2J.14 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.



Underwriting Guide

Chapter 4A Saved for the Future

This page is saved for a future use.



Underwriting Guide

Chapter 5A Reserved for Future Use

This page is reserved for a future use.

Underwriting Guide

Chapter 6A Fraud

Contents

Chapter 6A Fraud	1
6A.1 Types of Fraud	4
6A.1 (a) Fraud for Property	4
6A.1 (b) Fraud for Profit.....	4
6A.2 Fraud Indicators or Red Flags	5
6A.2 (a) Affinity Fraud	5
6A.2 (b) Air Loans	5
6A.2 (c) Builder Bailout	5
6A.2 (d) Buy and Bail.....	6
6A.2 (e) Cash-Out Purchases	6
6A.2 (f) Condominium Conversion Bailouts	7
6A.2 (g) Double Escrows	7
6A.2 (h) Equity Skimming	8
6A.2 (i) Foreclosure Bailout.....	8
6A.2 (j) Identity Theft.....	9
6A.2 (k) Foreclosure Rescue.....	10
6A.2 (l) Investment Club Schemes	10
6A.2 (m) Power of Attorney	11
6A.2 (n) Property Flips	11
6A.2 (o) Purchase Disguised as Refinance	13
6A.2 (p) Rental Property	13
6A.2 (q) Short Sale Fraud.....	14
6A.2 (r) Shot Gunning	15
6A.2 (s) Straw Borrower	15
6A.3 Risk Mitigation.....	16
6A.3 (a) Loan Application	16



Underwriting Guide

6A.3 (b) Occupancy	17
6A.3 (c) Social Security Numbers	19
6A.3 (d) Borrower Contact	19
6A.3 (e) Credit Report	20
6A.3 (f) Verifications of Rent	21
6A.3 (g) Assets.....	21
6A.3 (h) Verification of Employment (VOE)	22
6A.3 (i) Paystub	23
6A.3 (j) W-2 Statement.....	24
6A.3 (k) Tax Returns	24
6A.3 (l) Phantom Employment, Credit, Income	25
6A.3 (m) Cancelled Checks	26
6A.3 (n) Appraisal	26
6A.3 (o) Sales Contract.....	27
6A.3 (p) Closing Disclosure	29
6A.3 (q) Preliminary Title Report	30
6A.3 (r) Escrow/Closing Instructions	30



Underwriting Guide

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

Underwriting Guide

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.

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.

Underwriting Guide

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.

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.

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 lender 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

Underwriting Guide

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;
- 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

Underwriting Guide

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, 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

Underwriting Guide

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 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;

Underwriting Guide

- 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) 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.

Underwriting Guide

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 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.

Underwriting Guide

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.

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

Underwriting Guide

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;
- Title commitment references other deeds to be recorded simultaneously;
- Property seller is a corporation (i.e., LLC); and

Underwriting Guide

- 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:

Underwriting Guide

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

Underwriting Guide

- 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).

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.;

Underwriting Guide

- 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.

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;

Underwriting Guide

- 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.

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);
-----------------------	---

Underwriting Guide

	<ul style="list-style-type: none"> • 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 accommodate; and • 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.

Underwriting Guide

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;
 - 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;

Underwriting Guide

- 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;
- 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;

Underwriting Guide

- 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;
- 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;

Underwriting Guide

- 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-2's 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 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);

Underwriting Guide

- 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;
- Tax deduction not detailed (Social Security, Medicare, etc.);

Underwriting Guide

- 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;

Underwriting Guide

- 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 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;

Underwriting Guide

- 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;
- 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

Underwriting Guide

- 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);
- 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 list or 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:

Underwriting Guide

- 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 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;

Underwriting Guide

- 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;
- 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

Underwriting Guide

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;
- 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;



Underwriting Guide

- Odd amounts being paid as a deposit/down payment;
- Buyer is required to use a specific escrow company; and
- Borrower has right of assignment.



Underwriting Guide

Chapter 7 FEMA Declared Disaster Policy

Contents

Chapter 7 FEMA Declared Disaster Policy	1
7A.1 Overview	2
7A.1 (a) Conventional Conforming Inspection Requirements	2
7A.1 (b) FHA and USDA Inspection Requirements	5
7A.1 (c) VA Inspection Requirements	8
7A.1 (d) Non-Agency Inspection Requirements	9



Underwriting Guide

7A.1 Overview

A Major Disaster Declaration may be declared by the President for any natural event, including any hurricane, tornado, storm, high water, wind-driven water, tidal wave, tsunami, earthquake, etc.

When a property is located in a Federal Emergency Management Agency (FEMA) Major Disaster Declaration area receiving individual assistance, it must be confirmed that the security for the loan (improvements, structures) are sound and not negatively impacted by the Disaster, including those transactions exercising an appraisal waiver or automated collateral evaluation. This must be verified prior to closing or purchasing the loan.

A FEMA Disaster Notification with the affected counties will be published by FEMA at <http://www.fema.gov/disasters>

- If the county is indicated as being in a declared disaster area receiving Individual Assistance funds, the policy must be adhered to (assistance for Public Assistance does not require a reinspection).
- The Disasters are referenced with both an Incident Start Date and an Incident End Date, known as the "Incident Period." 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 the Presidential declares a Major Disaster Declaration and any aid has been made available.

7A.1 (a) Conventional Conforming Inspection Requirements

Pending mortgage closings and closed loans with Note dates prior to the declared disaster Incident Date require a disaster inspection report with photographs, that identifies and quantifies any damage to the dwelling.

The disaster inspection must be completed by a qualified professional (e.g., engineer, home inspector, etc.). The professional must not have any affiliation with anyone connected to the loan transaction. Additionally, the professional must not be on the NewRez Exclusionary List, or NewRez's list.

The inspector must be able to certify that their personal inspection of the improvements revealed no indications of significant disaster-related damages.



Underwriting Guide

NewRez does 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 Profiles for possible exceptions to the Disaster Policy.

If the effective date of the appraisal or appraisal alternative was.....	And the original appraisal requirement was.....	The following requirements apply:
On or prior to the disaster "Incident Period" end date	Standard (Full) appraisal, 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 interior appraisal is required, and all damage must be repaired prior to closing and/or purchase by NewRez.
After the "Incident Period" end date	Standard (Full) appraisal	An additional subsequent inspection is not required unless otherwise noted by the appraiser.
The day after the "Incident Period" end date up to the expiration date of the disaster (90 days from the end of the "Incident Period" to the note date), regardless of AUS submission 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 interior appraisal is required, and all damage must be repaired prior to closing and/or purchase by NewRez.



Underwriting Guide

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.1 (a)(i) Age of Documentation

Fannie Mae DU	<ul style="list-style-type: none">• Underwriting documentation, including credit reports and verifications of income and assets, must be dated no more than 180 days before the Note date.<ul style="list-style-type: none">○ The message in the DU Underwriting Findings Report that indicates if the loan casefile has not already closed, the credit report has expired, may be disregarded.• The appraisal must be dated no more than 180 days before the Note date.
Freddie Mac LPA	<p>The following applies to LPA submission requirements for all loans secured by properties located in a Major Disaster Area and remains in effect for six months from the disaster declaration by FEMA.</p> <ul style="list-style-type: none">• Underwriting documentation, including credit reports and verifications of income and assets, must be dated no more than 180 days before the Note date.• The appraisal must be dated no more than 180 days before the Note date.• If LPA offers an appraisal waiver, it will be valid for 180 days as long as no data changes invalidate the appraisal waiver. If the appraisal waiver expires; an appraisal is required.



Underwriting Guide

	LPA will automatically pull a new credit report for loans submitted or resubmitted to LPA more than 120 days after the date of the credit report used in the assessment.
--	--

7A.1 (b) FHA and USDA 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 Incident Period (Incident End date as identified by FEMA)
- 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.

FHA does not require a specific form or damage inspection report. Below are recommended forms to certify the property condition:

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 Profiles for possible exceptions to the Disaster Policy.

Underwriting Guide

<p>Appraisal completed on or prior to the disaster "Incident Period" end date</p>	<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 Incident Period end date or 14 days from the Incident Period start date, whichever is earlier, • 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). <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.
<p>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>	<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

Underwriting Guide

	<ul style="list-style-type: none"> 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 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> <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.

All damage 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 appropriate and applicable documentation.



Underwriting Guide

7A.1 (c) VA Inspection Requirements

Pending mortgage closings or endorsement in a declared disaster require a damage inspection that identifies and quantifies any dwelling damage.

Appraisal completed on or prior to the disaster "Incident Period" 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 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>Employment/Income Certification</p> <p>Confirm prior to closing that the Veteran's employment and income have not changed since the loan application. If at time of closing the Veteran or co-borrower is no longer employed or income has been reduced, this information should be reported to VA or the automatic underwriter, as appropriate, for evaluation prior to closing.</p> <p>VA Loan Summary Sheet (VA Form 26-0286)</p> <p>The Remarks section of this form must be annotated 'Lender and Veteran Disaster Certifications Enclosed.' Additionally, if local law</p>
--	---

Underwriting Guide

	<p>requires the property to be inspected and approved by the local building inspection authority, a copy of the appropriate local report(s) 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.1 (d) Non-Agency Inspection Requirements

Refer to Conforming Inspection requirements, except for the following:

- Electronic evaluations are not acceptable



Underwriting Guide

Chapter 8A Escrow Holdback Policy

Contents

Chapter 8A Escrow Holdback Policy	1
8A.1 Overview	2
8A.1 (a) Conventional Conforming Escrow Holdbacks.....	2
8A.1 (b) New or Proposed Construction	3
8A.1 (c) FHA Work Completion Escrows.....	5
8A.1 (d) VA Escrow Holdbacks	6
8A.1 (e) USDA Escrow Holdback.....	7
8A.2 MA Title 5 Repair Escrow	8



Underwriting Guide

8A.1 Overview

NewRez will permit escrow holdbacks/work completion escrows, for primary residences, on a limited basis, for weather-related repairs that do not impact the safety, soundness, and structural integrity of the improvement.

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.

8A.1 (a) Unacceptable Repair Escrows

The following repairs must be repaired prior to closing. This is not an all-inclusive list.

- Septic repair or replacement;
 - An exception may be considered but must be weather related and requires certificate of occupancy from the local jurisdiction for disbursement.
- Well repair or replacement;
- Roof repair or replacement;
- Termite damage repairs;
- Structural repairs or foundation work;
- Electrical repairs that are structural and requires a permit and sign off by the city;
- Gutters;
- Health and/or safety issues;
- Portable items such as appliances or furniture; and
- Installation of a new pool or spa.

8A.1 (b) Conventional Conforming Escrow Holdbacks

8A.1 (b)(i) Existing Construction

Minor Deferred Maintenance	If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the livability, soundness, or
----------------------------	---

Underwriting Guide

	<p>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 worn 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.</p> <p>If the appraiser completes the appraisal "subject to repairs" for minor deferred maintenance, an escrow for repairs may not be established. Repairs must be completed as required by the appraiser.</p>
Safety, Soundness and Structural Related Repairs	<p>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.</p>

8A.1 (c) 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:
 - 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; and



Underwriting Guide

- 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; and
 - 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; and
- The mortgage insurance and title insurance may not be adversely affected during or after the time the completion escrow is in effect.

8A.1 (c)(i) Establishing an Escrow

The following steps must be taken to establish an escrow account:

- 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 agent to hold escrow funds in an amount of 120% 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 borrower(s), Closing Agent, and NewRez.
 - 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.



Underwriting Guide

8A.1 (c)(ii) Completion Certification

Once the repairs are complete, an inspection must be ordered with the results reported on *Appraisal Update and/or Completion Report* ([Form 1004D/Form 442](#)). Inspections are required on all escrow releases.

8A.1 (d) FHA Work Completion Escrows

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; and
- Agreement of sale indicates that repairs are to be paid for by the borrower.

8A.1 (d)(i) Eligibility to Establish an Escrow

An escrow account may be established if:

- 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.1 (d)(ii) 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.

- A minimum of 150% of the cost for completing the improvements must be held in escrow;
- 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 180 days of closing date; and
- FHA insurance will be obtained with *Mortgagee's Assurance of Completion* (form HUD-92300).



Underwriting Guide

The following documentation must be submitted with loan purchase package:

- Copy of executed *Mortgagee's Assurance of Completion* (form HUD-92300);
- Borrower signed escrow holdback agreement; and
- Cost estimates.

8A.1 (d)(iii) Completion Certification

Satisfactory completion of repairs must be evidenced by one 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; and

8A.1 (e) VA Escrow Holdbacks

8A.1 (e)(i) Eligibility to Establish an Escrow

An escrow account may be established if:

- The deferred work cannot be acceptably completed prior to loan closing due to adverse weather conditions; and
- The subject dwelling and property is habitable, safe and sound.

8A.1 (e)(ii) 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.

- A minimum of 150% of the cost for completing the improvements must be held in escrow
- 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.



Underwriting Guide

- 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 following documentation must be submitted with loan purchase package:

- Borrower signed escrow holdback agreement;
- Cost estimates; and
- Completed *Escrow Agreement for Postponed Exterior On site Improvements* ([VA Form 26-1849](#))

8A.1 (e)(iii) 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/Form 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; and
- Veteran cannot be charged the final inspection fee.

8A.1 (f) USDA Escrow Holdback

8A.1 (f)(i) Eligibility to Establish an 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; and
- The subject dwelling and property is habitable, safe and sound.



Underwriting Guide

8A.1 (f)(ii) Establishing an Escrow

The following steps must be taken to establish an escrow account:

- 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;
- The cost of any remaining work, exterior or interior, may not exceed the lesser of \$5,000 or 10% of the final loan amount;
- 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; and
 - All parties must sign this agreement which identifies their rights, duties, and obligations, including but not limited to the borrower(s), Closing Agent, and NewRez; and
 - 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.1 (f)(iii) Completion Certification

Once the repairs are complete, an inspection must be ordered with the results reported on *Appraisal Update and/or Completion Report* ([Form 1004D/Form 442](#)). Inspection are required on all escrow releases.

8A.2 MA Title 5 Repair Escrow

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;



Underwriting Guide

- The cost to complete the improvements does not exceed 15% of the "as completed" value; and
- A minimum of 150% of the cost for completing the improvements must be held in escrow, collected, and held by the title company.

See the NewRez Policy and Procedures.

Underwriting Guide

Chapter 9A Power of Attorney

Contents

Chapter 9A Power of Attorney	1
9A.1 Power of Attorney	2
9A.2 Acceptable Use of Power of Attorney	2
9A.3 Restrictions and Limitations	3
9A.4 Investor Requirements	4
9A.4 (a) Fannie Mae	5
9A.4 (b) Freddie Mac	7
9A.5 FHA (Ginnie Mae)	8
9A.5 (a) Exception	9
9A.6 VA (Ginnie Mae)	9
9A.6 (a) Alive and Well Statement	10
9A.7 USDA	11
9A.8 Title Company Requirements	11
9A.9 Lender Policies	11
9A.10 General Requirements??	12
9A.11 Jumbo/Non-Agency	12

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.

The Power of Attorney must be reviewed by NewRez legal.

Underwriting Guide

9A.1 Power of Attorney

Generally, a POA is an instrument that authorized 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 his or her business in person, not as a matter of convenience. A POA does not survive death of the applicant.

Refer to our Product Profiles 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:

1. Incapacitated Borrower



Underwriting Guide

The borrower is incapacitated and therefore unable to sign documents due to disability, legal incapability, or he/she lacks 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

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.

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 only.

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.

Underwriting Guide

Regardless of whether the correct form is used, POAs cannot be used:

- When the property to be used to secure the loan is held in trust; or
- In connection with a Texas Section 50(a)(6) loan.

9A.4 Investor Requirements

Generally, 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;
- Must be prepared by the borrower's attorney or the closing agent; it will not be prepared by NewRez;
- Must be signed and notarized;
- Unless otherwise required by applicable law, must reference the address of the subject property;
- Clearly defines the agent;
- Grants the agent the authority to enter into a real estate transaction and mortgage real property;
- Does not contain any blanks;
- 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.

In addition:

- The original POA must be provided at closing for recording or must be previously recorded with a clerk certified copy in the file;
- The 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 Principal is the same person as shown on the loan application;
- The agent's identity is verified and documented in the loan file;
- The title company must accept the POA and insure the property without exceptions;
- NewRez must obtain a letter of explanation verifying the reason the POA is being used; and
- 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.

Underwriting Guide

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.

9A.4 (a) Fannie Mae

The Fannie Mae Selling Guide contains numerous provisions relating to POAs and should be consulted for 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 copy of the POA reflects the following:

- 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 effected.
- 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.

9A.4 (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	Transaction must meet the Additional Conditions below

Underwriting Guide

<ul style="list-style-type: none"> 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) 	
<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 affiliate; Any real estate agent with a financial interest in the transaction (or any person affiliate with such real estate agent). 	None

A borrower's relative includes any person defined as a relative in this Guide, or a person who is a finacé, fiancée, or in a legally recognized mutual relationship with the borrower.

9A.4 (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 the lender must produce a recording and other documentary media memorializing the entirety of the interactive session. Such request may be at any time during the term of the related loan. The lender must comply within a commercially reasonable time following such request and without additional expense to Fannie Mae.



Underwriting Guide

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.4 (b) Freddie Mac

The Freddie Mac Single-Family Seller Guide contains several provisions relating to POAs and should be consulted for the latest information. Those provisions are summarized below.

Freddie Mac will permit the Note, the Security Instrument and other closing documents to be executed by a person as attorney-in-fact agent acting under a POA in the following circumstances:

- There is an event, such as a medical emergency, natural disaster 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.

A POA may not be used as a means of convenience of the borrowers. Evidence of the emergency qualifying the use of a POA must be provided. 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 acting as 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

After the finalized Closing Disclosure has been delivered to the borrower but prior to closing, NewRez or settlement agent must explain and discuss the terms of the mortgage and use of the POA with the borrower to confirm that the borrower understands them. This discussion must take place in person, telephonically or using a video conference system and must be memorialized in an acknowledgment by the borrower of his or her understanding of the terms of the mortgage. The acknowledgment (i)

Underwriting Guide

may be in writing or in a recording of the telephonic or video discussion, (ii) must be retained in the loan file, and (iii) must be made available to Freddie Mac upon request. If the discussion is done using a telephonic or video system, a transcript of the recording or the borrower's written acknowledgment of the content of the discussion may substitute for a copy of the recording itself in the mortgage file.

The POA must be notarized; however, it may be remotely notarized where permitted by applicable law.

If the Note was executed under a paper POA, the Seller must comply with the delivery requirements per Freddie Mac [Selling Guide](#).

9A.5 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:

- 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 the either of the following:

- For Military Personnel, a POA may only 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 may only be used where:
 - A borrower is incapacitated and unable to sign the mortgage applicable;

Underwriting Guide

- The incapacitated individual will occupy the property or the property is being 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.

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.5 (a) Exception

Closing documents may be signed by an attorney-in-fact who is connected to the transaction if the POA 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.6 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

Underwriting Guide

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 ACDM's period of deployment, not to exceed one year.

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 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.6 (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:



Underwriting Guide

"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.7 USDA

A POA may not be used for any Rural Housing/USDA program.

9A.8 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.9 Lender Policies

NewRez has a specific policy with regard to executing POAs outside of the US. The following categories of individuals are eligible to sign POAs overseas:

- 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");
- 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.

Underwriting Guide

9A.10 General Requirements

The following guidance should be used on Conventional loans (Fannie Mae and Freddie Mac) when a POA is utilized at closing. Additional product specific requirements are outlined in Section VI.

- 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 POA 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;
- 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; and
- NewRez must obtain a letter of explanation verifying the reason the POA is being used.

9A.11 Jumbo/Non-Agency



Underwriting Guide

Refer to our Product Profile for investor requirements

VA Underwriting Guide

Chapter 3A Eligibility

Contents

Chapter 3A VA Eligibility	1
3A.1 Overview	3
3A.2 Excluded Parties	3
3A.3 Credit Alert Interactive Voice Response System (CAIVRS) and Delinquent Federal Debt.....	4
3A.4 Loan Application	5
3A.5 Identity Verification	6
3A.6 Social Security Number Validation	7
3A.7 Documentation Age	7
3A.8 Occupancy	8
3A.8 (a) Primary Residence	8
3A.9 Veteran Eligibility	9
3A.9 (a) Veterans	9
3A.9 (b) Reserves and National Guard	9
3A.9 (c) Surviving Spouse of Veteran	9
3A.9 (d) Other Qualifying Service	9
3A.9 (e) Certification of Eligibility	10
3A.9 (e)(i) IRRRL Transactions	10
3A.10 VA Loan Guaranty	11
3A.11 Entitlement.....	11
3A.11 (a) Basic Entitlement	12
3A.11 (b) Bonus Entitlement.....	12
3A.12 Restoration of VA Entitlement	12
3A.13 VA Funding Fee	13
3A.13 (a) Funding Fee Percentage	13

VA Underwriting Guide

3A.13 (b) Calculating the Funding Fee	14
3A.13 (c) Calculating the Funding Fee for Joint Loans	14
3A.13 (d) Funding Fee Exemption	14
3A.14 Borrower Eligibility	15
3A.15 Joint Loans	16
3A.15 (a) Occupancy Requirements	16
3A.15 (b) Underwriting	16
3A.15 (c) Down Payment	17
3A.15 (d) VA Funding Fee	17
3A.15 (e) Calculating the VA Guaranty of a Joint Loan	17
3A.15 (f) Examples for Calculating Guaranty Amount and Guaranty Percentage	18
3A.16 Ownership Interests	19
3A.16 (a) Life Estate	19
3A.16 (b) Leasehold Estate	19
3A.17 Loans to Trusts	19
3A.17 (a) Inter Vivos Revocable Trust	20
3A.17 (b) Trust and Trustee Requirements	20
3A.17 (c) Certification of Trust	21
3A.17 (d) Title and Title Insurance Requirements	21
3A.18 Ineligible Trust	22
3A.19 Ineligible Programs	22



VA Underwriting Guide

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. 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 Desktop Underwriter and Freddie Mac Loan Product Advisor. **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.

3A.2 Excluded Parties

NewRez prohibits loans where any company, lender, vendor, individual, or lender employee (loan originator, loan processor, or loan underwriter) who are material parties to the transaction are listed on NewRez's Exclusionary List, and the Federal General Services Administration (GSA) [List of Parties Excluded from Federal Nonprocurement Programs](#). The list is found in the Federal [System for Award Management \(SAM\)](#) website.

NewRez's Exclusionary List, HUD's LDP list, and SAM must be checked to confirm eligibility for all participants involved in the transaction and must be evidenced in the loan file.

Borrower	<p>A borrower is not eligible if they appear on the NewRez Exclusionary List or either of the following exclusionary lists:</p> <ul style="list-style-type: none">• HUD Limited Denial of Participation (LDP) list; and• System for Award Management (SAM) Advanced Search-Exclusion. Follow
-----------------	---

VA Underwriting Guide

	the appropriate procedures defined by SAM.
Other Parties to the Transaction	<p>If anyone participating in the transaction is listed on NewRez's Exclusionary List or FHFA's Suspended Counterparty Program (SCP) list, the loan is not eligible.</p> <p>This may include but is not limited to:</p> <ul style="list-style-type: none"> • 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 • 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)

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 does not need to be checked against CAIVRS.

VA Underwriting Guide

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:

- The Veteran has been satisfactorily making payments prior to application;
- The repayment plan has been in effect prior to the loan 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 reasonably 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 of time. 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

VA Underwriting Guide

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 [3E](#) Credit, [3E.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 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.

VA Underwriting Guide

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 60 days prior to the Note date for existing construction and 60 days for new construction.• For Prior Approval loans, 120 days from the date the application is received by VA for existing construction and 180 days for new construction.• 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>The appraisal report must be dated within six months of the date of Note date. A new appraisal is required if the appraisal date is more than 180 days from the date of the appraiser signature. An Updated Appraisal is not permitted.</p> <p>For Proposed Construction transactions, the validity date of the appraisal can extend beyond six months until the purchase transaction is completed (or terminated) as long as the Veteran is under contract during the validity period of the Appraisal and VA Notice of Value (NOV).</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>

VA Underwriting Guide

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 intent to personally occupy the subject property.

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.

Occupancy (or intent to occupy) by the Veteran may be satisfied by the following:

- Veteran-borrower occupies the property as their primary residence; and
- Spouse or dependent child occupies the property as their primary residence if the Veteran is on active duty;
 - 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.

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.

VA Underwriting Guide

3A.9 Veteran Eligibility

3A.9 (a) Veterans

An eligible borrower is a Veteran who is active duty or has 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 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 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.

VA Underwriting Guide

3A.9 (e) Certification of Eligibility

In order to verify a Veteran's eligibility for a VA loan, a Certificate of Eligibility (COE) is issued by the Veterans Administration and is evidence that the Veteran meets the basic requirements for a VA loan, as determined by the VA. The COE must be ordered prior to requesting a VA Case Number assignment and appraisal.

Use WebLGY, an online feature that allows lenders to obtain an eligibility determination. WebLGY eliminates the completion of VA Form 26-1880, *Request for a Certificate of Eligibility*. Access to WebLGY is obtained through the Veterans Information Portal.

If eligibility is established, print out the COE and submit with the guaranty package. If eligibility is not established a Refer message will instruct the lender to submit a completed VA Form 26-1880 as indicated in the section above.

If the Veteran is not eligible, the VA will notify the Veteran of his or her appeal rights. The COE must be dated within six months of the application date.

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 accuracy of the data on the COE.

If the COE does not show that the Veteran is exempt from paying the funding fee, ask the Veteran if he or she has a 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 days before the loan closing using the COE "Correct" function in WebLGY

3A.9 (e)(i) IRRRL Transactions

A COE is required on IRRRL transactions except for the following situations:

- Veteran has already been determined to be exempt from VA Funding Fee as evidenced on IRRRL Case Number Assignment print-out;
- The entitlement encumbered on the loan being refinanced belongs to Veteran who has since died and the IRRRL borrower is spouse who was co-borrower on the loan being refinanced; or
- The entitlement encumbered on the loan being refinanced belongs to the surviving spouse of a Veteran.

VA Underwriting Guide

3A.10 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.

A loan is automatically guaranteed by VA upon closing (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 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
- Complicate with all applicable law and regulations.

3A.11 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 generally 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
- Equity in property (refinance)

The maximum available entitlement shown on the Certificate of Eligibility is \$36,000. Generally, the maximum loan amount is calculated by multiplying the available entitlement by four.



VA Underwriting Guide

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.11 (a) Basic Entitlement

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.11 (b) Bonus Entitlement

Bonus entitlement is only available for loan amounts in excess of \$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.

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).

See the following resources:

- [VA Maximum Mortgage Amount Worksheet](#);
- [VA Eligibility](#); and
- [VA Loan Limits](#).

3A.12 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

VA Underwriting Guide

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.

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;
- 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;"

VA Underwriting Guide

- 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 sales price 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). If the purchase price exceeds the reasonable value of the property, the difference between the purchase price and the reasonable value must be paid by the Veteran in funds without borrowing.

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 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 following borrowers are exempt from paying the funding fee:

- A Veteran who is receiving disability compensation (or who, but for 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**



VA Underwriting Guide

exemption; and

- 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.

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 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."

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 a corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts are not eligible. Living trusts may be eligible. See Living Trusts section in this chapter.

A co-borrower who is not the spouse of the Veteran must be approved by VA utilizing the Joint Loan policy. See Section [3A.14](#) and our Product Profiles for more information.

All marriages will be recognized regardless of whether they are opposite-sex or same-sex marriages. Documentation to prove marriage is not required. The Veteran's assertion of spousal status based on the completion of VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application, may be accepted to establish spousal status.

Non-occupant co-borrower and co-signers are not permitted. Borrowers must meet credit and program eligibility requirements.

VA Underwriting Guide

3A.15 Joint Loans

Joint Loans are eligible for Wholesale only.

A loan is considered a joint loan in any of the following circumstances:

- The Veteran and one or more non-Veterans (who is not the Veteran's spouse);
- The Veteran and one or more Veterans (who is not the Veteran's spouse) who will not be using their entitlement;
- The Veteran and one or more Veterans (who is not the Veteran's spouse), all of whom will use their entitlement (e.g., two 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 using their entitlement on a joint loan must certify intent to personally occupy the property as their primary residence.

3A.15 (b) Underwriting

Joint loans must be manually underwritten and must receive final approval from the VA before closing. Loans are not eligible to be submitted to automated underwriting.

The following loans must receive final approval from the VA before closing:

- Joint loan to Veteran and one or more non-Veterans (not spouse); or
- Joint loan to Veteran and one or more Veterans (not spouse) not using their home loan entitlement.

Final approval from the VA before closing is not required for joint loans of two (2) or more unmarried Veterans using their home loan entitlement.

Veteran/Veteran (two or more) Joint Loan (all borrowers are Veterans using entitlement or their spouses).

VA Underwriting Guide

- Permits combining income to qualify;
- One 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 VA Guaranty of a Joint Loan

For VA Joint Loans, the VA will only guarantee a portion of the total loan that is allocated to the Veteran. This could potentially result in a VA guaranty amount that is insufficient for 100% financing and will require a down payment to meet secondary market requirements.

- Divide loan amount by number of borrowers
- Multiply the result by number of Veterans using entitlement
- Calculate the maximum potential entitlement for Veterans portion
- VA Guaranty will be the lessor of:
 - Max potential guaranty (see VA Guaranty matrix below)
 - Combined available entitlement of all Veteran-borrowers

Loan Amount	Max Potential Guaranty
Up to \$45,000	50% of loan amount

VA Underwriting Guide

\$45,001 to \$56,250	\$22,500
\$56,251 to \$144,000	40% of the loan amount with maximum of \$36,000
\$144,001 to \$417,000	25% of loan amount
Greater than \$417,000	The lesser of: <ul style="list-style-type: none"> • 25% of the VA county loan limit or • 25% of the loan amount
Minimum guaranty of 25% on IRRRLs	

3A.15 (f) Examples for Calculating Guaranty Amount and Guaranty Percentage

Scenario 1	
Veteran/Non-Veteran Joint Loan	
Loan amount divided by 2 borrowers	\$50,000
Veteran portion	\$50,000
Veteran portion plus 2.15% Funding Fee	\$51,700
Available entitlement	\$36,000
VA Maximum Potential Guaranty (see chart)	\$22,500
Lesser of lines 3 and 4	\$22,500
Line 6 divided by sales price	22.5%
Loan is ineligible because it does not meet the required minimum guaranty of 25%. The loan would have to be restructured to create a down payment or equity portion to supplement the VA guaranty percentage rate of 22.5%.	
Scenario 2	
Loan amount plus 2.15% Funding Fee	\$306,450
VA Maximum Potential Guaranty (see chart)	\$76,612.50
Combined available entitlement (2 x \$106,025 bonus entitlement of each Veteran)	\$212,050
Lesser of lines 1 and 2	\$76,612.50
Line 4 divided by appraised value	25.54%
Loan is eligible because it meets the required minimum guaranty of 25%.	

VA Underwriting Guide

3A.16 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 and with VA approval.

3A.16 (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.

3A.16 (b) Leasehold Estate

A Leasehold must be submitted to and approved by the VA Regional Loan Center (RLC) with jurisdiction. All of the following must be included in the submission package:

- Details of the ownership arrangement
- 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.17 Loans to Trusts

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

VA Underwriting Guide

influence the lending process in any way, and (iv) they understand the legal implications of this decision.

3A.17 (a) Inter Vivos Revocable Trust

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.

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.17 (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:

- The trust is established by one 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 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:

VA Underwriting Guide

- The individual establishing the trust (or at least one 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 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.17 (c) Certification of Trust

A certification of trust or a summary of trust is acceptable if required by state law.

3A.17 (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 inter vivos revocable trust; or
- 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.

VA Underwriting Guide

3A.18 Ineligible Trust

The following trusts are ineligible:

- Blind Trusts
 - 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.
- Community Land Trusts
 - 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.

- 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.

- 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.

3A.19 Ineligible Programs

The following programs are not eligible:

- Energy Efficient Mortgages (EEM)
- Farm Residence Loans
- HPML Loans
- High Cost Loans



VA Underwriting Guide

- Specially Adapted Housing
- Supplemental Loans



VA Underwriting Guide

Chapter 3B Transactions

Contents

Chapter 3B Transactions	1
3B.1 Purchase Mortgage	2
3B.1 (a) Conflict of Interest	2
3B.2 Interest Rate Reduction Refinance Loans (IRRRL).....	3
3B.2 (a) Owelty Liens-Texas Only	3
3B.3 Cash-out Refinance Mortgage	3
3B.4 Installment Land Contracts.....	4
3B.5 Permanent Financing for New Construction	5
3B.6 Texas Equity Refinance.....	6

VA Underwriting Guide

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.

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.

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) Conflict of Interest

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

VA Underwriting Guide

- the loan officer for the borrowers purchasing the same subject property;
- The loan officer may not take their own application; or
- Husbands and wives 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 of 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; and
- Incidental cash back not to exceed \$500 (no cash back permitted for 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.

See our Product Profiles for complete requirements.

3B.2 (a) 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.3 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.

VA Underwriting Guide

- 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 1 Cash-out Refinance	A refinance in which the loan amount (including the Funding Fee) does not exceed the payoff amount of the loan being refinanced
Type 2 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; • Properties in Texas; the borrower cannot receive any cash back from the transaction; and • Satisfaction of junior liens.

See our Product Profiles for complete requirements.

3B.4 Installment Land Contracts

Installment land contracts are treated as purchase transactions and payoff an unrecorded or recorded installment land sales contract.

The maximum loan amount is calculated by using the lesser of:

- The VA reasonable (appraised) value; 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.

VA Underwriting Guide

3B.5 Permanent Financing for New Construction

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to pay off an interim construction loan that the borrower obtained to fund the construction of a new residence. See the Product Profiles for LTV requirements.

The transaction must be treated as a purchase and comply with all of the following:

- Order as a purchase transaction in WebLGY (VA case number assignment must reflect purchase transaction);
- Purchase price should reflect the VA Certificate of Reasonable Value issued on the Notice of Value;
- Closing Disclosure may be reflected as a refinance transaction;
- AUS Feedback Report should reflect purchase transaction;
- Loan amount may include the following documented acquisition costs:
 - The contract to build (permits if not included in the contract to build); or
 - Cost of the lot if acquired within one year from VA loan closing; or
 - Value of the lot if acquired more than one year from VA closing; or
 - Value of the lot if gifted to the Veteran and there are no liens on the lot (Lot gifted less than one year from VA closing are limited to lot liens, if any).
- The maximum loan amount for construction loans is limited to:
 - The lesser of the VA reasonable value, or the acquisition costs; plus
 - VA funding fee.
- For the purpose of reducing the funding fee, ownership of the land by the Veteran 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;
- The general contractor must be a registered VA builder; and
- VA New Construction Exhibits and Inspections must be obtained.

See Two-time Close construction loan in [VA Circular 26-18-7](#)



VA Underwriting Guide

3B.6 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(a)(4) 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 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 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 Profiles apply to Texas Equity Loans unless limited by the Texas Constitution or the requirements in this Texas Equity Loans section.

Second homes and investment properties that are not classified as homestead are not subject to the restrictions in Article XVI, Section 50(a)(6) and 50(g) of the Texas Constitution or the NewRez Texas Equity Loan requirements specified in this section.

VA Underwriting Guide

Chapter 3C Financing

Contents

Chapter 3C VA Financing	1
3C.1 Itemized Fees and Charges	2
3C.1 (a) Itemized Fees and Charges	2
3C.1 (b) One Percent Flat-Charge (Origination Fee)	3
3C.1 (c) Fees and Charges the Veteran-Borrower Cannot Pay	4
3C.2 Calculating Loan-to-Value (LTV) and Combined Loan-to-Value (CLTV) Ratios.....	5
3C.2 (a) Purchase Mortgage.....	5
3C.2 (b) Interest Rate Reduction Refinance Loans (IRRRL)	5
3C.2 (c) Cash-out Refinance Mortgage	6
3C.2 (d) Permanently Modified HELOC	6
3C.3 Secondary Financing	6
3C.3 (a) Eligible Sources	7
3C.4 Property Assessed Clean Energy (PACE)	7
3C.5 Seller Concessions.....	8
3C.6 Principal Curtailments	9

VA Underwriting Guide

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
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

VA Underwriting Guide

	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.
VA Funding Fee	VA Funding Fee, unless exempt by VA
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 one percent flat fee and cannot be charged to the

VA Underwriting Guide

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;
- Termite/pest inspection fees;
- 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	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. The Veteran can independently retain an attorney and pay a fee for legal

VA Underwriting Guide

	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.
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.
Brokerage Fees	Fees or commissions charged by a real estate agent or broker
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.

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 mortgage amount by the lower of the appraised value or sales price.

The CLTV ratio is obtained by dividing the principal mortgage amount (including VA Funding Fee) and 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 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 base mortgage amount by the appraised value.

The CLTV ratio is obtained by dividing the principal mortgage amount (including VA Funding Fee) and 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 appraised value.

VA Underwriting Guide

3C.2 (c) Cash-out Refinance Mortgage

The LTV ratio is obtained by dividing the **total** mortgage amount by the appraised value.

The CLTV ratio is obtained by dividing the principal mortgage amount (including VA Funding Fee) and 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 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.

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.

See our Product Profiles for maximum CLTV requirements.

3C.3 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.

VA Underwriting Guide

Proceeds of the second mortgage may be used for closing costs and prepaid expenses. The proceeds of the second mortgage:

- May be used for down payment provided that the amount of the secondary financing plus the amount of available VA guaranty equals at least 25% of the lesser of purchase price or the Certificate of Reasonable Value (CRV); and
- May not include the amount, if any, by which the purchase price exceeds the CRV.

The following is not permitted:

- Cash back to the Veteran from the second mortgage;
- Seller provided secondary financing is not permitted; and
- Restrictions on the Veteran's ability to sell the property (i.e., assumable feature).

3C.3 (a) Eligible Sources

- Down Payment Assistance Programs (DPAs) provided by federal, state, local government agencies and VA approved non-profit agencies considered by VA to be an instrumentality of the government; and
- Home Buyer Assistance Programs (HAP) in the form of "soft second or silent mortgages" that are administered by non -profit entities require VA approval. HAPs administered by state, county or municipal government entities have VA blanket approval.

NewRez must approve all Home Buyer Assistance Programs. Refer to VA Lenders Handbook and the Product Profiles.

3C.4 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

VA Underwriting Guide

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 [31](#) VA Appraisal and Property Requirements, [31.22](#) Property Assessed Clean Energy (PACE) for appraisal requirements when a PACE or PACE-like loan exists.

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 of the following:

- Payment of the VA Funding Fee;
- Prepayment of property taxes and insurance;



VA Underwriting Guide

- Gifts typical of what builders offer to entice buyers to purchase (appliance packages, swimming pools, television etc.);
- Payment of extra points to provide a permanent interest rate buydown; and
- Payoff of credit balances or judgments on behalf of the borrower.

Seller assistance for standard closing costs such as title work, recording fees and taxes, appraisal, credit report, and discount points, etc., are not included in the 4% limitation. The seller can pay 100% of non-recurring closing costs and discount points. The satisfaction of a PACE lien or obligation against the property by the seller is not considered a seller concession.

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.

3C.6 Principal Curtailments

A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the loan.

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.

VA Underwriting Guide

Chapter 3D Property Types

Contents

Chapter 3D VA Property Types.....	1
3D.1 Eligible Property Types.....	3
3D.1 (a) Single-Family Residence	3
3D.1 (b) Modular Home.....	3
3D.1 (c) Two- to Four-Unit Property.....	3
3D.1 (d) Condominium	3
3D.1 (d)(i) Site Condos	4
3D.1 (e) Planned Unit Development (PUD)	4
3D.2 New Construction	4
3D.2 (a) Reduction in VA Funding Fee	5
3D.2 (b) Cash Back to Borrower	5
3D.2 (c) New Construction Classifications	5
3D.2 (d) Appraisal Requirements	6
3D.2 (d)(i) Change Orders	6
3D.2 (e) Warranty Requirements for all New Construction Properties	7
3D.2 (f) Inspection Requirements	7
3D.2 (f)(i) Wood Destroying Insect Information	7
3D.2 (f)(ii) Lead/Water Distribution Certification	8
3D.2 (f)(iii) Radon Gas	8
3D.2 (g) Manufactured Housing	8
3D.2 (g)(i) Manufactured Housing Eligibility	9
3D.2 (g)(ii) Existing Manufactured Housing	10
3D.2 (g)(iii) Titling the Manufactured Home as Real Property	11
3D.2 (g)(iv) Ineligible Manufactured Housing Property Types	11



VA Underwriting Guide

- 3D.2 (h) Mixed-Use Property 12
- 3D.2 (i) Deed/Resale Restriction..... 12
- 3D.3 Ineligible Property Types 12



VA Underwriting Guide

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.

VA Underwriting Guide

3D.1 (d)(i) Site Condos

A Site condo is a condo project consisting of detached, single-family dwellings.

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

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

3D.2 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.

Transactions secured by homes in which construction was completed and at least one year has passed as evidenced by a Certificate of Occupancy (CO), or other evidence by the taxing authority will be treated as a refinance transaction and ordered in WebLGY as a Cash-out Refinance.

The maximum loan amount for new construction loans is limited to:

VA Underwriting Guide

- The lesser of the VA appraised value; or
- The acquisition costs (see below); plus
- VA Funding Fee.

Acquisition costs can include the following items:

- The contract to build;
- Cost of the lot if acquired within one year from VA loan closing;
- Value of the lot if acquired more than one year from VA loan closing;
- Value of the lot if gifted to the Veteran and there are no liens on the lot;
- Lots gifted less than one year from VA loan closing are limited to lot lien(s) if any;
- Interest reserve if not included in the contract to build;
- Contingency reserve; and
- Permits if not included in the contract to build.

3D.2 (a) Reduction in VA Funding Fee

For the purpose of reducing the funding fee when down payment of 5% or more is made, ownership of the land by the Veteran 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 appraised value. Lots held as contracts for deed are not considered owned by the borrower.

3D.2 (b) Cash Back to Borrower

Generally, there is no cash back at closing, however in instances where down payment funds came directly from the Veteran, or the Veteran purchased the 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 appraised value, and evidence of the cash funds provided initially by the Veteran are documented in the loan file. The borrower cannot receive cash from equity in the project, or funds provided by another party.

3D.2 (c) New Construction Classifications

New Construction properties are classified into two categories by the stage of construction:

VA Underwriting Guide

New Construction (built less than one year and never occupied)	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) Registered in VA's WeBLGY system as Purchase New Construction
Proposed Construction Properties	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

The builder for all new construction properties must have a valid VA Builder ID number prior to the appraisal being ordered. Builders who have not have a VA Builder ID, can easily registering for a VA Builder ID through the following [VA website](#).

3D.2 (d) Appraisal Requirements

When ordering the VA appraisal for proposed construction or under construction properties, not yet completed to the customer preference items stage, the following exhibits must be uploaded to WebLGY along with sales contract:

- 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.

3D.2 (d)(i) Change Orders

Change orders and/or upgrades made after the appraisal cannot be financed into the new loan. Borrowers are permitted to pay for upgrades out of pocket. Change orders must be approved, in

VA Underwriting Guide

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.

3D.2 (e) Warranty Requirements for all New Construction Properties

Warranty requirements will be based on whether or not the local building authority performs construction inspections.

1. On a new construction property where local authority performs building inspections (foundation, framing, final), the Veteran must be provided with a one-year warranty on [VA Form 26-1859, Warranty of Completion of Construction](#), or a 10-year, insurance backed warranty.

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.

2. On a new construction property where local authority **does not** perform building inspections (foundation, framing, final), the Veteran must be provided with all of the following:
 - A one-year builder's warranty on [VA Form 26-1859, Warranty of Completion of Construction](#); and
 - A 10-year insurance backed warranty.

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.

3D.2 (f) Inspection Requirements

3D.2 (f)(i) 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.

VA Underwriting Guide

New Construction	<ul style="list-style-type: none"> The property must be inspected by a qualified pest control operator using <i>Wood Destroying Inspect 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.

3D.2 (f)(ii) Lead/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.

3D.2 (f)(iii) 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](#).**

3D.2 (g) 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 walls placed directly below the exterior perimeter walls of the

VA Underwriting Guide

Foundation Wall	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.
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).

3D.2 (g)(i) Manufactured Housing Eligibility

Manufactured homes must meet all of 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; and
 - Safety (IBTS) must be in the loan file.

VA Underwriting Guide

- 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; 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.

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 included within the appraisal report.

3D.2 (g)(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.

VA Underwriting Guide

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.2 (g)(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 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 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 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.

3D.2 (g)(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 housing attached units located in a condo or PUD project;
- Construction-to-permanent manufactured home; and
- New construction.

VA Underwriting Guide

3D.2 (h) 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:

Mixed-use properties are eligible if:

- The property is primarily for residential use;
- 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.2 (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.3 Ineligible Property Types

The following property types or characteristics are ineligible:

- Assisted living projects
- Bed and breakfast properties



VA Underwriting Guide

- Boarding houses
- Builder model leaseback (purchase transactions)
- Commercial properties
- Condo hotels
- Cooperative units
- Fraternity or sorority houses
- Houseboats
- Industrial properties
- Investment securities
- Land-lease communities
- Mobile home
- Multi-family dwelling containing more than four units
- Other transient housing
- Private clubs
- Properties located within designated Coastal Barrier Resource System (CBRS) areas
- Properties not suitable for year-round occupancy
- Tax-sheltered syndicate
- Timeshare unit/project
- Unimproved or vacant land
- Unique properties (geodesic home, berm homes, log homes, shouses, barndominiums)
- Working farm, ranch, or orchard

Not all property types listed above are ineligible under all Loan Programs. See our Product Profiles.



VA Underwriting Guide

Chapter 3E Underwriting

Contents

Chapter 3E VA Underwriting	1
3E.1 Automated Underwriting.....	2
3E.1 (a) Data Integrity	2
3E.1 (b) AUS Risk Classifications	3
3E.2 Manual Underwriting	4
3E.3 Underwriter’s Certification	4
3E.4 Residual Income	4



VA Underwriting Guide

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 cases 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).

VA Underwriting Guide

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	<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	<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



VA Underwriting Guide

	<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 is not eligible.</p>
--	---

3E.2 Manual Underwriting

Manual underwriting is not permitted, including a Approve/Accept requiring a manual downgrade or Refer decision.

Prior Approval Loans submitted to the VA must be manually underwritten and are eligible. AUS Findings do not apply.

3E.3 Underwriter's Certification

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). However, the file must still contain the Lender's Certification referenced in [Chapter 4](#) of the VA Lenders Handbook.

3E.4 Residual Income

Residual income is the amount of net income remaining (after deduction of debts and obligations and monthly housing expenses) 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

VA Underwriting Guide

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
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	

VA Underwriting Guide

Chapter 3F Credit

Contents

Chapter 3F Credit	1
3F.1 Documentation Standards	2
3F.2 Credit Report Standards	2
3F.2 (a) Credit Report Red Flags	3
3F.2 (b) Frozen Credit	3
3F.3 Credit Scores	3
3F.3 (a) Credit Scores	3
3F.4 Selection and Validation of Credit Scores.....	3
3F.4 (a) Selection	4
3F.5 Inquiries and Undisclosed Liabilities.....	4
3F.6 Housing Payment History	5
3F.7 Significant Derogatory Credit.....	6
3F.7 (a) Waiting Period Requirements.....	6
3F.7 (b) Re-established Credit	8
3F.7 (c) Delinquent Credit	8



VA Underwriting Guide

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.

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.

VA Underwriting Guide

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 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.

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, and are required for all loans, per our Product Profiles. 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.

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.

VA Underwriting Guide

3F.4 (a) Selection

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

Number of Scores	Score
3	Middle Score
2	Lower of the two
1	Use score

3F.5 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 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.

Written letters of explanation for inquiries are not required unless required by automated underwriting. 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.

VA Underwriting Guide

3F.6 Housing Payment History

See below for [TEMPORARY COVID REQUIREMENTS](#)

A mortgage payment is considered current if it is paid within the month due along with any late charges assessed for payments made beyond the 15-day grace period. 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 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.

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 NewRez mortgage payment history requirements.

For IRRRL and Cash-out Refinances, a minimum of six 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.

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

VA Underwriting Guide

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 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.

See our Product Profiles for housing payment history and mortgage payment forbearance requirements.

3F.7 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.

Extenuating circumstances are nonrecurring events beyond the borrower's control, resulting in a sudden, significant, and prolonged reduction in income (extended illness, unemployment, and death of a wage earner).

3F.7 (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

VA Underwriting Guide

their liens and forgive the deficiency balance on real estate.

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	Waiting Period
Foreclosure and Deed-in-Lieu of Foreclosure Short Sale	<ul style="list-style-type: none"> • ≥ 2 years from completion date • Documentation evidencing the date of completion. The credit report verification is not acceptable • Short Sales with or without mortgage late payments that were completed over one year, but less than two years will require a letter of explanation and supporting documentation to establish an extenuating circumstance and to confirm short sale was not due to credit negligence or taking advantage of a declining market. <p>If foreclosure, DIL, or short sale 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.</p>
Chapter 7 Bankruptcy	<ul style="list-style-type: none"> • ≥ 2 years from discharge date • Documentation evidencing the date of discharge of the bankruptcy • Must have re-established acceptable credit or chosen not to incur new credit obligations
Chapter 13 Bankruptcy	<ul style="list-style-type: none"> • 12 months of the payout period has elapsed under the bankruptcy from the date of application; • The payout performance has been satisfactory with all required payments made on time; 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>

VA Underwriting Guide

3F.7 (b) 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:

- 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.7 (c) Delinquent Credit

Delinquent Federal Debt	See Chapter 3A Eligibility.
Judgments, Tax Liens, and Garnishments	<p>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.</p> <p>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.</p> <p>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.</p>
Past Due Accounts	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.

VA Underwriting Guide

	If a mortgage or other significant debt is past due and was last updated $\geq 90\%$ days, verify current status of past due debt. Loan must be manually downgraded and is not eligible.
Collection Accounts	<p>Collection accounts do not have to be paid off. However, collection accounts must be considered part of the borrower's overall credit history and unpaid collection accounts should be considered open, recent credit.</p> <p>Borrowers with a history of collection accounts should have re-established satisfactory credit in order to be considered a satisfactory credit risk.</p> <p>If there is a minimum payment on the credit report for the collection account, it must be included in the DTI ratio.</p>
Charged-off Accounts	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	<p>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.</p> <p>A 12-month satisfactory payment history must be demonstrated, and the counseling agency must approve the new credit.</p>
Disputed Accounts	<p>Consider a Veteran's claim of bona fide or legal defenses regarding unpaid debts except when the debt has been reduced to judgment.</p> <p>Document the reason(s) for not considering an account on <i>VA Form 26-6393, Loan Analysis</i>.</p>

VA Underwriting Guide

Chapter 3G Assets

Contents

Chapter 3G VA Assets	1
3G.1 Assets and Closing Requirements	2
3G.1 (a) Foreign Assets	2
3G.2 Reserve Requirements	2
3G.3 Asset Sources	3
3G.3 (a) Financial Institution Accounts	4
3G.3 (b) Business Assets	6
3G.3 (c) Earnest Money Deposit	7
3G.3 (d) Employer Assistance Programs	7
3G.3 (e) Equity from Other Assets	7
3G.3 (e)(i) Sale of Personal Property	7
3G.3 (e)(ii) Sale of Real Estate	8
3G.3 (f) Gift Funds	8
3G.3 (g) Loans Secured by Financial Assets	9
3G.3 (h) Notes Receivable/Repayment of Loans	10
3G.3 (i) Retirement Accounts	10
3G.3 (j) Savings Bonds	11
3G.3 (k) Stocks, Bonds, Mutual Funds	11
3G.4 Unacceptable Asset Sources	11



VA Underwriting Guide

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.

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.



VA Underwriting Guide

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
- 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.

See our Product Profiles 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](#)
- [Earnest Money Deposit](#)
- [Employer Assistance Programs](#)
- [Equity from Other Assets](#)
- [Gifts](#)
- [Loans Secured by Financial Assets](#)
- [Notes Receivable/Repayment of Loans](#)
- [Retirement Accounts](#)
- [Savings Bonds](#)
- [Stocks, Bonds, and Mutual Funds](#)

VA Underwriting Guide

3G.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.

- a) Individual Accounts: Funds in the borrower's individual account
- b) 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.
- 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.

Account Statements	<p>Account statements may be obtained to document the borrower's assets.</p> <p>Provide the most recent two months account statements or the most recent quarterly account statement. 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> <ul style="list-style-type: none">• 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;
--------------------	---

VA Underwriting Guide

	<ul style="list-style-type: none"> ○ Time period covered; and ○ 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 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 month. When an average balances is not provided, obtain the most recent two months account statements. <p>Written VODs are not acceptable as standalone documentation. A VOD must be system-generated from the financial institution.</p> <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;

VA Underwriting Guide

	<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 recent large deposits in excess of 1% of the Adjusted Value. 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 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>

3G.3 (b) Business Assets

Business assets may be used to meet the borrower's MRI. Business tax returns must be in the loan file. 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.

VA Underwriting Guide

- Copy of business check and deposit into borrower's personal account.

3G.3 (c) 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.

One of the following must be documented:

- A copy of the cancelled check;
- A copy of the deposit check and proof the check was cashed; or
- 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 [3G.3 \(f\)](#) Gifts below.

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 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:

VA Underwriting Guide

- Proof of ownership;
- Support for the value of the asset (published value estimates, appraisal);
- 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 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.

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 plus all outstanding liens) = Estimated sales proceeds	
Net proceeds based on listing price	
Use 90% of listing price minus all outstanding 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.

Gift Letter	A gift letter signed by the donor must:
-------------	---

VA Underwriting Guide

	<ul style="list-style-type: none"> Specify the dollar amount of the gift or gift of equity; Specify the date the funds were transferred; 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	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	Gift of equity is acceptable but cannot be applied as down payment to reduce the VA Funding Fee.
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) Loans Secured by Financial Assets

VA Underwriting Guide

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 (h) 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 (i) 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.

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>

VA Underwriting Guide

3G.3 (j) 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 (k) Stocks, 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,
- 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 down payment and closing costs.

3G.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)
- Cryptocurrency (e.g., Bitcoin)
- 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



VA Underwriting Guide

- Personal unsecured line of credit or loan
- Proceeds from an IRS Tax Code 1031 Exchange
- Salary advance

VA Underwriting Guide

Chapter 3H Liabilities and Debt Ratios

Contents

Chapter 3H VA Liabilities and Debt Ratios	1
3H.1 Monthly Housing Expense	2
3H.1 (a) Real Estate Taxes	2
3H.1 (a) Tax Abatements	2
3H.1 (a) Condominium Utility Expense	2
3H.2 Debt-to-Income Ratio	3
3H.3 Residual Income	3
3H.4 Monthly Obligations	4
3H.4 (a) Alimony and Child Support Payments	4
3H.4 (a)(i) Alimony	4
3H.4 (a)(ii) Child Support	4
3H.4 (a) Authorized User Accounts	5
3H.4 (a) Business Debt	5
3H.4 (a) Childcare Expense	5
3H.4 (a) Co-signed Loans	6
3H.4 (a) Court-ordered Assignment of Debt	6
3H.4 (a) Installment Debt	6
3H.4 (g)(i) Deferred Installment Debt	6
3H.4 (g)(ii) Pay Off or Pay Down Debt	7
3H.4 (g)(iii) Lease Payments	7
3H.4 (a) Loans Secured by Financial Assets	7
3H.4 (a) Non-borrowing Spouse Debt in Community Property States	8
3H.4 (a) Other Real Estate Owned	9
3H.4 (a) Revolving Charges/Lines of Credit	10

VA Underwriting Guide

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 (10) 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 (a) Tax Abatements

Tax abatements are a temporary reduction in the actual amount of taxes that the owners of a property must pay. Use 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.

3H.1 (a) 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.

VA Underwriting Guide

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.

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.

See our Product Profiles 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 above-grade square foot.

See Chapter [3E](#) VA Underwriting and the Product Profiles for Residual Income tables and information.

VA Underwriting Guide

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 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 of the following is required to document the payment and number of remaining payments:

VA Underwriting Guide

- 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 (a) 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 (a) 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 (a) 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 or detailing why no expense is incurred. 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.

VA Underwriting Guide

3H.4 (a) 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 (a) 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 if all of the following can be documented:

- Copy of the court order assigning the debt; and
- Proof of transfer of ownership.

The payments history of the debt need not be taken into consideration after the transfer date occurred, after the assignment to another party.

3H.4 (a) 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.

3H.4 (g)(i) Deferred Installment Debt

Installment debt, such as student loans or balloon notes, that will be deferred at least 12 months

VA Underwriting Guide

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

Paying off installment debt for loan qualification is permitted. The source of funds must be documented. If an installment debt is paid off at closing, the creditor must provide a payoff statement that same balance must be reflected as the payoff amount on the Closing Disclosure.

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.

3H.4 (a) Loans Secured by Financial Assets

VA Underwriting Guide

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 [3G](#) Assets for documentation requirements.

3H.4 (a) 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 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 him or her.

VA Underwriting Guide

- 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.
- 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 Effective When	Include Debts in DTI	Exclude Debts from DTI if Acquired Prior to Marriage
Arizona	Married and domicile in same state	Yes	No
California	Married and domicile in same state	Yes	No
Idaho	Married and domicile in same state	Yes	No
Louisiana	Married and domicile in same state	Yes	No
Nevada	Married and domicile in same state	Yes	Yes
New Mexico	Married and domicile in same state	Yes	No
Texas	Married and domicile in same state	Yes	Yes
Washington	Married and domicile in same state	Yes	Yes
Wisconsin	Married and domicile in same state	Yes	Yes

3H.4 (a) 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), or a property retained as a second home or investment property.

Determine the aggregate net negative rental income from all rental properties for qualification.

VA Underwriting Guide

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 (a) 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 there is no supplemental documentation to support a payment of less than 5%, use 5% of the outstanding balance as the recurring monthly debt obligation.

Payoff Revolving Debt for Qualification	<p>The payoff of revolving debt for loan qualification is permitted and the account must be closed.</p> <ul style="list-style-type: none"> • Revolving debt may be paid off to qualify without the requirement of the account(s) to be closed if the following circumstances are met: <ul style="list-style-type: none"> ○ Credit score 680 or greater ○ Credit score less than 680 and DTI less than or equal to 50% ○ If either of the above are not met, the account(s) are to be closed upon payoff. Proof of the debt being paid and closed prior to CTC must be provided except in the case of a cash-out refinance where the debt must be closed prior to loan closing but may be paid-off at closing with loan proceeds as detailed on the Closing Disclosure. ▪ Documentation to indicate the account has been frozen is acceptable when a creditor will not close the account prior to payoff;
---	---

VA Underwriting Guide

	<ul style="list-style-type: none">▪ A closeout letter must be prepared and sent by the closing agent with payoff funds with a copy remaining in the file; and▪ Regardless of AUS score revolving debt paid off requires documentation for source of funds used to pay account(s) off.
Paydown Revolving Debt for Qualification	Paying down revolving debt for loan qualification is not permitted.

VA Underwriting Guide

Chapter 3I Employment and Income

Contents

Chapter 3I VA Employment and Income	1
3I.1 Income Documentation	4
3I.1 (a) IRS Form 4506-C	4
3I.1 (a)(i) General Requirements	4
3I.1 (a)(ii) Prior to Closing Requirements	4
3I.1 (a)(iii) At Closing Requirements	4
3I.1 (a)(iv) Completing IRS Form 4506-C	5
3I.1 (b) Tax Transcripts	6
3I.1 (c) Paystubs	6
3I.1 (d) W-2 Form	8
3I.1 (e) Written Verification of Employment (WVOE)	8
3I.1 (f) Verbal Confirmation of Employment	9
3I.1 (g) Tax Returns	11
3I.1 (h) Income Analysis Forms	Error! Bookmark not defined.
3I.2 Stable Monthly Income	12
3I.2 (a) Continuity of Income	13
3I.2 (b) Variable Income	13
3I.2 (c) History of Receipt	15
3I.3 Base Pay, Bonus, Overtime, and Commission	16
3I.3 (a) Base Pay (Salary or Hourly)	16
3I.3 (b) Second-Job or Multiple-Job Employment	16
3I.3 (c) Bonus or Overtime	17
3I.3 (d) Commission Income	17
3I.3 (e) Military Income	18
3I.4 Self-Employed Income	20

VA Underwriting Guide

31.4 (a) Income Documentation.....	21
31.4 (b) Analysis of Borrower's Business Income	22
31.4 (c) Use of Business Assets	22
31.4 (d) Income Calculation	23
31.4 (e) Non-Purchasing Self-Employed Spouse.....	23
31.5 Rental Income	23
31.5 (a) Rental Income from the Subject Two- to Four-Unit Property	23
31.5 (b) Rental Income from Other Real Estate Owned	24
31.5 (c) Converting Existing Primary Residence to an Investment Property.....	24
31.5 (d) Income Calculation	24
31.5 (e) Treatment of Income and Loss	25
31.6 Other Income Sources	25
31.6 (a) Alimony and Child Support Payments	26
31.6 (b) Automobile Allowance/Expense Account Payments.....	27
31.6 (c) Boarder Income	27
31.6 (d) Disability – Long-term.....	28
31.6 (e) Employment by a Relative, Property Seller, or Real Estate Broker	28
31.6 (f) Foreign Income.....	28
31.6 (g) Foster Care Income	29
31.6 (h) Future Income	29
31.6 (i) Interest and Dividend Income	30
31.6 (j) Mortgage Credit Certificates	Error! Bookmark not defined.
31.6 (k) Nontaxable Income.....	30
31.6 (l) Notes Receivable	31
31.6 (m) Public Assistance.....	32
31.6 (n) Retirement, Pension, Annuity Income, and IRA Distributions	32
31.6 (o) Seasonal Income	32
31.6 (p) Social Security Retirement Income	33
31.6 (q) Temporary Leave	33
31.6 (r) Tip Income	35



VA Underwriting Guide

- 3l.6 (s) Trust Income35
- 3l.6 (t) Unemployment Income36
- 3l.6 (u) Union Members36
- 3l.6 (v) VA Benefits37
- 3l.7 Unacceptable Sources of Income.....37

VA Underwriting Guide

3I.1 Income Documentation

3I.1 (a) IRS Form 4506-C

3I.1 (a)(i) General Requirements

- All borrower(s) are required to complete, sign and date IRS Form 4506-C, authorizing the Client or its assigns, to obtain income information when qualifying income must be documented with individual tax returns.
- 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.

3I.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, even if DU Validation Service or LPA Asset and Income Modeler waives the requirement.

3I.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 IRS Form 4506-Cs for a self-employed borrower whose income documentation consists of two years individual income tax returns and two years business tax returns for two separate businesses. One Form 4506-C will be required for the

VA Underwriting Guide

individual return and a separate Form 4506-C for each business return.

3I.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 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"> ○ 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 			

VA Underwriting Guide

- Treasurer
- Managing Member
- 1065: Borrower must sign name with title and only the following titles are acceptable
 - Partner
 - Limited Partner

31.1 (b) Tax Transcripts

Tax transcript(s) may be required, at the underwriter's discretion, when individual income tax return(s) must be used for loan qualification (e.g., self-employment, rental income, employment by a family member, commission income, as applicable).

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 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.

31.1 (c) Paystubs

- The paystub must clearly identify the:
 - Borrower as the employee;
 - Gross earnings for the current pay period and year-to-date earnings;

VA Underwriting Guide

- 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;
 - 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., 2 years, 4 years, etc.);

VA Underwriting Guide

- 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.

3I.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; 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;

VA Underwriting Guide

- 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:

- 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.

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	A verbal confirmation of employment must be completed within ten calendar days from the Note date and documented with the following information:

VA Underwriting Guide

	<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>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 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 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>

VA Underwriting Guide

	<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>
--	--

31.1 (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 <i>Prior to</i> 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 <i>After</i> 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 cancelled.

VA Underwriting Guide

	The underwriter must provide justification and commentary regarding its use.
<i>IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Returns</i>	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	<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).

31.2 Stable Monthly Income

The continuity of stable and predictable income must be demonstrated. Consider the length of the borrower's employment with any one 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.

VA Underwriting Guide

31.2 (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.

31.2 (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.

For employees who are paid hourly and whose hours vary, the income must be averaged over the past two 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 months products a much higher, 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</p>
----------------------	--

VA Underwriting Guide

	<p>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. • 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>Example</p> <p>A borrower who has variable income that has declined year over year for two 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 style="padding-left: 40px;">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>

VA Underwriting Guide

3I.2 (c) History of Receipt

A minimum history of two 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 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 date of the loan application, the following are examples that may support an employment history of less than two years.

Frequent Job Changes	<p>If the borrower has changed employers more than three 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 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	<p>The stability of employment and income and its likelihood of continuance should be factored into the underwriting decision when there are gaps of</p>

VA Underwriting Guide

	<p>employment.</p> <p>Written letters of explanation for employment gaps over 60 days in the last two years must be provided.</p>
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 discussion to extend the furlough.</p>
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 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. <p>Likelihood of continuance must be considered.</p>

3I.3 Base Pay, Bonus, Overtime, and Commission

3I.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 AUS documentation requirements.

3I.3 (b) Second-Job or Multiple-Job Employment

VA Underwriting Guide

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 years, uninterrupted history on all second or multiple jobs and have a strong likelihood of continuance in order to use for qualification purposes. Income received for less than two years may be considered on a case-by-case basis.

A borrower may have a history that includes different employers as long as the income has been consistently received.

31.3 (c) Bonus or Overtime

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 consecutive years.

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 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.

VA Underwriting Guide

3I.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:

- The LES for an enlisted service member; or
- The current contract for a National Guard or Reserve member.

For National Guard or Reserve members, if the date is within 12 months of the loan closing, at least one 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, 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 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:

VA Underwriting Guide

- 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 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.

VA Underwriting Guide

	<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> <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 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 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 year of experience and one 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 year of self-employment income.

VA Underwriting Guide

Self-employment of less than one 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 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 • 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 • Year-to-date profit and loss • Balance sheet • Self-employed income analysis
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 • Year-to-date profit and loss • Balance sheet • Self-employed income analysis
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 years; 	

VA Underwriting Guide

- Individual income tax returns reflect consistent income for the past two 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

VA Underwriting Guide

the most current tax return filing, or the need for additional information to perform the analysis.

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 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.

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.

The Veteran must have:

- A reasonable likelihood of success as a landlord, and
- Six (6) months reserves.

VA Underwriting Guide

Reserves must be from the borrower's own funds. Reserves cannot be from:

- Cash proceeds from cash-out refinance;
- A gift.

31.5 (b) Rental Income from Other Real Estate Owned

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.
- Evidence of receipt of the most recent months' rental income; and
- Three (3) months reserves in addition to product requirements.

31.5 (c) Converting Existing Primary Residence to an Investment Property

Rental income may only be used to offset the mortgage payment on the subject property if there is not an indication that the property will be difficult to rent. Provide justification for the use of rental income on VA Form 26-6393, *Loan Analysis*.

The following is required:

- Fully executed lease agreement for the property, if available;
- Three (3) months PITIA reserves;
- Evidence of receipt of security deposit; and
- Evidence of receipt of first month's rent, if required by lease.

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.
------------------------------	--

VA Underwriting Guide

	<ul style="list-style-type: none"> 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.

3I.5 (e) Treatment of Income and Loss

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. 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.

Refer to VA Lenders Handbook, Rental Income section for complete guidelines on rental income.

3I.6 Other Income Sources

- [Alimony and Child Support Payments](#)
- [Auto Allowances and Expense Account Payments](#)
- [Boarder Income](#)
- [Disability – Long-term](#)
- [Employment by a Relative, Property Seller or Real Estate Broker](#)
- [Foreign Income](#)

VA Underwriting Guide

- [Foster Care Income](#)
- [Future Income](#)
- [Interest and Dividend Income](#)
- [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](#)

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 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 of the following must be provided in addition to the documentation requirements below for court-ordered or voluntary payments:

VA Underwriting Guide

- 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 of the following is required to document regular receipt for most recent three 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 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 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

VA Underwriting Guide

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) 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 of the following:

- Certificate of Eligibility;
- Award Letter; or
- Bank statements.

31.6 (e) 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.

All of the following is required:

- 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.

31.6 (f) Foreign Income

Employment in a foreign country (whether or not the employer is a U.S. company or corporation), the income may be used if is verified, stable and reliable.

VA Underwriting Guide

All of the following is required:

- 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.

31.6 (g) 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 (h) Future Income

If the 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:

- The employment offer:
 - Is non-contingent. If there are contingencies to the offer, any contingencies or conditions of 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, position, type, and rate of pay.
- Current income or liquid assets must be sufficient to cover the mortgage payment between the Note date and the start date of the new employment.
- Employment must begin within 60 days after signing the Note.

VA Underwriting Guide

31.6 (i) 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 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 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;
- 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 (j) 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.

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.

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.

VA Underwriting Guide

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 non -taxable or a portion of the income is non -taxable. This list is not all-inclusive:

- Child Support Income
- Disability Income
- Government Assistance Programs
- Military Allowances
- Retirement, Pension, Annuity Income, or IRA Distributions
- Social Security Disability Income
- Social Security Retirement Income
- Supplemental Social Security Income
- VA Benefits

31.6 (k) 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 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.

If the amount of note receivable income fluctuates, an average over the last 12 months must be calculated to determine effective income.

VA Underwriting Guide

31.6 (l) 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 (m) Retirement, Pension, Annuity Income, and IRA Distributions

Monthly annuity payments, 401(k) or IRA and pension monthly distributions require evidence of continuance for three 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 of the following is required:

- Copy of most recently received retirement, pension, and/or Social Security check;
- Copy of bank statements showing the deposit;
- Most recent individual income tax return with all schedules; or
- Most recent W-2 or 1099.

31.6 (n) 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 years and is likely to be rehired for the next season.

All of the following must be provided:

VA Underwriting Guide

- 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 years. If income received cannot meet these requirements, it should only be considered a compensating factor.

31.6 (o) 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 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 of the following is required:

- Social Security Award letter;
- Most recent 1099-R; or
- Most recent individual income tax return.

31.6 (p) 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 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

VA Underwriting Guide

mortgage and all other monthly obligations.

All of the following is required:

- Verification of pre-leave employment and income history;
- 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;
- Amount of regular employment income the borrower received prior to leave; and
- All available liquid assets used to supplement the reduced income for the duration of leave must be verifiable.

Borrower Returning 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; and • 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

VA Underwriting Guide

	<p>required reserves) from the total verified liquid asset amount</p> <ul style="list-style-type: none"> • 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 (q) 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 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 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.

31.6 (r) 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 years from the Note date. The Trust Agreement must

VA Underwriting Guide

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 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 (s) Unemployment Income

Unemployment income, such as those received by seasonal workers, must have been received for the past two years and must be likely to continue for the next three 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 (t) 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 employer in the

VA Underwriting Guide

current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings;

- Most recent two years' W-2s from all employers; and
- Most recent two 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 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 (u) 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:

- Housing Choice Voucher Program (Section 8)
- Income derived from business activity that may be permitted by State law but is prohibited by

VA Underwriting Guide

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
- 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
- Mortgage interest differential (MID) income
- Non-incident 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

VA Underwriting Guide

Chapter 3J Appraisal

Contents

Chapter 3J Appraisal	1
3J.1 VA Appraisal and Property Conditions Assessment	4
3J.2 WebLGY	4
3J.3 Appraiser Requirements.....	4
3J.4 Staff Appraisal Reviewer (SAR).....	5
3J.5 Appraisal Report Forms and Exhibits.....	6
3J.5 (a) List of Appraisal Report Forms	6
3J.5 (b) Conditions and Certifications	6
3J.5 (c) Appraisal Attachments.....	6
3J.6 Appraisal Transfer	7
3J.7 Notice of Value NOV	7
3J.8 Appraisal Review.....	8
3J.8 (a) Sales Contract	8
3J.8 (b) Sales Comparison Approach	9
3J.8 (b)(i) Recent Sales.....	10
3J.8 (b)(ii) Sales Price Range	10
3J.8 (b)(iii) Data and Verification	10
3J.8 (b)(iv) Time Adjustments	10
3J.8 (b)(v) Sales Listings and Contract Offers.....	10
3J.8 (b)(vi) Location.....	11
3J.8 (b)(vii) Sales from Competing Developments	11
3J.8 (b)(viii) Value Adjustments	11
3J.8 (b)(ix) Sales Concessions.....	12
3J.8 (b)(x) Upgrades.....	12
3J.8 (b)(xi) Removable Equipment.....	12
3J.8 (b)(xii) Nuisances.....	13

VA Underwriting Guide

3J.8 (b)(xiii) Remaining Economic Life.....	13
3J.8 (b)(xiv) Effective Age	13
3J.8 (b)(xv) Gross Living Area	14
3J.8 (b)(xvi) Room Additions and Car Storage Conversions.....	14
3J.8 (b)(xvii) Accessory Dwelling Unit	15
3J.8 (b)(xviii) Unique Property Types.....	15
3J.8 (b)(xix) Alternative Energy Systems	15
3J.8 (b)(xx) Leased Mechanical Systems and Equipment.....	16
3J.9 Two- to Four-Unit Properties	16
3J.10 Selection of Condition, Quality and Other Characteristic Ratings	17
3J.10 (a) Condition	17
3J.10 (b) Quality	19
3J.11 Cost Approach to Value	20
3J.12 Income Approach to Value	21
3J.13 Minimum Property Requirements	21
3J.14 Site Requirements	22
3J.14 (a) Access to the Site	22
3J.14 (b) Exterior Wall Access.....	23
3J.14 (c) Backyard Access	23
3J.14 (d) Easements.....	23
3J.14 (e) Encroachments.....	23
3J.14 (f) Highest and Best Use	24
3J.14 (g) Zoning	24
3J.14 (h) Local Housing/Planning Authority Code Enforcement	24
3J.14 (i) Multiple Parcels	24
3J.14 (j) Road or Waterway Dividing the Property	25
3J.14 (k) Drainage and Topography	25
3J.14 (l) Stationary Storage Tanks	25
3J.14 (m) High-Pressure Gas and Liquid Petroleum Lines	25
3J.14 (n) Overhead High-Voltage Transmission Lines	25

VA Underwriting Guide

3J.14 (o) Lead Based Paint.....	26
3J.14 (p) Radon Gas	26
3J.14 (q) Geological or Soil Instability, Subsidence and Sinkholes.....	27
3J.14 (q)(i) Soil Conditions	27
3J.14 (q)(ii) Subsidence	27
3J.14 (q)(iii) Dangerous Subsidence or Sinkholes	27
3J.14 (q)(iv) Repairs by Contractor	27
3J.14 (r) Properties Near Airports	28
3J.14 (s) Mineral, Oil, and Gas Reservations and Leases	29
3J.14 (t) Flood Zones	29
3J.15 Property Characteristics	30
3J.15 (a) Attic	30
3J.15 (b) Basement	30
3J.15 (c) Crawl Space	30
3J.15 (d) Party Walls	30
3J.15 (e) Roof.....	30
3J.15 (f) Swimming Pools.....	31
3J.15 (g) Burglar Bars	32
3J.15 (h) Mechanical Systems	32
3J.15 (i) Utilities	32
3J.15 (j) Heating	32
3J.15 (k) Ventilation	33
3J.16 Repairs	33
3J.16 (a) Certification of Completion of Repairs.....	33
3J.16 (b) Waivers on MPR Repair Items	34
3J.17 Water and Sewage Systems	34
3J.17 (a) Water Systems.....	34
3J.17 (b) Sewage Systems.....	36
3J.18 Certifications	37
3J.18 (a) Property Inspection	38

VA Underwriting Guide

3J.18 (b) Wood Destroying Insects	38
3J.18 (b)(i) Existing Properties.....	38
3J.18 (b)(ii) New Construction Properties.....	38
3J.18 (c) Condominiums	39
3J.18 (d) Wood Infestation Damage.....	39
3J.19 Environmental Hazards	39
3J.20 Property Assess Clean Energy (PACE)	40

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.

VA Underwriting Guide

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.

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

VA Underwriting Guide

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> (Fannie Mae Form 1004/Freddie Mac Form 70)	Use for appraisals of one-unit properties and units in PUDs. An 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

VA Underwriting Guide

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
- 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).

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 (5) 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

VA Underwriting Guide

requirements prior to issuing the Notice of Value.

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 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.

When the 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
If the agreement of sale is amended after the Effective Date of the appraisal report, but prior to loan closing.	<p>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.</p> <p>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.</p>

VA Underwriting Guide

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.

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.

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.

VA Underwriting Guide

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.

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

VA Underwriting Guide

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
- 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.

VA Underwriting Guide

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, 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.

VA Underwriting Guide

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.

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.

VA Underwriting Guide

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.

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

VA Underwriting Guide

- 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.

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, for example, 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

VA Underwriting Guide

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.

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.

VA Underwriting Guide

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

http://www.homeloans.va.gov/cav_approved_local_conditions.htm

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

VA Underwriting Guide

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 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.

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>

VA Underwriting Guide

C5	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 is 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 (NOV) prior to closing.

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.

VA Underwriting Guide

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 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

VA Underwriting Guide

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.

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.

VA Underwriting Guide

The property must be free of hazards which may:

- Adversely affect the health and safety of the occupants;
- 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 streets must be protected by a permanent easement and maintained by a homeowners' association or a joint maintenance agreement. All streets must have all weather surface. If a

VA Underwriting Guide

maintenance agreement does not exist, every effort should be made to obtain the agreement of all owners of properties on the private road to share the cost of maintaining the road.

In the absence of a maintenance agreement signed by all owners, particularly those of properties located between the subject property and the public road, an agreement by a Veteran to accept responsibility for a disproportionate share of the road must be reasonable in regards to the distance from the subject property to the public road. The RLC of jurisdiction must be contacted in order to approve the agreement. VA will not accept an agreement in which the Veteran accepts sole responsibility for maintaining an unreasonable distance of the private road as this could create a burden for the Veteran as well as future property owners.

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 .

VA Underwriting Guide

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 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 or not 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.

VA Underwriting Guide

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:

- 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

VA Underwriting Guide

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.

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

VA Underwriting Guide

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](#).

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

VA Underwriting Guide

wall, or cracked flooring with significant vertical displacement).

Hairline cracks due to expansion or normal settlement do not typically require repair.

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:

- 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](#).

VA Underwriting Guide

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:

- 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.

VA Underwriting Guide

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 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

VA Underwriting Guide

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 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 unsecure, 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.

VA Underwriting Guide

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.

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

VA Underwriting Guide

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.

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](#)).

VA Underwriting Guide

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:

- 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.

Individual Water Supply	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
-------------------------	--

VA Underwriting Guide

	<p>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 • 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>

VA Underwriting Guide

	<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> <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>

3j.17 (b) Sewage Systems

VA Underwriting Guide

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 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

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

VA Underwriting Guide

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 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 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) New Construction Properties

For new construction treatments, the following must be used, as applicable:

- [Subterranean Soil Treatment Guarantee Form NPCA 99-A](#); and

VA Underwriting Guide

- [Subterranean Soil Treatment Record-Form NPMA 99-B.](#)

If a state has more stringent record keeping requirements than Form-HUD NPCA-99-B, the state form can be accepted in lieu of the NPCA-99-B, in which case the state form would be attached to Form HUD NPCA-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.

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.



VA Underwriting Guide

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 NewRez, 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.

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.

VA Underwriting Guide

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.4](#) Property Assessed Clean Energy (PACE) for requirements when a PACE or PACE-like loan exists.