**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Section 2.01 - Agency Loan Standard

In This Product Description

This product description contains the following topics.

**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Overview

Product Summary

This product description is designed to provide information on Truist's standard Agency, Agency Plus, and Agency Plus Select loan programs. Standard Agency loan programs are offered through traditional underwriting, Fannie Mae's Desktop Underwriter (DU) and Freddie Mac's Loan Product Advisor (LPA). The Agency Plus and Agency Plus Select loan programs are offered through Fannie Mae's DU and Freddie Mac's LPA underwriting options only.

The underwriting standards allow for various scenarios in evaluating a borrower's willingness and capacity to repay the mortgage loan. During the underwriting process:

- confirm that information provided by the borrower during the loan application process is accurate and complete;
- include documentation in the loan file that supports the assessment of the borrower's credit history, employment and income, assets, and other financial information used for qualifying;
- conduct a comprehensive risk assessment of each mortgage loan application; and
- render a decision to either approve or decline the mortgage loan application, regardless of AUS findings.

Unless otherwise stated, the standards outlined in this product description apply for standard Agency, Agency Plus, and Agency Plus Select loan transactions.

Fannie Mae Loan Programs

- This product description provides product standards and requirements for the following Fannie Mae loan programs:
    - **Agency:**
        - Fully Amortizing Fixed Rate, and
        - Fully Amortizing 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs.
    - **Agency Plus:**
        - Fully Amortizing Fixed Rate, and
        - Fully Amortizing 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs.
    - **Agency Plus Select:**
        - Fully Amortizing Fixed Rate
- All DU processed loans must receive a DU "Approve/Eligible" or an acceptable DU "Approve/Ineligible" recommendation.

    Reference: See "Fannie Mae DU Loans" in the "Underwriting the Borrower" topic for additional information regarding acceptable DU "Approve/Ineligible" recommendations.

Continued on next page

Overview, Continued

Product Summary, continued

Freddie Mac Loan Programs

- This product description provides product standards and requirements for the following Freddie Mac loan programs:
  - **Agency:**
    - Fully Amortizing Fixed Rate, and
    - Fully Amortizing 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs.
  - **Agency Plus:**
    - Fully Amortizing Fixed Rate, and
    - Fully Amortizing 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs.
  - **Agency Plus Select:**
    - Fully Amortizing Fixed Rate
- Higher-Priced Mortgage Loans (HPMLs) and Higher-Priced Covered Transactions (HPCTs) eligible for sale to Freddie Mac must be one of the following mortgage products:
  - A fixed-rate mortgage
  - An ARM with an initial period of five, seven, or ten years.
- All LPA processed loans must receive an LPA "Accept/Eligible" recommendation.

Related Bulletins

General

Related bulletins are provided below in PDF format. To view the list of published bulletins, select the applicable year below.

- 2025
- 2024
- 2023
- 2022
- 2021
- 2020
- 2019

**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Loan Terms

Amortization Terms

- Fully Amortizing Fixed Rate: 10-30 years
- The minimum original term permitted is 85 months.
- Fully Amortizing 5/6-Month and 7/6-Month SOFR ARMs: 10-30 years
- Fully Amortizing 10/6-Month SOFR ARM: 15-30 years

Minimum Loan Amount

Agency
There is no minimum loan amount.

Agency Plus
- $806,501 for one unit properties
- $1,032,651 for two unit properties
- $1,248,151 for three unit properties
- $1,551,251 for four unit properties

Agency Plus Select
- $806,501 for one unit properties

Note: For Agency Plus and Agency Plus Select loans, the minimum loan amount is always one ($1) dollar above the standard Agency conforming loan amount for one to four unit properties.

Maximum Loan Amount

Agency
- $806,500 for one unit properties
- $1,032,650 for two unit properties
- $1,248,150 for three unit properties
- $1,551,250 for four unit properties

Agency Plus
- Agency Plus loans are available ONLY in high cost areas (as defined by HUD). Click here for the specific loan limits for each high-cost area, as released by the Federal Housing Finance Agency.
- The maximum loan amount will vary based on the location of the subject property; however, will NEVER exceed:
  - $1,209,750 for one unit properties,
  - $1,548,975 for two unit properties,
  - $1,872,225 for three unit properties, and
  - $2,326,875 for four unit properties.

Agency Plus Select
- Agency Plus Select loans are available ONLY in high cost areas (as defined by HUD). Click here for the specific loan limits for each high-cost area, as released by the Federal Housing Finance Agency.
- The maximum loan amount will vary based on the location of the subject property; however, will NEVER exceed $1,209,750 for one unit properties.

Continued on next page

Loan Terms, Continued

Agency Maximum LTV/TLTV/ HTLTV Ratio Requirements

Primary Residence

***Note**: Standard Agency LPA transactions with an LTV, TLTV, and/or HTLTV ratio greater than 95% are referred to by Freddie Mac as HomeOne^{SM} Mortgages. Any specific requirements that apply for these transactions, that differ from standard Agency LPA requirements, are referenced in Truist LPA standards as requirements for transactions with an LTV, TLTV, and/or HTLTV ratio greater than 95%.*

Agency Primary Residence – Fixed Rate				
Purpose	# of Units	LTV/TLTV/HTLTV for Non-AUS Loans	LTV/TLTV/HTLTV for DU Loans	LTV/TLTV/HTLTV for LPA Loans
Purchase	1 2 3 4	95%/95%[1]/95% 85%/85%[1]/85% 75%/75%[1]/75% 75%/75%[1]/75%	97%[3]/97%[1, 2, 3]/97%[3] 95%/95%[1]/95% 95%/95%[1]/95% 95%/95%[1]/95%	97%[5]/97%[1,5]/97%[5] 85%/85%/85% 80%/80%/80% 80%/80%/80%
Limited Cash-Out Refinance (Rate/ Term)	1 2 3 4	95%/95%[1]/95% 85%/85%[1]/85% 75%/75%[1]/75% 75%/75%[1]/75%	97%[4]/97%[1, 2, 4]/97%[4] 95%/95%[1]/95% 95%/95%[1]/95% 95%/95%[1]/95%	97%[6]/97%[1,7]/97%[6] 85%/85%/85% 80%/80%/80% 80%/80%/80%
Cash-Out Refinance	1 2 3 4	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%

[1] For non-AUS and DU transactions, the TLTV may exceed the limits stated above up to 105% only if the mortgage is part of a Community Seconds transaction. For LPA transactions, the TLTV may exceed the limits stated above up to 105% only if the secondary financing is an Affordable Second.

[2] If the mortgage is part of a Community Seconds transaction and the LTV is 95% or less: (1) at least one borrower is not required to be a first-time homebuyer; and/or (2) Fannie Mae is not required to be the owner of the existing mortgage.

[3] For DU purchase transactions with LTV/TLTV/HTLTV ratios greater than 95%, at least one borrower must be a first-time homebuyer.

[4] For DU limited cash out refinances with LTV/TLTV/HTLTV ratios greater than 95%, Fannie Mae must be the owner of the existing mortgage.

[5] For LPA purchase transactions with a LTV, TLTV, and/or HTLTV ratio greater than 95%, at least one borrower must be a first-time homebuyer.

[6] For LPA "no cash-out" refinances with LTV and/or HTLTV ratios greater than 95%, the mortgage being refinanced must be owned in whole or in part or securitized by Freddie Mac.

[7] For LPA "no cash-out" refinances with TLTV ratios greater than 95% with secondary financing that is ***not*** an Affordable Second, the mortgage being refinanced must be owned in whole or in part or securitized by Freddie Mac. For LPA "no cash-out" refinances with TLTV ratios greater than 95% with secondary financing that is an Affordable Second, the mortgage being refinanced does not have to be owned or securitized by Freddie Mac.

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**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Loan Terms, Continued

Agency Maximum LTV/TLTV/ HTLTV Ratio Requirements, continued

Primary Residence, continued

Agency Primary Residence - 5/6-Month, 7/6-Month & 10/6-Month SOFR ARMs				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans**
Purchase	1 2 3 4	95%/95%[1]/95% 85%/85%[1]/85% 75%/75%[1]/75% 75%/75%[1]/75%	95%/95%[1]/95% 95%/95%[1]/95% 95%/95%[1]/95% 95%/95%[1]/95%	95%/95%/95% 85%/85%/85% 80%/80%/80% 80%/80%/80%
Limited Cash-Out Refinance (Rate/ Term)	1 2 3 4	95%/95%[1]/95% 85%/85%[1]/85% 75%/75%[1]/75% 75%/75%[1]/75%	95%/95%[1]/95% 95%/95%[1]/95% 95%/95%[1]/95% 95%/95%[1]/95%	95%/95%/95% 85%/85%/85% 80%/80%/80% 80%/80%/80%
Cash-Out Refinance	1 2 3 4	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%
[1] For non-AUS and DU 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARM transactions only, the TLTV may exceed the limits stated above up to 105% only if the mortgage is part of a Community Seconds transaction.				

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Agency Maximum LTV/TLTV/ HTLTV Ratio Requirements, continued

Second Home

Agency Second Home – Fixed Rate				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans**
Purchase	1	Not Eligible	90%90%/90%	90%/90%/90%
Limited Cash-Out Refinance (Rate/ Term)	1	Not Eligible	90%90%/90%	90%/90%/90%
Cash-Out Refinance	1	Not Eligible	75%/75%/75%	75%/75%/75%

Agency Second Home – 5/6-Month, 7/6-Month & 10/6-Month SOFR ARMs				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans**
Purchase	1	Not Eligible	90%/90%/90%	90%/90%/90%
Limited Cash-Out Refinance (Rate/ Term)	1	Not Eligible	90%/90%/90%	90%/90%/90%
Cash-Out Refinance	1	Not Eligible	75%/75%/75%	75%/75%/75%%

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Loan Terms, Continued

Agency Maximum LTV/TLTV/ HTLTV Ratio Requirements, continued

Investment Property

Agency Investment Property – Fixed Rate				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans**
Purchase	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%
Limited Cash-Out Refinance (Rate/ Term)	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	75%/75%/75% 75%/75%/75% 75%/75%/75% 75%/75%/75%	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%
Cash-Out Refinance	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	75%/75%/75% 70%/70%/70% 70%/70%/70% 70%/70%/70%	75%/75%/75% 70%/70%/70% 70%/70%/70% 70%/70%/70%

Agency Investment Property – 5/6-Month, 7/6-Month & 10/6-Month SOFR ARMs				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans[1]**
Purchase	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%
Limited Cash-Out Refinance (Rate/ Term)	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	75%/75%/75% 75%/75%/75% 75%/75%/75% 75%/75%/75%	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%
Cash-Out Refinance	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	75%/75%/75% 70%/70%/70% 70%/70%/70% 70%/70%/70%	75%/75%/75% 70%/70%/70% 70%/70%/70% 70%/70%/70%
[1] If the borrower owns more than one financed investment property, the loan is not eligible for financing as an Agency 5/6-Month SOFR ARM.				

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Loan Terms, Continued

Agency Plus Maximum LTV/TLTV/ HTLTV Ratio Requirements

Primary Residence

Agency Plus Primary Residence - Fixed Rate				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans**
Purchase	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	95%/95%[1]/95% 85%/85%[1]/85% 75%/75%[1]/75% 75%/75%[1]/75%	95%/95%/95% 85%/85%/85% 80%/80%/80% 80%/80%/80%
Limited Cash-Out Refinance (Rate/ Term)	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	95%/95%[1]/95% 85%/85%[1]/85% 75%/75%[1]/75% 75%/75%[1]/75%	95%/95%/95% 85%/85%/85% 80%/80%/80% 80%/80%/80%
Cash-Out Refinance	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%
[1] The TLTV may exceed the limits stated above up to 105% only if the mortgage is part of a Community Seconds transaction.				

Agency Plus Primary Residence - 5/6-Month, 7/6-Month & 10/6-Month SOFR ARMs				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans**
Purchase	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	95%/95%[1]/95% 85%/85%[1]/85% 75%/75%[1]/75% 75%/75%[1]/75%	95%/95%/95% 85%/85%/85% 80%/80%/80% 80%/80%/80%
Limited Cash-Out Refinance (Rate/ Term)	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	95%/95%[1]/95% 85%/85%[1]/85% 75%/75%[1]/75% 75%/75%[1]/75%	95%/95%/95% 85%/85%/85% 80%/80%/80% 80%/80%/80%
Cash-Out Refinance	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%	80%/80%/80% 75%/75%/75% 75%/75%/75% 75%/75%/75%
[1] For DU 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARM transactions only, the TLTV may exceed the limits stated above up to 105% only if the mortgage is part of a Community Seconds transaction.				

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**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Loan Terms, Continued

Agency Plus Maximum LTV/TLTV/ HTLTV Ratio Requirements, continued

Second Home

Agency Plus Second Home - Fixed Rate				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV HTLTV for LPA Loans**
Purchase	1	Not Eligible	90%/90%/90%	90%/90%/90%
Limited Cash-Out Refinance (Rate/ Term)	1	Not Eligible	90%/90%/90%	90%/90%/90%
Cash-Out Refinance	1	Not Eligible	75%/75%/75%	75%/75%/75%

Agency Plus Second Home - 5/6-Month, 7/6-Month & 10/6-Month SOFR ARMs				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV HTLTV for LPA Loans**
Purchase	1	Not Eligible	90%/90%/90%	90%/90%/90%
Limited Cash-Out Refinance (Rate/ Term)	1	Not Eligible	90%/90%/90%	90%/90%/90%
Cash-Out Refinance	1	Not Eligible	75%/75%/75%	75%/75%/75%

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**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Loan Terms, Continued

Agency Plus Maximum LTV/TLTV/ HTLTV Ratio Requirements, continued

Investment Property

Agency Plus Investment Property - Fixed Rate				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans**
Purchase	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%
Limited Cash-Out Refinance (Rate/ Term)	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	75%/75%/75% 75%/75%/75% 75%/75%/75% 75%/75%/75%	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%
Cash-Out Refinance	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	75%/75%/75% 70%/70%/70% 70%/70%/70% 70%/70%/70%	75%/75%/75% 70%/70%/70% 70%/70%/70% 70%/70%/70%

Agency Plus Investment Property - 5/6-Month, 7/6-Month & 10/6-Month SOFR ARMs				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans[1]**
Purchase	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%
Limited Cash-Out Refinance (Rate/ Term)	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	75%/75%/75% 75%/75%/75% 75%/75%/75% 75%/75%/75%	85%/85%/85% 75%/75%/75% 75%/75%/75% 75%/75%/75%
Cash-Out Refinance	1 2 3 4	Not Eligible Not Eligible Not Eligible Not Eligible	75%/75%/75% 70%/70%/70% 70%/70%/70% 70%/70%/70%	75%/75%/75% 70%/70%/70% 70%/70%/70% 70%/70%/70%
[1] If the borrower owns more than one financed investment property, the loan is not eligible for financing as an Agency 5/6-Month SOFR ARM.				

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**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Loan Terms, Continued

Agency Plus Select Maximum LTV/TLTV/ HTLTV Ratio Requirements

Primary Residence

Agency Plus Select Primary Residence - Fixed Rate				
Purpose	**# of Units**	**LTV/TLTV/HTLTV for Non-AUS Loans**	**LTV/TLTV/HTLTV for DU Loans**	**LTV/TLTV/HTLTV for LPA Loans**
Purchase	1	Not Eligible	90%/90%/90%	90%/90%/90%
Limited Cash-Out Refinance (Rate/ Term)	1	Not Eligible	90%/90%/90%	90%/90%/90%

Loan Terms, Continued

ARM Disclosures

Reference: See *Program Disclosures* subtopic in the *Application and Consumer Compliance* topic subsequently presented in this product description for additional information.

ARM Parameters

Conversion Option
A conversion option is not available. All ARM products are non-convertible.

Interest Rate Adjustment

- The interest rate is fixed for the initial period and is then subject to change with a specified frequency thereafter, using the most recent index figure available 45 days prior to the interest rate adjustment, as follows:
  - **5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs**: Following the initial fixed rate period (i.e., 60 months for the 5/6-Month ARM, 84 months for the 7/6-Month ARM, and 120 months for the 10/6-Month ARM), subsequent interest rate adjustments will occur every 6 months.

Index
The 30-day average of the Secured Overnight Financing Rate (SOFR) index as published by the Federal Reserve Bank of New York.

Margin/Floor

- For 5/6-Month, 7/6-Month, and 10/6-Month SOFR ARMs, the margin is 3.00%

  Note: See Truist's pricing adjustment sheet for applicable margin add-ons.

- The margin is also the floor.

Interest Rate Caps
The following table shows caps that apply to the applicable ARM programs.

ARM Program	Caps	Index
5/6-Month ARM	• 2% cap, up or down, on the initial change, • 1% cap, up or down, on each subsequent 6-month change thereafter, and • 5% lifetime cap (over the note rate).	SOFR
7/6-Month and 10/6-Month ARMs	• 5% cap, up or down, on the initial change, • 1% cap, up or down, on each subsequent 6-month change thereafter, and • 5% lifetime cap (over the note rate).	SOFR

Continued on next page

Loan Terms, Continued

Assumability Provisions

- Fixed rate products are not assumable, except as permitted by state and federal law.
- The 5/6-Month, 7/6-Month, and 10/6-Month ARMs are assumable after the initial fixed rate period (i.e., after 60 months for the 5/6-Month ARM, after 84 months for the 7/6-Month ARM, and after 120 months for the 10/6-Month ARM).
- Borrower(s) must contact their current mortgage servicer for additional information.

Interest Only Parameters

Interest only transactions are not eligible under the Agency loan standards.

Multiple Financed Properties for the Same Borrower

Non-AUS

- **Limits on the Number of Financed Properties**
  - The following table describes the limits that apply to the number of financed properties a borrower may have.

Subject Property Occupancy	Maximum Number of Financed Properties
Primary residence	No limit
Second home Investment property	6

  - The number of financed properties calculation includes:
    - the number of one- to four-unit residential properties where the borrower is personally obligated on the mortgage(s), even if the monthly housing expense is excluded from the borrower's DTI in accordance with the requirements outlined in the "Debt Paid by Others / Contingent Liabilities" subtopic subsequently presented in the "Liabilities" topic;
    - the total number of properties financed, not to the number of mortgages on the property or the number of mortgages sold to Fannie Mae (a multiple unit property counts as one property, such as a two-unit);
    - the borrower's primary residence if it is financed; and
    - the cumulative total for all borrowers (though jointly financed properties are only counted once).
  - The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage on the property:
    - commercial real estate,
    - multifamily property consisting of more than four units,
    - ownership in a timeshare,
    - ownership of a vacant lot (residential or commercial), or
    - ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home).

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Multiple Financed Properties for the Same Borrower, continued

Non-AUS, continued

- **Examples — Counting Financed Properties**
  - 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 their primary residence mortgage. The borrower is refinancing the mortgage on one of the two investment properties. Thus, the borrowers have six financed properties.
  - 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.
  - The borrower is purchasing a second home and is personally obligated on his or her primary residence mortgage. Additionally, the borrower owns four two-unit investment properties that are financed in the name of a limited liability company (LLC) of which he or she has a 50% ownership. Because the borrower is not personally obligated on the mortgages securing the investment properties, they are not included in the property count and the result is only two financed properties.
  - The borrower is purchasing and financing two investment properties simultaneously. The borrower does not have a mortgage lien against his or her 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 instance, the borrower will have five financed properties because the financed building lot is not included in the property count.

- **Reserve Requirements**
  - Additional reserve requirements apply to second home and investment property transactions based on the number of financed properties the borrower will have. The borrower must have sufficient assets to close after meeting the minimum reserve requirements. See the “Cash Reserve Requirements” subtopic within this document for the additional reserve requirements.

- **Truist Borrower Exposure**
  - For Agency loans, Truist does not limit the total number of loans available to an individual borrower or the outstanding dollar total of loans held by Truist.

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Multiple Financed Properties for the Same Borrower, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as outlined below:

- **Limits on the Number of Financed Properties**
  - If the borrower is financing a second home or investment property, the maximum number of financed properties the borrower can have is ten.
    - If the borrower will have one to six financed properties, standard eligibility requirements apply (for example, LTV ratios and minimum credit scores).
    - If the borrower will have seven to ten financed properties, the mortgage loan must have a minimum representative credit score of 720; all other standard eligibility requirements apply.

- **Applying the Multiple Financed Property Requirements to DU Loan Casefiles**
    - DU will determine the number of financed properties for the loan casefile based on the following approach:
      - If the Number of Financed Properties field is completed, DU will use that as the number of financed properties. The lender must complete this field with the number of financed one- to four-unit residential properties (including the subject transaction) for which the borrower(s) are personally obligated.
      - If the Number of Financed Properties field is not provided, DU will use the number of residential properties in the Real Estate Owned (REO) section that include a mortgage payment, or that are associated with a mortgage or HELOC, as the number of financed properties. Properties that are identified as commercial, multifamily, land or farm in the Other Description field in the online loan application will not be used when determining the number of financed properties.
      - If the Number of Financed Properties field and the REO information was not provided, DU will use the number of mortgages and HELOCs disclosed in the liabilities section of the loan application as the number of financed properties. (Applies to the online application for the Form 1003/05 (rev.6/09).)
      - When none of the information above is provided on the loan application, DU will use the number of mortgages and HELOCs disclosed on the credit report as the number of financed properties.

      Note: In order to account for the subject property, DU will add "1" to the number of financed properties on purchase and construction transactions when the REO section, number of mortgages on the application, or number of mortgages on the credit report are used as the number of financed properties.
  - After determining the number of financed properties, DU will use that value to assess the eligibility of the loan, including the minimum representative credit score requirement for seven to ten financed properties, and the minimum required reserves the lender must verify.

Continued on next page

Loan Terms, Continued

Multiple Financed Properties for the Same Borrower, continued

Fannie Mae DU, continued

- DU will issue a message informing the lender of the number of financed properties that DU used and where that information was obtained (Number of Financed Properties field, REO section, number of mortgages on application, or number of mortgages on credit report). If DU used the information provided in the Number of Financed Properties field or in the REO section, and that information is inaccurate, the lender must update the data and resubmit the loan casefile to DU. If DU used the number of mortgages and HELOCs on the loan application or credit report as the number of financed properties, and that number is inaccurate, the lender must provide the correct number in the Number of Financed Properties field, or complete the REO section of the loan application and resubmit the loan casefile to DU.

- **Delivery Requirements for Investor and Second Home Borrowers with Seven to Ten Financed Properties**
  - SFC 150 must be captured when the subject property is a second home or investment property and the borrower will have seven to 10 financed properties.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- If the mortgage is secured by the borrower's primary residence, there are no limitations on the number of properties that the borrower can currently be financing.
- If the mortgage is secured by the borrower's second home or investment property, each borrower individually and all borrowers collectively must not be obligated on (e.g., Notes, land contracts and/or any other debt or obligation) more than ten 1- to 4-unit financed properties, including the subject property and the borrower's primary residence.
- When the number of 1- to 4-unit financed properties (including the subject property and the borrower's primary residence) is greater than six, the mortgage must have a minimum indicator score of 720.
- Examples of financed properties that do not have to be counted in these limitations include:
  - Commercial real estate
  - Multifamily (five or more units) real estate
  - Timeshares
  - Undeveloped land
  - Manufactured homes not titled as real property (chattel lien), unless the property is situated on the land that is titled as real property
  - Property titled in the name of the borrower's business provided that the borrower, in his or her individual capacity, is not obligated on notes, land contracts and/or any debt or obligation related to such property
  - Property titled in the name of a trust where the borrower is a trustee, provided that the borrower in his or her individual capacity, is not obligated on notes, land contracts and/or any debt or obligation related to such property

Continued on next page

Loan Terms, Continued

Multiple Financed Properties for the Same Borrower, continued	**Freddie Mac LPA**, continued
	• The following additional requirement applies for investment properties:
	  • Freddie Mac will purchase investment property mortgages made to borrowers who own more than one financed investment property, provided that the investment property mortgage being sold to Freddie Mac is:
	    • An eligible fixed-rate, level-payment mortgage, or
	    • A 7/6-Month or 10/6-Month ARM.
	
	• **Truist Delivery Requirements for Investor and Second Home Borrowers with Seven to Ten Financed Properties**
	  • SFC 150 must be captured when the subject property is a second home or investment property and the borrower will have seven to 10 financed properties.
	
	• **Truist Borrower Exposure**
	  • For Agency loans, Truist does not limit the total number of loans available to an individual borrower or the outstanding dollar total of loans held by Truist.

Ability-to-Repay and Qualified Mortgage

General	Reference: See the "Ability-to-Repay and Qualified Mortgage" topic in Section 1.05: Underwriting Standard for guidance.

Eligible Transactions

Calculation of LTV/TLTV/HTLTV Ratios

Non-AUS

- **Calculation of the LTV Ratio**
- The maximum allowable LTV ratio for a first mortgage is based on a number of factors including, the representative credit score, the type of mortgage product, the number of dwelling units, and the occupancy status of the property.
- The following table describes the requirements for calculating LTV ratios for a first mortgage transaction. The result of these calculations must be truncated (shortened) to two decimal places, then rounded up to the nearest whole percent. For example:
  - 94.01% will be delivered as 95%, and
  - 80.001% will be delivered as 80%.

Note: The rounding rules noted above also apply to the TLTV and HTLTV ratio calculations. Lenders' systems must contain rounding methodology that results in the same or a higher LTV ratio.

Type of Transaction	Calculation of the LTV Ratio
Purchase Money Transactions	Divide the original loan amount by the property value. (The property value is the lower of the sales price or the current appraised value.)
Refinance Transactions	Divide the original loan amount by the property value. (The property value is the current appraised value.)
Mortgages with Financed Mortgage Insurance	Divide the original loan amount plus the financed mortgage insurance by the property value. (The property value is the lower of the sales price or the current appraised value.)

Notes:

- The LTV ratio calculations shown above may differ for certain mortgage loans. For details on these differences, see the "Construction Lending – Single-Closings," "Installment Land Contract," "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties / Freddie Mac's Energy Conservation Improvements," "Fannie Mae's HomeStyle® Renovation Mortgage," "Mortgage Insurance," and "Properties with Resale Restrictions" subtopics outlined in this document.
- The original loan amount is the amount of the loan as indicated by the note.
- Truist provides the following GSE clarification:
  - For a purchase transaction involving a newly constructed home, multiple contracts may not be combined to determine the purchase price for the mortgage transaction (for example, a new home purchase contract combined with a new swimming pool contract).

Continued on next page

Eligible Transactions, Continued

Calculation of LTV/TLTV/HTLTV Ratios, continued

Non-AUS, continued

- **Calculation of the TLTV Ratio**
- For first mortgage loans that are subject to subordinate financing, the lender must calculate the LTV ratio and the TLTV ratio. For first mortgage loans that are subject to a HELOC, see the "Calculation of the HTLTV Ratios" guidance provided below. For all other subordinate liens, see the "Secondary Financing" topic subsequently presented in this document for additional information.
  - The TLTV ratio is determined by dividing the sum of the items listed below by the lesser of the sales price or the appraised value of the property.
    - the original loan amount of the first mortgage,
    - the drawn portion (outstanding principal balance) of a HELOC, and
    - the unpaid principal balance of all closed-end subordinate financing. (With a closed-end loan, a borrower draws down all funds on day one and may not make any payment plan changes or access any paid-down principal once the loan is closed.)

    Note: For each subordinate liability, in order for the lender to accurately calculate the TLTV ratio for eligibility and underwriting purposes, the lender must determine the drawn portion of all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.

  - If the borrower discloses, or the lender discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the lender must re-underwrite the mortgage loan.

    Note: The TLTV ratio calculation may differ for certain mortgage loans. For details on these differences, see the "Construction Lending – Single-Closings," "Installment Land Contract," "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties / Freddie Mac's Energy Conservation Improvements," "Fannie Mae's HomeStyle® Renovation Mortgage," and "Properties with Resale Restrictions" subtopics outlined in this document.

- **Calculation of the HTLTV Ratio**
- For first mortgages that have subordinate financing under a HELOC, the lender must calculate the HTLTV ratio. This is determined by dividing the sum of the items listed below by the lesser of the sales price or appraised value of the property.
    - the original loan amount of the first mortgage,
    - the full amount of any HELOCs (whether or not funds have been drawn), and
    - the unpaid principal balance (UPB) of all closed-end subordinate financing.

Continued on next page

Eligible Transactions, Continued

Calculation of LTV/TLTV/HTLTV Ratios, continued

Non-AUS, continued

- **Calculation of the HTLTV Ratio**, continued

  Notes:
  - For each subordinate liability, in order for the lender to accurately calculate the HTLTV ratio for eligibility and underwriting purposes, the lender must determine the maximum credit line for all HELOCs, if applicable, and the unpaid principal balance for all closed-end subordinate financing. If any subordinate financing is not shown on a credit report, the lender must obtain documentation from the borrower or creditor.
  - The HTLTV ratio calculation may differ for certain mortgage loans. For details on these differences, see the "Construction Lending – Single-Closings," "Installment Land Contract," "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties / Freddie Mac's Energy Conservation Improvements," and "Fannie Mae's HomeStyle® Renovation Mortgage," subtopics outlined in this document.

- If the borrower discloses, or the lender discovers, new (or increased) subordinate financing after the underwriting decision has been made, up to and concurrent with closing, the lender must re-underwrite the mortgage loan.

  Reference: See the "Home Equity Lines (HELOCs)" subtopic subsequently presented in the "Secondary Financing" topic for additional guidance for permanently modified HELOCs.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements. The following additional guidance applies:

- **Sales Price and Appraised Value Used by DU**
  - DU uses information in the online loan application to obtain the sales price and appraised value it uses to calculate the LTV, TLTV, and HTLTV ratios.
  - To determine the sales price and appraised value, DU uses the amounts entered in the following data fields:
    - Sales price = Line a + Line b + Line c in Section VII, where:
      - Line a = Purchase price (the sales price for purchase transactions, or the cost of construction for construction transactions).
      - Line b = Alterations, improvements, repairs (for HomeStyle Renovation transactions, the cost of alterations, improvements, or repairs).
      - Line c = For construction transactions, the cost or value of the land if the borrower acquired the lot separately.
    - Appraised value = Property Appraised Value in the Additional Data screen.

    Note: If the estimated value that was submitted to DU differs from the actual value, the lender must correct the information in DU and resubmit the loan casefile.

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Calculation of LTV/TLTV/HTLTV Ratios continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Loan Product Advisor® calculates the loan-to-value (LTV) ratio, total LTV (TLTV) ratio, and Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio based on the data submitted by the lender.
  - The LTV ratio is determined by dividing the first lien mortgage amount by value, as defined in the "Value" subsection below.
  - The TLTV ratio is determined by dividing the sum of the first lien mortgage amount and the disbursed amount of the HELOC and any other secondary financing by value, as defined in the "Value" subsection below.
  - The HTLTV ratio is determined by dividing the sum of the first lien mortgage amount and the total HELOC credit line limit and any other secondary financing by value, as defined in the "Value" subsection below.
- To determine if a mortgage meets LTV, TLTV or HTLTV ratio requirements, round each ratio up to the next whole number.
- Freddie Mac will calculate the LTV ratio for each mortgage it purchases based on data delivered by the lender. Freddie Mac will calculate the LTV ratio to two decimal places and round the result of that calculation up to the next whole number. For example, 94.01 will be rounded up to 95%.

- **Value**
  - For a purchase transaction, "value" is the lesser of the appraised value of the mortgaged premises as of the appraisal report effective date or the purchase price of the mortgaged premises.
  - For a purchase transaction involving a newly constructed home, multiple contracts may be combined to determine the purchase price of the mortgaged premises (for example, a new home purchase contract and a new swimming pool contract may be added together to establish the purchase price).

    Reference: See the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages[SM]" subtopic for additional guidance regarding the value used to determine the LTV/TLTV/HTLTV.

  - For a refinance, "value" is the appraised value of the mortgaged premises as of the appraisal report effective date.
  - For certain Loan Product Advisor mortgage transactions, Freddie Mac may accept the "value" to be the lender-provided estimate of value or the purchase price as the basis for the underwriting of the mortgage.

    Reference: See the "Freddie Mac's LPA Automated Collateral Evaluation (ACE)" subtopic subsequently outlined in the "Appraisal Requirements" topic within this document, for additional information on Freddie Mac's LPA automated collateral evaluation.

Continued on next page

Construction Lending – Single Closings

Note: Truist clarifies that complete tear down transactions are allowed under these Construction Lending – Single-Closing transaction requirements.

Non-AUS

- **Conversion of Construction-to-Permanent Financing Overview**
  - 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 has obtained to fund the construction of a new residence.
  - Construction-to-permanent financing can be structured as a transaction with one closing. The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction.
  - All construction work, including any work that could entitle a party to file a mechanics' or materialmen's lien, must be completed and paid for, and all mechanics' liens, materialmen's liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered to Fannie Mae. The lender must retain in its individual loan file a Form 1004D or a completion alternative of the completed property. When a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the lot, the lender must retain a certificate of occupancy or an equivalent form from the applicable government authority.
  - The lender must use Fannie Mae's uniform mortgage instruments to document the permanent mortgage. These documents may not be altered to include any reference to construction of the property, other than any alteration that Fannie Mae specifically requires.
  - Log homes, attached units in a condo project, all co-op properties, and manufactured housing are ineligible for construction-to-permanent financing. Detached units in condo projects are permitted for construction-to-permanent financing.

- **Single-Closing Transaction Overview**
  - Single-closing transactions may be used for both the construction loan and the permanent financing if the borrower wants to close on both the construction loan and the permanent financing at the same time. When a single-closing transaction is used, the lender will be responsible for managing the disbursement of the loan proceeds to the builder, contractor, or other authorized suppliers.
  - Because the loan documents specify the terms of the permanent financing, the construction loan will automatically convert to a permanent long-term mortgage loan upon completion of the construction.
  - Loans that combine construction and permanent financing into a single transaction cannot be purchased by Fannie Mae until the construction is completed and the terms of the construction loan have converted to the permanent financing.
  - **Special Feature Code Requirement**: Use SFC 151 to identify single-closing construction-to-permanent loans.

Continued on next page

Eligible Transactions, Continued

Construction Lending – Single Closings, continued

Non-AUS, continued

- **Terms of Construction Loan Period**
  - For all single-closing construction-to-permanent transactions, the construction loan must be structured as a temporary loan exempt from the ability to repay requirements under Regulation Z. The construction loan period for single-closing construction-to-permanent transactions may have no single period of more than 12 months and the total period may not exceed 18 months. Lenders may, when needed to complete the construction, provide an extension to the original period to total no more than 18 months but the documents may not indicate an initial construction period or subsequent extension of more than 12 months. After conversion to permanent financing, the loan must have a loan term not exceeding 30 years (disregarding the construction period).
  - As examples, lenders may structure the construction loan period as follows:
    - three 6–month periods,
    - one 12–month period and one 6–month period, or
    - six 3–month periods.
  - Exceptions to the 12-month and 18-month periods will not be granted. If the construction loan period exceeds the requirements above, the lender must process the loan as a two-closing construction-to-permanent transaction in order for the loan to be eligible (see Construction Lending – Two Closings).

- **Eligible Loan Purposes**
  - A single-closing construction-to-permanent mortgage loan may be closed as:
    - a purchase transaction, or
    - a limited cash-out refinance transaction.
  - When a purchase transaction is used, the borrower is not the owner of the lot at the time of the first advance of interim construction financing, and the borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.
  - When a limited cash-out refinance transaction is used, the borrower must have held legal title to the lot before he or she receives the first advance of interim construction financing. The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property. This type of transaction is not a "true" limited cash-out refinance whereby the borrower refinances a loan(s) that was used to purchase a completed property; however, all other requirements for limited cash-out refinances apply. See the "Limited Cash-Out Refinances" subtopic for additional guidance.

    Note: Cash-out refinance transactions are not eligible for single-closing construction-to-permanent mortgages.

- **Calculating the LTV Ratio**
  - Single-closing construction-to-permanent mortgages are subject to the purchase and limited cash-out refinance maximum LTV, TLTV, and HTLTV ratios, as applicable.
  - The LTV ratio calculation differs depending on whether the transaction is a purchase or a limited cash-out refinance, as shown in the table below.

Continued on next page

Construction Lending – Single Closings, continued

Non-AUS, continued

- **Calculating the LTV Ratio**: continued

Transaction Type	Lot Ownership Requirement	LTV Ratio Calculation
Purchase	The borrower is not the owner of record of the lot at the time of the first advance of interim construction financing.	Divide the loan amount of the construction-to-permanent financing by the lesser of: • the purchase price (sum of the cost of construction and the sales price of the lot), or • the "as completed" appraised value of the property (the lot and improvements).
Limited Cash-out Refinance	The borrower is the owner of record of the lot at the time of the first advance of interim construction financing.	Divide the loan amount of the construction-to-permanent financing by the" as-completed" appraised value of the property (the lot and improvements).

- **Modifications of Single-Closing Construction-to-Permanent Mortgages**
  - If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified to reflect the new terms if it meets all of the following criteria:
    - The modification must take place prior to or at the time of conversion.
    - Only the following loan terms may be modified in a single-closing transaction:
      - interest rate,
      - loan amount,
      - loan term, and
      - amortization type.

      Notes:
      - The only amortization change permitted is from an adjustable-rate amortization to a fixed-rate amortization.
      - Changes made to any other loan terms will require a two-closing construction-to-permanent transaction.
    - The loan must be underwritten based on the terms of the loan as modified and delivered.
    - Increases to the loan amount are permitted only as necessary to cover documented increased costs of construction of the property.
    - If the modification results in an increase in the original loan amount, the lender remains responsible for all standard title insurance requirements. In addition, the lender must obtain an endorsement to the title insurance policy that:
      - extends the effective date of the coverage to the date of the recording of the modification agreement;
      - increases the amount of the policy to the original loan amount, as increased; and
      - confirms that the lien of the mortgage, as modified, continues to be a first lien.

Continued on next page

Eligible Transactions, Continued

Construction Lending – Single Closings, continued

Non-AUS, continued

Note: Both the original construction loan amount at closing and the final modified loan amount must meet the loan limits currently in effect.

- The original construction loan must be documented on Fannie Mae uniform instruments or substantially similar documents.
- The modification must be documented on one of the following:
  - *Loan Modification Agreement (Providing for Fixed Interest Rate)* (Fannie Mae Form 3179);
  - *Loan Modification Agreement (Providing for Adjustable Interest Rate)* (Fannie Mae Form 3161); or
  - A substantially similar document.

- **Underwriting Single-Closing Construction-to-Permanent Mortgages**
  - The lender must underwrite a single-closing construction-to-permanent loan based on the terms of the permanent financing.
  - If the permanent financing terms are modified, and no longer reflect the terms on which the underwriting was based, the loan must be re-underwritten, subject to certain re-underwriting tolerances.
  - As described in the table below, re-underwriting tolerances may be applied if the interest rate or loan amount was modified. (All other modifications require re-underwriting.)

Modified Loan Term	Re-underwriting Tolerances
Interest Rate Loan Amount	If the recalculated DTI (based on the change in rate or loan amount) does not exceed 45%, the loan must be re-underwritten with the updated information to determine if the loan is still eligible for delivery. **Note**: If the increase in the DTI ratio moves the DTI ratio above the 36% threshold, the loan must meet the credit score and reserve requirements that apply to DTI ratios greater than 36% up to 45%.

- **Age of Credit Documents**
  - All credit documents must be no more than four months old on the note date (that is, the closing date of the construction loan). Additionally, income, employment, and credit report documents must be no more than four months old at the time of conversion to permanent financing.
  - Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification, either of the following applies:
    - more reserves are required than were required at the time of original qualification
      - the full amount of reserves must then be reverified, or
    - the borrower chooses to bring additional funds to the transaction
      - the additional funds must come from an eligible source and be documented.

Continued on next page

Eligible Transactions, Continued

Construction Lending – Single Closings, continued

Non-AUS, continued

- **Age of Appraisal Documents**
  - For all single-closing transactions, the effective date of the appraisal must be no more than four months prior to the note date (that is, the closing date of the construction loan). Additionally, at the time of completion of construction, an *Appraisal Update and/or Completion Report* (Form 1004D) must be completed in its entirety including the appraisal update and certification of completion. If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property and requalify the borrower using the updated LTV ratio per the Requalification Requirements, below.

    Reference: See "Appraisal Age, Appraisal Update, and Appraisal Use Requirements" subsequently presented in the "Appraisal Requirements" topic for additional information.

- **Requalification Requirements**
  - Requalification of the borrower(s) is required at the time of conversion to permanent financing if:
    - the LTV ratio increased due to a decline in property value,
    - updated credit documents were obtained, or
    - as otherwise required per the modified loan term in the table above.
  - To be eligible for purchase by Fannie Mae, the loan must be eligible per Agency eligibility requirements.
  - When requalification is required:
    - the LTV ratio must be adjusted based on the updated appraisal, if applicable;
    - if credit documents exceed the four month age of documentation requirement, the updated income, credit, and liability information must be considered; and
    - the loan data at delivery must match the data considered in the final requalification of the loan.

- **Loan Conversion Documentation Options**
  - The construction loan may be converted into a permanent loan in either of the following ways:
    - **Option 1**: A construction loan rider must be used to modify Fannie Mae's uniform instrument that will be used for the permanent loan. The rider must state the construction loan terms, and the construction-related provisions of the rider must become null and void at the end of the construction period and before the permanent mortgage is delivered. Because the permanent mortgage cannot be sold before it is scheduled to begin amortizing, a lender will need to amend the construction loan rider, and the accompanying uniform instrument, if the construction is completed sooner or later than originally anticipated. The amendment(s) should provide the new dates on which amortization for the permanent loan will begin and end. The lender also will need to record the amended documents before the permanent loan is sold.
    - **Option 2**: A separate modification agreement must be used to convert the construction loan into permanent financing. This agreement must be executed and recorded in the applicable jurisdiction before the permanent loan is delivered.

Continued on next page

Eligible Transactions, Continued

Construction Lending – Single Closings, continued

Non-AUS, continued

- **Loan Conversion Documentation Options,** continued
  - The lender must include the applicable conversion document in its loan submission package. When amended documents are recorded in connection with a construction loan rider, the lender also must include a copy of the original documentation that the borrower signed.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Modifications of Single-Closing Construction-to-Permanent Mortgages**
  - If the final (modified) terms of the loan do not match the last submission to DU, the loan must be resubmitted to DU (subject to "Underwriting Single-Closing Construction-to-Permanent Mortgage" and "Requalification Requirements" described below).

- **Underwriting Single-Closing Construction-to-Permanent Mortgages**
  - The lender must underwrite a single-closing construction-to-permanent loan based on the terms of the permanent financing.
  - If the permanent financing terms are modified, and no longer reflect the terms on which the underwriting was based, the loan must be re-underwritten, subject to certain re-underwriting tolerances. The loan data at delivery must match the data in the final submission of the loan casefile to DU.
  - As described in the table below, re-underwriting tolerances may be applied if the interest rate or loan amount was modified. (All other modifications require re-underwriting.)

Modified Loan Term	Re-underwriting Tolerances
Interest Rate Loan Amount	See the tolerances and resubmission requirements in the *Underwriting the Borrower* topic subsequently presented in this document for guidance.

  - For Agency Plus and Agency Plus Select transactions, the loan amount on the note must be less than or equal to the Agency Plus eligible maximum loan amount at the time of conversion to the permanent phase regardless of lock terms.

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Eligible Transactions, Continued

Construction Lending – Single Closings, continued

Fannie Mae DU, continued

- **Age of Credit Documents**
  - All credit documents must be no more than four months old on the note date (that is, the closing date of the construction loan). Additionally, income, employment, and credit report documents must be no more than four months old at the time of conversion to permanent financing. As an exception, these documents may be more than four months but not exceeding 12 months old at the time of the conversion to permanent financing if all of the following conditions were met at the time of the original closing of the construction loan:
    - The LTV, TLTV, and HTLTV ratios do not exceed 95%.
    - The representative credit score of the loan is greater than or equal to 700.
    - The loan casefile was underwritten through DU and received an "Approve/Eligible" recommendation.
  - If any one of the above conditions was not met or an eligible loan term was modified subsequent to the last DU submission, the lender must:
    - obtain updated income, employment, and credit report documents no more than four months prior to conversion; and
    - re-qualify the borrower(s) in accordance with the Requalification Requirements below.
  - Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification, either of the following applies:
    - more reserves are required than were required at the time of original qualification
      - the full amount of reserves must then be reverified, or
    - the borrower chooses to bring additional funds to the transaction
      - the additional funds must come from an eligible source and be documented.

- **Impact on Validation through the DU Validation Service**
  - If updated credit documents are required to be obtained after the original closing of the construction loan, any validation of income, employment, or assets is no longer applicable. Updated validation reports must be obtained and the loan casefile resubmitted to DU and the loan must convert to permanent financing by the Close By Date stated in the DU validation message in order for validation and the associated waiver of enforcement relief of representations and warranties to apply.

- **Age of Appraisal Documents**
  - For all single-closing transactions, the effective date of the appraisal must be no more than four months prior to the note date (that is, the closing date of the construction loan). Additionally, at the time of completion of construction, an *Appraisal Update and/or Completion Report* (Form 1004D) must be completed in its entirety including the appraisal update and certification of completion. If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property and requalify the borrower using the updated LTV ratio per the Requalification Requirements, below.

    Reference: See "Appraisal Age, Appraisal Update, and Appraisal Use Requirements" subsequently presented in the "Appraisal Requirements" topic for additional information.

Continued on next page

Construction Lending – Single Closings, continued

Fannie Mae DU, continued

- **Requalification Requirements**
  - Requalification of the borrower(s) is required at the time of conversion to permanent financing if:
    - the LTV ratio increased due to a decline in property value,
    - updated credit documents were obtained, or
    - as otherwise required per the modified loan term in the table above.
  - To be eligible for purchase by Fannie Mae, the loan must retain an "Approve/Eligible" recommendation after resubmission to DU.
  - When requalification is required:
    - the LTV ratio must be adjusted based on the updated appraisal, if applicable;
    - if credit documents exceed the four (or 12) month age of documentation requirement, the updated income, credit, and liability information must be considered; and
    - the loan data at delivery must match the data considered in the final requalification of the loan.

Freddie Mac LPA
Not eligible

Continued on next page

Eligible Transactions, Continued

Construction Lending – Two-Closings

Non-AUS

- 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 has obtained to fund the construction of a new residence.
- Construction-to-permanent financing can be structured as a transaction with two separate closings.
- Two-closing construction-to-permanent mortgage transactions utilize two separate loan closings with two separate sets of legal documents. A modification may not be used to update the original note, rather a new note must be completed and signed by the borrower(s). The first closing is to obtain the interim construction financing (and may include the purchase of the lot), and the second closing is to obtain the permanent financing upon completion of the improvements. The borrower must hold title to the lot, which may have been previously acquired.
- All construction work, including any work that could entitle a party to file a mechanics' or materialmen's lien, must be completed and paid for, and all mechanics' liens, materialmen's liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered to Fannie Mae. The lender must retain in its individual loan file a Form 1004D or a completion alternative of the completed property. When a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the lot, the lender must retain a certificate of occupancy or an equivalent form from the applicable government authority.
- Fannie Mae does not provide financing for construction loans; however, Fannie Mae does purchase loans that were used to provide the permanent financing.
- The lender that provides the permanent long-term mortgage may be a different lender than the one that provided the interim financing. Only the permanent long-term mortgage is eligible.
- The lender must underwrite the borrower based on the terms of the permanent mortgage.

- **Eligible Loan Purposes**:
- In a two-closing construction-to-permanent transaction, the permanent mortgage delivered to Fannie Mae may be closed as:
  - a limited cash-out refinance transaction, or
  - a cash-out refinance transaction.
- Two-closing construction-to-permanent mortgages are subject to the limited cash-out and cash-out refinance maximum LTV, TLTV, and HTLTV ratios, as applicable. For the borrower to be eligible for a cash-out refinance transaction, the borrower must have held legal title to the lot for at least six months prior to the closing of the permanent mortgage. All other standard cash-out refinance eligibility and underwriting requirements apply.
- Attached units in a condo project, all co-op projects, and manufactured housing are not eligible for construction-to-permanent financing. Detached units in condo projects are permitted for construction-to-permanent financing.
- **Special Feature Code Requirement:** Use SFC 152 to identify two-closing construction-to-permanent mortgage loans.

Continued on next page

Eligible Transactions, Continued

Construction Lending – Two-Closings, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP
Not eligible

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®

Non-AUS

- **Overview**
  - There are a number of HomeStyle Energy financing options available to a borrower who wishes to improve the energy and/or water efficiency of an existing property and decrease its related utility costs. HomeStyle Energy may also be used to create home resiliency for environmental disasters such as floods, storms, and earthquakes, or to repair damage from these types of disasters.
  - There is no minimum dollar amount for the improvements; the maximum dollar amount depends on the type of HomeStyle Energy activity and the transaction, described in the table below.

HomeStyle Energy Activity	Maximum Amount to Finance Energy-Related Items
Renovation of an existing property to make energy-related improvements	For purchases or limited cash-out refinances up to 15% of the "as completed" appraised value of the property.
Payoff of non-PACE secured or unsecured debt that financed energy-related improvements	For limited cash-out refinances up to 15% of the appraised value of the property. The energy-related debt must be paid off in full. Partial payoffs are not permitted. **Note**: If a HomeStyle Energy loan includes both new energy-related improvements and payoff of previously acquired energy-related debt, the total of both cannot exceed 15%.
Payoff of existing PACE loan	For purchases or limited cash-out refinances: all outstanding PACE debt may be paid off up to the maximum allowable LTV for the transaction and occupancy type. The PACE loan must be paid off in full. Partial payoffs are not permitted. **Truist Note**: If the maximum amount allowed to be financed is not sufficient to pay off the existing PACE lien in its entirety, any remaining portion must be paid in full by acceptable borrower funds.

Note: Lenders may use HomeStyle Energy financing in conjunction with HomeStyle Renovation to finance energy-related improvements that exceed the amounts in the table above. See the "Fannie Mae's HomeStyle® Renovation Mortgage" subtopic subsequently presented in this topic, for the requirements

  - A lender may deliver a HomeStyle Energy loan with eligible improvements as soon as the loan is closed. The eligible improvements do not have to be completed when the mortgage is delivered to Truist.

Continued on next page

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Non-AUS, continued

- **Overview**, continued
  - The lender must establish a completion escrow for incomplete energy improvements. The improvements must be completed no later than 180 days from the date of the mortgage note. For requirements related to the completion of the postponed improvements, including escrow accounts, disposition of funds after work completion, and title reports, see the "Requirements for HomeStyle Energy Improvements on Existing Construction" section outlined below.

    Truist Note: The correspondent lender owns the management of a completion escrow. The correspondent lender is responsible for follow-up on all outstanding escrow agreements. If the energy improvements are not made as agreed, Truist will hold the correspondent lender responsible for completing the energy improvements with the escrowed funds.

  - The term "energy-related improvements" is used throughout this subtopic, and includes all eligible improvements described in this subtopic. All energy-related improvements must be permanently affixed to the property except for certain appliances installed with kitchen and utility room remodels when completed as part of a HomeStyle Renovation loan. See the "Fannie Mae's HomeStyle® Renovation Mortgage" subtopic subsequently presented in this topic, for additional information.

- **Eligible Energy-Related Improvements**
  - In addition to energy and water efficiency improvements, HomeStyle Energy can be used to repair homes damaged in a natural disaster or by an environmental hazard and to install resiliency or preventative improvements, including the following:
    - storm surge barriers;
    - foundation retrofitting for earthquakes;
    - hazardous brush and tree removal in fire zones;
    - retaining walls to address mud or water flows; and
    - other items specifically needed to either repair environmental hazard damage or improve the home's ability to withstand environmental hazards such as hurricanes, tornadoes or wind storms, earthquakes, flooding, landslides, and wildfires.
  - Installation of radon remediation systems is also an eligible improvement under HomeStyle Energy.
  - **ENERGY STAR-Certified Improvements**
    - HomeStyle Energy can be used to finance energy-related improvements that are included in the List of ENERGY STAR Efficient Products.

- **Eligible Property and Occupancy Types**
  - All one- to four-unit existing properties are eligible for HomeStyle Energy. All property types are eligible.
  - All occupancy types are permitted.

Continued on next page

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Non-AUS, continued

- **Product Eligibility**
  - Energy-related improvements are permitted on existing properties in conjunction with all standard Agency products and features including, but not limited to:
    - Community Seconds,
    - loans with deed restrictions (including programs that allow below market rate mortgages),
    - down payment assistance programs, and
    - HomeReady loans.
  - Loans with energy-related improvements are subject to the applicable LTV, TLTV, and HTLTV ratios for purchase and limited cash-out refinance transactions outlined in the applicable first mortgage product description.

    Note: Energy-related improvements are permitted on a cash-out refinance, however the transaction is not considered a HomeStyle Energy loan. All standard cash-out refinance requirements apply.

  - **Purchase Transactions**:
    - In a purchase transaction, the proceeds can be used to finance the acquisition of the property and the cost of energy-related improvements or the amount to payoff PACE debt.
    - The LTV ratio is determined by dividing the original loan amount by the lesser of:
      - the "as completed" appraised value of the property,
      - the sum of the purchase price of the property plus the cost of the energy-related improvements, or
      - the sum of the purchase price plus the total amount of PACE debt to be paid off.
  - **Limited Cash-out Refinance Transactions**:
    - When a loan is originated as a limited cash-out refinance, the loan must meet all of the standard requirements for limited cash-out refinances.
    - Energy-related improvements may be financed in the loan amount. Proceeds may also be used to pay off an existing PACE loan or other debt (secured or unsecured) that financed energy-related improvements. The standard cash back allowance of the lesser of 2% of the loan amount or $2,000 is permitted on these loans.
    - For limited cash-out refinance transactions, the LTV ratio is determined by dividing the original loan amount by the "as completed" appraised value of the property when the mortgage is being delivered prior to the completion of the improvements. If the appraisal was completed after the completion of the improvements, then the LTV ratio is determined by dividing the original loan amount by the appraised value of the property.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Non-AUS, continued

- **Energy Report Requirements**
  - Borrowers are required to obtain a residential or home energy report to identify the recommended energy improvements to the property and the estimated cost savings associated with those improvements, when they are using funds for new energy-related improvements.
  - The energy report must be reviewed by the lender and must:
    - identify the recommended energy improvements and expected costs of the completed improvements;
    - specify the monthly energy savings to the borrower; and
    - verify that the recommended energy improvements are cost-effective. Energy improvements are determined to be cost-effective when the cost of the improvements, including maintenance, is less than the present value of the energy saved over the useful life of the improvements. (The cost-effectiveness of the improvements may be assessed in the aggregate and are not required to be assessed separately for each energy improvement.)
  - The report must meet at least one of the following standards:
    - A Home Energy Rating Systems (HERS) report completed by a HERS rater who is accredited under the Mortgage Industry National Home Energy Rating Standards (HERS Standards), as adopted by the Residential Energy Services Network (RESNET®). A list of accredited HERS raters by state can be located at RESNET's website.
    - A Department of Energy (DOE) Home Energy Score Report completed by an independent third-party energy assessor with credentials obtained through one or more of the organizations listed as eligible under the DOE program. A list of acceptable organizations can be found on the DOE website.
    - A rating report completed by an independent and certified home energy consultant or auditor, comparable in rating methods and scope to the HERS or Home Energy Score evaluation, and that is permitted under a local or state level home energy certification or audit program.
  - The energy report must be dated no more than 24 months before the note date.
  - If the cost of the energy report is paid for by the borrower, the cost may be financed as part of the mortgage by including it in the cost of the energy improvements. The cost must be included on the settlement statement if it is financed in the mortgage loan.
  - **Exceptions to Energy Report Requirements**: Energy reports are not required in certain circumstances. Alternative documentation (other than an energy report) is acceptable in the following circumstances:
    - **Weatherization Items** – If the transaction only involves financing the purchase of basic weatherization items (such as programmable thermostats and insulation) or water efficiency devices (such as low-flow showerheads) totaling up to $3,500. Acceptable documentation includes, but is not limited to, a copy of invoices or receipts for energy-related expenses or copies of contractor invoices for completing the basic weatherization items.

Continued on next page

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Non-AUS, continued

- **Energy Report Requirements**, continued
    - **Payoff of PACE Loans** – Documentation must show that the funds are used solely to pay off the PACE loan obtained for energy improvements on the subject property.
    - **Payoff of Non-PACE Energy-Related Debt -** Documentation must show the funds were used solely for the purchase and installation of eligible energy-related improvements on the subject property.
    - **Energy Improvements Related to the Installation of Renewable Energy Sources Including Water Efficiency Devices, Solar Panels, Wind Power Devices, and Geothermal Systems -** Acceptable documentation includes, but is not limited to, a copy of invoices or receipts for installing the systems or devices.
    - **ENERGY STAR-Certified Products** - The lender must maintain documentation in the loan file that shows the energy-related improvement is on the List of ENERGY STAR Energy Efficient Products.
    - **Improvements to Install a Radon Remediation Device** - Documentation for the cost of the system and its expected impact on the radon levels in the home must be obtained.
    - **Environmental Hazard Damage Repairs or Resiliency Improvements** - Acceptable documentation includes, but is not limited to, a copy of invoices or receipts for the expenses or copies of contractor invoices for completing the repairs or improvements.

- **Additional Manual Underwriting Requirements**
    - See the "Qualifying Ratios" subtopic in the applicable first mortgage product description for maximum debt-to-income ratio requirements.

- **Appraisal Requirements**
    - All HomeStyle Energy loans require an appraisal based on an interior and exterior property inspection and must be completed on the appropriate form depending on the property type.
    - When the loan is being delivered prior to the completion of the energy-related improvements, appraisers must determine the "as completed" value of the property subject to the improvements being completed. A certification of completion is required when the mortgage is delivered prior to the completion of the improvements. For requirements related to the certification of completion, see the "Requirements for HomeStyle Energy Improvements on Existing Construction" section outlined below.

Continued on next page

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Non-AUS, continued

- **Requirements for HomeStyle Energy Improvements on Existing Construction**
  - The table below provides the postponed improvement requirements for a HomeStyle Energy loan. (These requirements are not applicable when energy improvements are included in HomeStyle Renovation loan).

Requirements for HomeStyle Energy Improvements on Existing Construction
Mortgages may be delivered to Truist before the energy-related improvements are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that will not prevent the issuance of 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.
Lenders must establish a completion escrow for the postponed energy-related improvements by withholding funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor 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.
Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in Servicing Guide topic A4-1-02, Establishing Custodial Bank Accounts.
Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed. **Truist Note**: The lender may use the *Escrow Agreement for Postponed Improvements* (COR 0016) form or another type of escrow agreement form meeting the requirements stated above.
The completion escrow may not adversely affect the mortgage insurance or title insurance.
Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items. Any funds remaining in the escrow account after the work is completed must be applied to reduce the unpaid principal balance of the mortgage loan. The value of sweat equity and "Do It Yourself" improvements are not reimbursable.

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Non-AUS, continued

- **Requirements for HomeStyle Energy Improvements on Existing Construction**, continued

Requirements for HomeStyle Energy Improvements on Existing Construction, (continued)
Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of the lender's lien.
Additional Truist Instructions: • Send the completed Satisfactory Completion Certificate to the Purchase Relations Specialist. • Send the mechanic's lien waivers to the Purchase Relations Specialist. • The correspondent lender is responsible for follow-up on all outstanding escrow agreements. If improvements are not made as agreed, Truist will hold the correspondent lender responsible for completing the improvements with the escrowed funds.

- **Lender Responsibilities**
  - The lender is responsible for:
    - ensuring that the appraiser has been provided with a copy of the energy report, if one was required and other required documentation described in this subtopic,
    - managing the completion escrow account in which improvement funds are held, and
    - monitoring the completion of the HomeStyle Energy improvement work.

      Reference: See the "Requirements for HomeStyle Energy Improvements on Existing Construction" section outlined above for additional details.

  - The lender must maintain a copy of all documentation in the individual loan file that supports the energy-related improvement work, such as the energy report, "as completed" appraisal, home improvement contract, certification of completion, and title insurance endorsements or updates (if applicable).

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Non-AUS, continued

- **Special Feature Code Requirement**
  - The following SFCs are required for loans with eligible energy-related improvements. These codes also apply to delivery of HomeStyle Renovation loans with energy-related improvements.

If the energy-related improvements include…	Then the lender must deliver…
• one or more ENERGY STAR-certified improvements	• SFC 375 and • SFC 773
• other improvements eligible for HomeStyle Energy but does not include ENERGY STAR-certified improvements	• SFC 375

Note: Fannie Mae will credit the **lender** (selling the loan to Fannie Mae) a $500 loan level price adjustment for loans with financed energy-related improvements on existing properties (that include SFC 375 as a part of the delivery information). At this time, Truist is unable to pass this $500 price adjustment credit on to the Correspondent Lender.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Product Eligibility**
  - Energy-related improvements are permitted on existing properties in conjunction with all standard Agency products and features including, but not limited to:
    - high-balance (i.e., Agency Plus and Agency Plus Select) loans,
    - Community Seconds,
    - loans with deed restrictions (including programs that allow below market rate mortgages),
    - down payment assistance programs, and
    - HomeReady loans.

- **Additional DU Underwriting Requirements**
  - See the "Qualifying Ratios" subtopic in the applicable first mortgage product description for maximum debt-to-income ratio requirements.
  - For loans underwritten in DU, specific information must be provided in the online loan application in Section L1 as follows:
    - Energy Improvement - Select the applicable check boxes.
    - Energy improvements included in transaction – Enter the amount of new energy improvements that are included in the purchase or limited cash-out transaction, and any non-PACE energy debt being paid off with the limited cash-out transaction. Non-PACE energy debt included in this field should not be included in Section L4 Line D.
    - Payoff Amount of any PACE Loan – Enter the payoff amount of any existing PACE loans that will be paid off in the subject transaction. PACE energy debt should not be included in Section L4 Line D.

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Eligible Mortgages, Properties, and Improvements**
  - **Eligible Mortgages**
    - Mortgages must be purchase transaction or "no cash-out" refinance mortgages.
    - The proceeds of a purchase transaction mortgage must be used to finance the purchase and/or installation of eligible improvements, or the repair or upgrade of any such improvements, to be completed after the note date.
    - The proceeds of a "no cash-out" refinance mortgage must be used to finance:
      - Purchase and/or installation of eligible improvements, or the repair or upgrade of any such improvements, to be completed after the note date; or
      - Payment (in whole or in part) of an existing debt incurred by the borrower to finance the purchase and/or installation of eligible improvements, or the repair or upgrade of any such improvements (such debt, an "existing debt" for purposes of this subtopic), completed prior to the note date
    - Fees associated with the purchase, installation, repair or upgrade of eligible improvements, including any fees related to plans and specifications, permits, title updates, appraisals, draw inspections or final inspections, as applicable, may be financed as part of the mortgage. The cost of an energy report, if required, may also be financed.

  - **Eligible Property Types**
    - All property types are eligible to secure GreenCHOICE Mortgages.

  - **Eligible Improvements**
    - GreenCHOICE Mortgages must be secured by properties with eligible improvements. For purposes of this subtopic, "eligible improvements" means:
      - Energy and/or water efficiency improvements, including, but not limited to:
        - ENERGY STAR Energy Efficient Products listed at https://www.energystar.gov/products/products_list
        - Electrification improvements (e.g., replacing equipment or appliances that run on natural gas or other combustible fuel with efficient, all-electric technologies, such as heat pumps and induction cooktops)
      - Health and safety improvements (e.g., ventilation, radon remediation, asbestos, mold or lead abatement and building-code compliance if cited by the applicable jurisdiction)
      - Resiliency and preventive improvements to either repair natural disaster damage or improve a home's ability to withstand future natural disasters

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Freddie Mac LPA, continued

- Eligible improvements must be permanently affixed to the property, except for:
  - Appliances used in a kitchen, laundry room or utility room
  - Health and safety improvements

- **Determination of Value for LTV/TLTV/HTLTV Ratios**
  - **Purchase transaction**: The value is the lesser of:
    - The "as completed" appraised value of the mortgaged premises, or
    - The total acquisition cost (i.e., the price paid for the mortgaged premises plus the cost of eligible improvements). The mortgage file must contain sufficient documentation to calculate the total acquisition cost.
  - **"No cash-out" refinance mortgage used to finance eligible improvements**: The value is the "as completed" appraised value of the mortgaged premises.
  - "**No cash-out" refinance mortgage used to pay an existing debt**: The value is the appraised value of the mortgaged premises.

- **Mortgage Requirements**
  - **Purchase Transactions and "No Cash-Out" Refinance Mortgages Used to Finance Eligible Improvements**
    - The proceeds from a purchase transaction or "no cash-out" refinance mortgage may be used to finance eligible improvements completed after the note date, subject to the following requirements:
      - The maximum amount of the proceeds that may be used for the purchase, installation, repair or upgrade of eligible improvements is limited to 15% of the "as completed" appraised value of the mortgaged premises. The lender must obtain and retain in the mortgage file copies of all invoices and/or receipts, as applicable, related to the cost of the eligible improvements.
      - On the note date, funds sufficient to cover the cost of the eligible improvements must be deposited into a completion escrow account that meets the requirements for incomplete improvements, outlined in the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic (within the "Appraisal Requirements" topic). A contingency reserve is not required.

        Truist Note: The correspondent lender owns the management of a completion escrow. The correspondent lender is responsible for follow-up on all outstanding escrow agreements. If the eligible improvements are not made as agreed, Truist will hold the correspondent lender responsible for completing the eligible improvements with the escrowed funds.

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Freddie Mac LPA, continued

- Funds in the completion escrow account may be used to reimburse the borrower for the costs of materials purchased to complete the eligible improvements. The lender may not reimburse the borrower for any self-performed labor. With respect to any funds remaining in the completion escrow account after all eligible disbursements have been made, the lender must apply such funds to reduce the UPB, unless the mortgage is delinquent. If the mortgage is delinquent, the lender must apply such funds in accordance with the application of payment requirements in the note and security instrument. If any funds remain after the mortgage is brought current, the lender must apply the funds as set forth in this bullet for a current mortgage.
- The lender must obtain an interior and exterior inspection appraisal with an "as completed" appraised value of the mortgage premised subject to all eligible improvements being completed. See "Energy Efficient Improvements" in the "Appraisal Analysis: Agency Loan Programs / Improvements Section of the Appraisal Report" topic/subtopic presented in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional appraisal requirements.
- After completion of all eligible improvements, the lender must have the appraiser:
  - Inspect the mortgaged premises to verify the improvements have been completed, and
  - Provide the lender with a completion report on Form 442*, Appraisal Update and/or Completion Report* that includes photographs of the completed improvements. The lender must retain the completion report in the mortgage file.
- All eligible improvements must be completed within 180 days of the note date. If the improvements are not completed by the required completion date, the lender must notify Freddie Mac quality control pursuant to Freddie Mac's quality control reporting requirements.
- An energy report meeting the requirements outlined in this subtopic may be required.

- **"No cash-out" refinance mortgage used to pay an existing debt**
  - The proceeds may be used to pay an existing debt, subject to the following requirements:
    - The maximum payment towards an existing debt is limited to 15% of the appraised value of the mortgaged premises

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Freddie Mac LPA, continued

- Any remaining balance of the existing debt must be included in the calculation of the monthly debt payment-to-income ratio. If the remaining balance is re-amortized, the lender must obtain and retain in the mortgage file sufficient documentation evidencing the new payment, including a copy of the new promissory note, if applicable.
- The mortgage file must include documentation (e.g., invoices, receipts, etc.) of the eligible improvements completed prior to the note date.
- An interior and exterior inspection appraisal is required. The appraisal must reflect all eligible improvements that were made. See "Energy Efficient Improvements" in the "Appraisal Analysis: Agency Loan Programs / Improvements Section of the Appraisal Report" topic/subtopic presented in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for detailed appraisal requirements.
- The Settlement/Closing Disclosure Statement must reflect that the proceeds were paid directly to the holder. The total amount of the proceeds disbursed to the borrower at closing must not exceed the maximum amount allowed pursuant to "no cash-out" refinance mortgage requirements.

Reference: See the "Property Assessed Clean Energy (PACE) Loans" subtopic subsequently presented in this topic for payoff of PACE obligation requirements.

- **Basic Eligible Improvements**
  - For basic eligible improvements with an aggregate cost less than or equal to $6,500, an energy report is not required. The lender must document the cost of the basic eligible improvements by obtaining copies of all receipts and/or invoices, as applicable, and must retain these documents in the mortgage file.
  - Basic eligible improvements include, but are not limited to:
    - Programmable thermostats
    - Caulking or weather stripping
    - Adding ceiling, wall or floor insulation
    - Air sealing
    - Air conditioning/heating replacement to high efficiency
    - Solar water heaters
    - Low-flow water fixtures
    - High efficiency refrigerators/freezers, water heaters and light bulbs
    - Replacement of windows and doors
    - Heat pumps and induction cooktops
    - Ventilation, radon remediation, asbestos, mold or lead abatement
    - Hurricane fabric or shutters

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Freddie Mac LPA, continued

- **Energy Reports**
  - An energy report must be obtained for mortgages used to finance eligible improvements with an aggregate cost greater than $6,500. An energy report is not required for a "no cash-out" refinance mortgage used to pay an existing debt. The lender must retain the energy report in the mortgage file.
  - See the "Energy Report Exception When Proceeds are Used to Finance Renewable Energy Sources" section below for guidance related to an energy report exception when proceeds are used to finance renewable energy sources.
  - See the "Energy Report Alternatives" section below for guidance related to energy report alternatives for certain eligible improvements.

  - **Eligible Energy Reports**
    - Energy reports must be one of the following:
      - Home Energy Rating Systems (HERS) report completed by a certified Residential Energy Services Network (RESNET®) Home Energy Rater reflecting a HERS Index of 90 or below (http://www.resnet.us/directory/search)
      - Department of Energy Home (DOE) Energy Score Report completed by an independent Home Energy Score Certified Assessor™ reflecting a DOE Home Energy Score of six or greater (https://betterbuildingssolutioncenter.energy.gov/home-energy-score/home-energy-score-partner-map)
      - Comparable rating report or audit completed by a certified home energy rater or consultant indicating the property is a high-performing energy-efficient property

  - **Energy Report Requirements**
    - Energy reports must:
      - Identify the recommended energy improvements and expected cost of the completed improvements
      - Specify the actual or expected monthly or annual energy savings
      - Verify that the recommended energy improvements are cost effective. Energy improvements are determined to be cost effective when the cost of the improvements, including maintenance, is less than the present value of the energy saved over the useful life of the improvements, and
      - Be dated no more than 24 months before or 24 months after the note date, as applicable.
    - The cost of the energy report may be included in the total cost of the improvements and must be identified on the Settlement/Closing Disclosure Statement if the borrower is to be reimbursed.

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Freddie Mac LPA, continued

- **Energy Report Exception When Proceeds are Used to Finance Renewable Energy Sources**
  - If the energy improvements are related to renewable energy sources, including solar panels, water efficiency devices, wind turbines or geothermal systems, and an energy report is not available to demonstrate their cost effectiveness, the cost effectiveness may be demonstrated by obtaining copies of all invoices and/or receipts, as applicable, for the cost of the systems or devices and comparing the cost of the systems or devices, including maintenance, to the income produced over the life of the system or devices. When the income produced exceeds the net cost (including any tax credits and rebates) of the system or devices, the cost effectiveness has been demonstrated.
  - The appraiser must document the projected income by utilizing PV Value, Ei Value, or a similar tool as referenced in "Energy Efficient Improvements" in the "Appraisal Analysis: Agency Loan Programs / Improvements Section of the Appraisal Report" topic/subtopic presented in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide*.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued

Freddie Mac LPA, continued

- **Energy Report Alternatives**
  - For certain eligible improvements, the lender may obtain and, if obtained, must retain in the mortgage file alternative documentation in lieu of an energy report:

Improvement Type	Permitted Alternative Documentation
ENERGY STAR Energy Efficient Products	Documentation (e.g., invoices, receipts, printout(s) showing the improvements in the list of ENERGY STAR Energy Efficient Products, etc.) verifying the improvements are ENERGY STAR Energy Efficient Products.
Health and Safety improvements	At least one of the following: • Copies of all invoices and/or receipts, as applicable, documenting the cost of the improvements as well as its expected impact to health and safety (for example, for radon remediation, its expected impact on the radon levels in the home) • A completed United States Environment Protection Agency (EPA) Indoor airPLUS (Version 1 (Rev. 04) or higher) Verification Checklist
Resiliency and preventative improvements to either repair natural disaster damage or improve a home's ability to withstand future natural disasters	At least one of the following: • Copies of all invoices and/or receipts, as applicable, documenting the cost of the improvements. This should include copies from a contractor for completing the repairs or improving the home, if applicable. • An Insurance Institute for Business & Home Safety (IBHS) FORTIFIED Home™ designation certificate (i.e., FORTIFIED Roof, FORTIFIED Silver or FORTIFIED Gold)

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/ Freddie Mac's GreenCHOICE Mortgages®, continued	• **Special Feature Code Requirements** • Use SFC J08 to identify a mortgage loan originated as a GreenCHOICE Mortgage as a purchase or "no cash-out" refinance mortgage to finance eligible improvements. • Use SFC J28 to identify a mortgage originated as a GreenCHOICE Mortgage to pay an existing debt, for a "no cash-out" refinance mortgage. **Note**: Freddie Mac will credit the lender (selling the loan to Freddie Mac) a $500 loan level price adjustment for loans with financed energy and/or water efficiency improvements (that include SFC J08 as a part of the delivery information). At this time, Truist is unable to pass this $500 price adjustment credit on to the Correspondent Lender.

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage

Truist Notes:
- All HomeStyle Renovation mortgage and CHOICERenovation mortgage transactions must be underwritten by the Correspondent lender (approved by Truist for delegated underwriting authority). HomeStyle Renovation mortgage and CHOICERenovation mortgage transactions are not eligible for purchase if Truist underwrites the loan.
- Due to the unique activities and responsibilities required after closing (and prior to purchase) for HomeStyle Renovation mortgage and CHOICERenovation mortgage transactions, for additional clarity, all references to "lender" in this section (unless otherwise noted) refers to the ***Correspondent lender*** underwriting and monitoring the completion of the HomeStyle Renovation mortgage and CHOICERenovation mortgage transaction.

Non-AUS
- **Overview**
  - The HomeStyle Renovation mortgage enables a borrower to purchase a property or refinance an existing loan and include funds in the loan amount to cover the costs of repairs, remodeling, renovations, or energy improvements to the property.

    Truist Note: All renovation work must be complete when the loan is delivered to Truist for purchase. Truist will not purchase a HomeStyle Renovation mortgage *prior to* completion of the renovation work.

- **Allowable Improvements**
  - There are no required improvements or restrictions on the types of renovations allowed, nor is there a minimum dollar amount for renovations.
  - Generally, improvements should be permanently affixed to the real property (either dwelling or land), with the exception of certain appliances installed with kitchen and utility room remodels. The borrower may use HomeStyle Renovation to purchase appliances as part of an overall remodeling project that includes substantial changes or upgrades to the rooms in which the appliances are placed.
  - HomeStyle Renovation may be used to complete the final work on a newly built home when the home is at least 90% complete. The remaining improvements must be related to completing non-structural items the original builder was unable to finish. Such work may include installation of buyer-selected items such as flooring, cabinets, kitchen appliances, fixtures, and trim.
  - HomeStyle Renovation may be used to construct various outdoor buildings and structures when allowed by local zoning regulations. These buildings or structures must be in compliance with any applicable building codes for the local area. Examples of acceptable structures include, but are not limited to, accessory units, garages, recreation rooms, and swimming pools.
  - HomeStyle Renovation may not be used for complete tear-down and reconstruction of the dwelling.
  - HomeStyle Renovation may also be used to finance energy-related improvements. See the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties" subtopic previously presented in this topic, for additional information.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Lender Responsibilities**
  - All renovation work must be completed and the loan delivered to Truist for purchase within 9 months of the date of the mortgage note.
  - Lenders may not transfer servicing on HomeStyle Renovation loans during the renovation period.
  - The lender is responsible for monitoring completion of the renovation work and must exercise all approval and oversight responsibilities that are customary and required to comply with specific state laws and to ensure that clear title to the property is maintained.
  - Lenders may use vendors to manage the operational, escrow, and completion requirements for HomeStyle Renovation loans; but when a vendor is used, the lender is responsible for adequate vendor oversight to ensure all requirements are met.
  - If any action the lender takes or fails to take in overseeing the renovation work affects Fannie Mae's ability to acquire clear title to the property, the lender may be required to repurchase the loan.
  - The lender must maintain a copy of all of the documentation that supports the renovation work, including plans and specifications, "as completed" appraisal, renovation contract, renovation loan agreement, certificate of completion, title insurance endorsements or updates, and any other related documentation in the loan file. For more information about the specialized legal documentation Fannie Mae requires for a HomeStyle Renovation mortgage, see "Fannie Mae's HomeStyle Renovation Mortgage" in the "Closing and Loan Settlement Documentation" topic subsequently outlined in this document.

- **Delivery and Special Feature Code Requirements**
  - All renovation work must be completed and the loan delivered to Truist for purchase within 9 months of the date of the mortgage note.
  - Truist will not purchase a HomeStyle Renovation mortgage *prior to* completion of the renovation work.

  - **Special Feature Code Requirements**:
    - Use SFC 279 to identify a HomeStyle Renovation mortgage.
    - If the HomeStyle Renovation mortgage includes financing of energy-related improvements, *in addition to* SFC 279, also use the following applicable SFCs to identify the HomeStyle Renovation loan with energy-related improvements.

If the renovation includes…	Then the lender must deliver…
• one or more ENERGY STAR-certified improvements	• SFC 375 and • SFC 773
• other improvements eligible for HomeStyle Energy but does not include ENERGY STAR-certified improvements	• SFC 375

Continued on next page

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Special Feature Code Requirements**, continued:

  Note: When the HomeStyle Renovation mortgage includes financing of energy-related improvements, Fannie Mae will credit the **lender** (selling the loan to Fannie Mae) a $500 loan level price adjustment (for loans that include SFC 375 as a part of the delivery information). At this time, Truist is unable to pass this $500 price adjustment credit on to the Correspondent Lender.

- **Loan and Borrower Eligibility**
  - **Renovation-Related Costs**
    - Renovation-related costs that may be considered as part of the total renovation costs include:
      - property inspection fees;
      - costs and fees for the title update;
      - architectural and engineering fees;
      - independent consultant fees;
      - costs for required permits;
      - other documented charges, such as fees for energy reports, appraisals, review of renovation plans, and fees charged for processing renovation draws; and
      - up to six months payments (PITIA) if a primary residence property cannot be occupied during renovation (see the "Costs and Escrow Accounts" section subsequently outlined in this subtopic for additional information).

      Note: An amount for sweat equity may not be factored into the renovation costs.

  - **Property Requirements**
    - The security property for a HomeStyle Renovation mortgage must be:
      - a one- to four-unit primary residence, or
      - a unit in an eligible PUD or condo project.
    - When the security property is a unit in a condo project, the proposed renovation work must be permissible under the bylaws of the HOA, or the HOA must have given written approval for the renovation work. The renovation work for a condo unit must be limited to the interior of the unit, including the installation of fire walls in the attic.

  - **Mortgage Terms**
    - A HomeStyle Renovation mortgage may be either a fixed-rate mortgage or an ARM loan. The original principal amount of the mortgage may not exceed Fannie Mae's maximum allowable mortgage amount for a conventional first mortgage.
    - Fannie Mae provides the *HomeStyle Renovation Maximum Mortgage Worksheet* (Form 1035), to assist lenders in calculating the maximum loan amount.
    - The maximum cost for renovations for various HomeStyle Renovation scenarios are described in the following table.

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Loan and Borrower Eligibility**, continued
  - **Mortgage Terms**, continued

Transaction Type	The cost of renovation must not exceed. . .
Purchase Transactions	75% of the lesser of: • the sum of the purchase price of the property plus renovation costs, or • the "as completed" appraised value of the property.
Limited Cash-Out Refinance Transactions	75% of the "as completed" appraised value of the property.

  - **Do It Yourself" Option**
    - The "Do It Yourself" option is available for renovations made to one-unit properties by the borrower. "Do It Yourself" renovations may not represent more than 10% of the "as completed" value of the property. The lender must review and approve the renovations in advance, and must inspect the completion of all items that cost more than $5,000.
    - A borrower may request reimbursement for his or her payments for the cost of materials or for the cost of properly documented contract labor, but not for the cost of his or her sweat equity (labor). When a borrower chooses this option, the lender must fully budget for the cost of labor and materials related to the renovation so that, should the borrower be unable to complete the work, a contractor can be hired to finish any of the "Do It Yourself" repairs.

  - **LTV Ratios**
    - HomeStyle Renovation mortgage transactions are subject to the LTV, TLTV, and HTLTV ratios (per eligible transaction type) outlined in the applicable first mortgage product description.
    - The LTV ratio calculation differs based on the applicable transaction type.
      - For a purchase money transaction, the LTV ratio is determined by dividing the original loan amount by the lesser of the "as completed" appraised value of the property or the sum of the purchase price of the property and the total renovation costs.
      - For a limited cash-out refinance transaction, the LTV ratio is determined by dividing the original loan amount by the "as completed" appraised value of the property.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Loan and Borrower Eligibility**, continued
  - **Limited Cash-Out Refinance Transactions**
    - When a HomeStyle Renovation mortgage loan is originated as a limited cash-out refinance transaction, the loan amount may include:
      - the amount required to satisfy the existing first mortgage;
      - the amount required to satisfy any outstanding subordinate mortgage liens that were used to acquire the property;
      - closing costs, prepaid fees, and points; and
      - the total renovation costs, including allowable renovation-related costs for the home improvements up to the maximum permitted LTV and TLTV ratios.
    - The borrower may not obtain any other funds from the transaction, including those that are generally allowed for a limited cash-out refinance transaction. Excess funds, if any, after renovations are completed, may be applied to the loan balance as a curtailment or may be reimbursed to the borrower for the cost of actual supplies or additional renovations for which paid receipts are provided. The value of sweat equity may not be reimbursed.
  - **Borrower Requirements**
    - Borrowers must meet the general borrower eligibility requirements of the applicable Agency first mortgage product.
    - To ensure that the borrower understands all of the terms of a HomeStyle Renovation mortgage, the lender may use Fannie Mae's *HomeStyle Renovation Consumer Tips* (Form 1204), as a checklist for the key facts that need to be disclosed to the borrower, and the borrower's signature will serve as an acknowledgment of his or her understanding of these facts.
- **Collateral Considerations**
  - **Appraisal Requirements**
    - The appraisal report for a HomeStyle Renovation mortgage must provide an "as completed" appraised value that estimates the value of the property after completion of the renovation work. (See the "Loan and Borrower Eligibility / Mortgage Terms" section previously presented in this subtopic, for requirements pertaining to the cost of the renovations as a percentage of the appraised value. See also "Unplanned Changes in Scope or Incomplete Work" later in this section.
  - **Energy Report Requirements**
    - The lender must review an energy report if a HomeStyle Renovation loan is being combined with a HomeStyle Energy loan. See the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties" requirements previously outlined in this document for additional information concerning the requirements related to the energy report.

      Note: Energy improvements may be financed without obtaining an energy report if the lender is ***not*** utilizing the additional flexibilities under the HomeStyle Energy program.

Continued on next page

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Collateral Considerations**, continued
  - **Contractor Requirements**
    - All renovation work must be performed by a licensed contractor or subcontractor, unless contractor licensing is not applicable under state or local law for the specific trade or type of renovations being performed.
    - The borrower must choose the contractor to perform the needed renovation, subject to the lender's determination that the contractor is:
      - qualified and experienced,
      - has all appropriate credentials required by the state,
      - is financially able to perform the duties necessary to complete the renovation work in a timely manner, and
      - agrees to indemnify the borrower for all property losses or damages caused by its employees or subcontractors
    - The lender may not choose the contractor or refer the borrower to any one specific contractor. However, the lender may require the borrower to obtain a completed *Contractor Profile Report* (Form 1202) from the contractor that is selected to ensure that the lender has sufficient information available to make a determination about the contractor's qualifications.
    - The borrower may also complete repairs under the "Do It Yourself" option previously described in the "Loan and Borrower Eligibility" section of this subtopic.
  - **Plans and Specifications**
    - The plans and specifications must be prepared by a registered, licensed, or certified general contractor, renovation consultant, or architect. The plans and specifications should fully describe all of the work to be done and provide an indication of when various jobs or stages of completion will be scheduled (including both the start and completion dates).
    - The lender must use the plans and specifications to document and evaluate the quantity, quality, and cost of the renovation work that is to be done and to determine the amount of financing that will be available. These plans and specifications also must be used by the appraiser in the development of his or her opinion of the "as completed" value of the property.
    - Before approving any change a borrower wants to make to the original plans and specifications, the lender must require the borrower to submit a *HomeStyle Change Order Request* (Form 1200) or a substantially similar document, that provides a detailed description of:
      - the changes,
      - the cost of the changes, and
      - the estimated completion date(s).

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Collateral Considerations**, continued
  - **Unplanned Changes in Scope or Incomplete Work**
    - Lenders must work with borrowers and contractors to ensure renovations are completed as planned, within an acceptable timeframe. If unforeseen circumstances occur during the renovation work, such as property damage from a natural or manmade disaster, or a life altering event such as death or divorce, the lender must take additional steps to evaluate the materiality of the change to any renovations in progress.
    - The lender must obtain an updated appraisal to determine whether the changes will impact the "as completed" value of the property. In some cases, the lender may be responsible for additional mortgage insurance. If the new LTV exceeds Fannie Mae's eligibility criteria, or the changes result in a home that does not meet Fannie Mae's general property standards and appraisal requirements, the loan is not eligible for purchase by Truist.

- **Costs and Escrow Accounts**
  - **Costs and Escrow Accounts**
    - The costs of the renovations will be based on the plans and specifications for the work and on the contractor's bids for all of the work requested by the borrower. The renovation costs may include a contingency reserve, renovation-related costs, and an escrow for mortgage payments that come due during the renovation period, if the borrower is unable to occupy the property during the renovation.
  - **Contingency Reserve**
    - The contingency reserve should cover all renovation-related costs including labor, materials, fees, permits, plans and specifications, inspection costs, and other expenses related to the renovation.
    - A contingency reserve is not required for a mortgage secured by a one-unit property, however the lender may choose to establish one. A contingency reserve equal to 10% of the total costs of the repairs and renovation work must be established and funded for a mortgage that is secured by a two- to four-unit property to cover required unforeseen repairs or deficiencies that are discovered during the renovation. The lender may increase the contingency reserve to 15% if it determines the higher reserve is appropriate given the scope and scale of the renovation.
    - The contingency reserve may be considered as part of the total renovation costs or the borrower may fund it separately. It may be released only if required, necessary, and unforeseen repairs or deficiencies are discovered during the renovation. Unused contingency funds, unless they were received directly from the borrower, must be used to reduce the outstanding balance of the renovation loan after all of the renovation work has been completed and the certification of completion has been obtained.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Costs and Escrow Accounts**, continued
  - **Contingency Reserve**, continued
    - However, a borrower may use the remaining contingency reserve funds for making additional improvements or repairs to the property, if the lender:
      - warrants that the work scheduled and described in the plans and specifications was completed and the contingency reserve funds have already been reduced by any cost overruns; and
      - ensures that:
        - the contingency reserve funds that are to be used for additional improvements or repairs are actually used to improve the real property,
        - the improvements or repairs are documented with paid receipts from the borrower's own funds, and
        - inspections of the additional work or installations are completed by the appraiser who prepared the "as completed" value appraisal report.
  - **Escrowing Initial Mortgage Payments**
    - At the borrower's request, up to six mortgage payments (PITIA) that will become due during the renovation period may be included as part of the total renovation costs for a primary residence property if the property cannot be occupied during the renovation period. The lender or its agent must hold the funds in a renovation escrow account, and only apply them to payments that come due during the period in which the property cannot be occupied.

      Note: The lender may set up a separate escrow account for the mortgage payments in lieu of including the funds in the renovation escrow account.
  - **Renovation Escrow Account**
    - The renovation costs (less any draws made at closing), the contingency reserve, mortgage payments (if applicable), and monies that the borrower provides from his or her own funds, must be deposited into an escrow account for the benefit of the borrower. The renovation escrow account must meet the requirements shown in the following table at the time of delivery to Truist.

✓	Renovation Escrow Account Requirements
	The account must meet the requirements of and be administered in accordance with the requirements in Fannie Mae's Servicing Guide, D1-2-01, Renovation Mortgage Loans.
	The funds must be used to complete the repair and renovation work and, if applicable, make any mortgage payments that come due during the renovation period. **Note**: The lender must ensure that the funds held for mortgage payments are used only for that purpose and are not used for renovations or any other reason.

Continued on next page

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Costs and Escrow Accounts**, continued
  - **Renovation Escrow Account**, continued

✓	Renovation Escrow Account Requirements, continued
	The lender, or its agent, is responsible for administering this account and ensuring the repairs and renovations are completed in a timely manner and in accordance with the plans, specifications, and contractor estimated bids.
	The lender must release funds from this account only when any given renovation work has been completed, and then only in accordance with the agreed-upon schedule and after receipt of a specific request.
	Renovation funds may only be disbursed using the following processes: • a check issued jointly to the borrower and the contractor; or • a wire transfer to the contractor after the lender has obtained written consent from the borrower to release the funds to the contractor. The written consent must be received prior to each disbursement. It must specify the borrower's name, property address, amount of funds to be disbursed, contractor to which the funds are to be disbursed, and date of the consent.
	After renovations are complete, all funds remaining in this account, including any mortgage payment reserves, may be used to either: • reduce the unpaid principal balance of the loan (unless they represent funds deposited separately by the borrower), or • to make additional improvements or repairs to the property.

Note: The lender may fund up to 50% of the planned materials cost at closing with an initial materials draw. A portion of this draw may be used to pay for permits, architect fees, and design or planning expenses that were incurred during the initial part of the project. The lender must obtain periodic inspections to confirm the work is being completed as planned prior to the issuance of additional escrow draws.

  - Should there be an increase in costs during the renovation period, the borrower, or the lender, must fund the amount of the increase. The lender may not increase the loan amount to offset any increase in costs. The lender must ensure that the additional funds are obtained in a manner that will not affect the priority of Fannie Mae's lien.

- **Completion Certification**
  - Following completion of the renovation work, the lender must obtain a certification of completion stating the renovation was completed in accordance with the submitted plans and specifications. The certification must be documented on the *Appraisal Update and/or Completion Report* (Form 1004D). The 1004D must confirm all "subject to" items listed on the appraisal were completed. If deviations have been made to the initial plans, the appraiser must note any impact to the value. If the value has been impacted, the lender must follow the "Unplanned Changes in Scope or Incomplete Work" guidance previously outlined in this subtopic.
  - The lender must also obtain a certificate of occupancy upon completion of renovation if it is required by local authorities for the type of renovation work that was completed.

Continued on next page

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Title and Insurance Updates**
  - Concurrent with the last disbursement of funds, the lender must obtain a title update through the date the renovation was completed, to ensure the continuance of Fannie Mae's first lien priority and the absence of any mechanics' or materialmen's liens. When the property is located in a state in which contractors', subcontractors', or materialmen's liens have priority over mortgage liens, the lender must obtain all necessary lien releases or take any other action that may be required to ensure title to the property is clear of all liens and encumbrances.
  - The lender also must retain in the loan file a certification regarding the adequacy of the property insurance following completion of the renovation. The certification must confirm the coverage has been increased, if necessary, to comply with Fannie Mae's standard property and flood insurance requirements.

- **Renovation Contract, Renovation Loan Agreement, and Lien Waiver**
  - **Renovation Contract**
    - The renovation contract must:
      - itemize the specific work that the contractor agrees to perform for the borrower;
      - state the agreed-upon cost of the renovation;
      - identify all subcontractors and suppliers; and
      - include an itemized description that establishes the schedule for completing each stage of the work and the corresponding payments to be made to the contractor.
    - This contract, which must be fully executed by both the contractor and the borrower prior to closing, must require the contractor to:
      - be duly licensed (if required by applicable law);
      - obtain all required insurance coverages (such as all-risk, public liability, workmen's compensation, and automobile liability);
      - complete the work in compliance with the contract and all applicable government regulations (such as building codes and zoning restrictions);
      - obtain the necessary building permits (including a certificate of occupancy, upon completion of renovations, if required by local law); and
      - provide for appropriate remedies for resolving disputes (including an agreement to indemnify the borrower for all property losses or damages caused by the contractor's employees or subcontractors).
    - Fannie Mae has developed a model *Renovation Contract* (Form 3730) to document the renovation contract between the borrower and the contractor.
    - The lender must keep a copy of the fully executed renovation contract in the loan file.
    - HomeStyle Renovation mortgages may be subject to a variety of laws and regulations, based on the type of transaction or the types of lenders originating the mortgages. Therefore, when Fannie Mae's model document is used, all appropriate, required changes must be made.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Renovation Contract, Renovation Loan Agreement, and Lien Waiver,** continued
  - **Renovation Loan Agreement**
    - A renovation loan agreement is a written agreement between the borrower and the lender. This agreement must be fully executed by both the lender and the borrower. Both parties may execute the agreement any time during the closing process; however, the agreement date must match the note date. The agreement must:
      - state the original principal amount of the related promissory note payable to the lender;
      - include the property address;
      - state the terms and conditions of the loan prior to the completion of the improvements;
      - state the events that constitute a borrower default, including, but not limited to, failing to keep any promise or to perform any obligation in the agreement;
      - indicate the remedies available to the lender if the borrower defaults under the terms of either the renovation contract or other loan documents;
      - require the contractor to have any license required by any government regulations, and to obtain and keep in force an all-risk insurance policy (with a physical loss form endorsement and a mortgagee's loss payable clause) equal to 100% of the full replacement cost of the improvements, public liability insurance, workmen's compensation insurance (as required by applicable state law), and automobile liability insurance;
      - require that either the borrower or the contractor obtain (and keep in force) all work permits required by any government agency, and comply with all applicable laws or government regulations;
      - require the borrower to:
        - submit to the lender a title policy and assist the lender in obtaining the appraisal and a survey;
        - agree that all renovation work will be completed within 9-months of the date of the mortgage note and in accordance with the terms of the renovation contract (subject to approved change orders);

          Note: All renovation work must be completed and the loan delivered to Truist for purchase within 9 months of the date of the mortgage note.

        - permit the lender to make property inspections; and
        - pay all costs and expenses required to satisfy any conditions of the agreement (including costs overruns, the costs of change orders, and the costs of enforcement of the agreement in the event of default);

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Renovation Contract, Renovation Loan Agreement, and Lien Waiver,** continued
  - **Renovation Loan Agreement**, continued
      - state the terms and conditions under which the lender may extend the completion deadline if the renovation cannot be completed on time (due to extenuating circumstances outside of the borrower's control), including requiring any extension to be in writing and the borrower to not be in default under any of the terms of the loan documents or the renovation contract;

        Note: All renovation work must be completed and the loan delivered to Truist for purchase within 9 months of the date of the mortgage note.

      - include provisions related to:
        - the time, manner, and method by which the lender disburses the loan proceeds;
        - conditions on how the disbursements may be used;
        - procedures on how to request a disbursement (including the proper format, information, and required signatories);
        - documentation required to support each request for disbursement (such as the title policy, any required lien waivers from all contractors, subcontractors, and suppliers) and any required inspection reports;
        - the number and amount of payments that the lender is to make to the borrower and/or the contractor; and
      - obligate the borrower and the contractor to enter into a renovation contract for all labor and materials to renovate the improvements, and provide the lender with a copy of:
        - that contract;
        - the applicable plans and specifications that fully describe all work to be performed;
        - the renovation budget (which provides a timetable for stages of completion and the schedule for disbursements for payment of amounts due);
        - a schedule of disbursements for payment of the renovation costs; and
        - the requirements for requesting (and obtaining approval of) change orders.
    - Fannie Mae has developed a model *Renovation Loan Agreement* (Form 3731) to document the renovation loan agreement between the borrower and the lender.
    - Because HomeStyle Renovation mortgages may be subject to a variety of laws and regulations based on the type of transaction or the type of lender originating the mortgages, a lender that uses Fannie Mae's model documents must make all appropriate, required changes to them.
    - The fully executed renovation loan agreement is a custodial document. The lender must maintain a copy of the agreement in the loan file and send the original to the document custodian as part of the loan delivery package.

Continued on next page

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Non-AUS, continued

- **Renovation Contract, Renovation Loan Agreement, and Lien Waiver,** continued
    - **Lien Waiver**
        - Before a lender makes the final disbursement upon the completion of renovation, it must obtain a lien waiver from the contractor, all subcontractors, and suppliers or a clear title report that releases all contractor, subcontractor, and supplier liens. Fannie Mae's model document—*Lien Waiver* (Form 3739)—may be used for this, provided the lender makes any changes to it that are required by applicable law.

- **Closing Documentation Requirements**
    - See the "Fannie Mae's HomeStyle® Renovation Mortgage" subtopic subsequently presented in the "Closing and Loan Settlement Documentation" topic for guidance.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:
- DU will determine that the transaction is a HomeStyle Renovation loan if the Renovation indicator in Property and Loan Information (L1) is selected and there is an amount entered in Line B (L4) of the online loan application.
- **Property Requirements**
    - The security property for a HomeStyle Renovation mortgage must be:
        - a one- to four-unit primary residence;
        - a one-unit second home;
        - a one-unit investment property; or
        - a unit in an eligible PUD or condo project.
    - When the security property is a unit in a condo project, the proposed renovation work must be permissible under the bylaws of the HOA, or the HOA must have given written approval for the renovation work. The renovation work for a condo unit must be limited to the interior of the unit, including the installation of fire walls in the attic.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- A CHOICERenovation mortgage is a mortgage, the proceeds of which are used to finance repairs and/or improvements to the mortgaged premises (the "renovations") and which meets the other requirements of this section.

  Truist Note: All renovation work must be complete when the loan is delivered to Truist for purchase. Truist will not purchase a CHOICERenovation mortgage *prior* to completion of the renovation work.

- **Eligible Mortgages**
    - CHOICERenovation mortgages must be first lien conventional mortgages.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Ineligible Mortgages**
  - Financed permanent buydown mortgages
  - Seller-owned modified mortgages and seller-owned converted mortgages
  - Community land trust mortgages
  - CHOICEReno eXPress℠ mortgages
- **Property Eligibility and Occupancy**
  - ChoiceRenovation mortgages must be secured by one of the following:
    - 1- to 4-unit primary residence
    - Second home
    - 1-unit investment property
    - Condominium unit or a unit located in a PUD
- **General Eligibility Requirements**
  - **Required Completion Date**
    - All renovation work must be completed and the loan delivered to Truist for purchase within 9 months of the date of the mortgage note.
  - **Mortgage Purpose**
    - CHOICERenovation mortgages must be either purchase transaction or "no cash-out" refinance mortgages with proceeds used as follows:
      - For purchase transaction mortgages, CHOICERenovation mortgage proceeds may be used to purchase the mortgaged premises and to pay for the eligible renovations described in this section
      - For "no cash-out" refinance mortgages, CHOICERenovation mortgage proceeds may be used as described in the "Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance)" subtopic subsequently presented in this document, except that proceeds may not be used to disburse cash out to the borrower. A CHOICERenovation mortgage secured by a property previously owned free and clear by the borrower is considered a "no cash-out" refinance mortgage if the proceeds are used only to finance the eligible renovations described in the "Eligible Renovations" section below. At least one borrower must have been on the title to the subject property for at least six months prior to the note date, unless one of the exceptions to this title requirement that are specified in the "Cash-Out Refinance" subtopic, subsequently presented in this document, applies.

Continued on next page

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Maximum LTV/TLTV/HTLTV Ratios**
  - CHOICERenovation mortgage transactions are subject to the maximum LTV, TLTV, and HTLTV ratios (per eligible transaction type) outlined in the applicable first mortgage product description.

- **Determining Value**
  - The value used to determine the LTV, TLTV, and HTLTV ratios must be established as follows:

Purchase transaction	"No cash-out" refinance
Value is the lesser of: • The purchase price of the mortgaged premises prior to the renovations plus the renovation costs (costs of demolition and reconstruction), or • Appraised value of the mortgaged premises, as completed	Value is the appraised value of the mortgaged premises, as completed

- **Secondary Financing**
  - Secondary financing must comply with requirements for the specific mortgage product or offering.

- **Underwriting CHOICERenovation Mortgages**
  - **Residential Loan Application**
    - The lender must code the purpose of the loan on Form 65, *Uniform Residential Loan Application*, as either purchase or refinance (as applicable) and not as construction or construction-permanent.
    - The lender must code the Loan Purpose on Form 1077, *Uniform Underwriting and Transmittal Summary* (or equivalent form), as either purchase or no cash-out refinance (as applicable) and not as home improvement. The lender must indicate in the Underwriter Comments if the mortgage is a CHOICERenovation mortgage.

  - **Loan Product Advisor (LPA)**
    - All CHOICERenovation mortgages must be submitted to Loan Product Advisor and must receive a Risk Class of Accept. If the mortgage receives a Loan Product Advisor evaluation status of invalid, ineligible or incomplete, it is ineligible for sale to Freddie Mac.

Continued on next page

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Eligible Renovations**
  - **Eligible and Ineligible Uses of Mortgage Proceeds**
    - CHOICERenovation mortgage proceeds must only be used to finance renovations that are made to a property with an existing dwelling, and may include:
      - Fees related to plans and specifications, permits, title updates, appraisals, draw inspections and the final inspection
      - An amount up to, but no more than, six monthly payments of principal, interest, taxes and insurance (PITI)
      - The payoff of short-term financing that provided the borrower with funds to repair, restore, rehabilitate, or renovate an existing home pursuant to the "Payoff of Short-Term Financing that Financed Renovations Completed Prior to the Note Date" guidance below
      - Adding or renovating outdoor structures used for leisure and recreation, including, but not limited to, swimming pools, decking, screening and porch and patio additions.
      - Renovations or repairs to a property that has been damaged in a disaster or for renovations that will protect the mortgaged premises in case of a future disaster (e.g., storm surge barriers, foundation retrofitting for earthquakes, retaining walls, etc.)
      - Renovations to improve the energy and/or water efficiency, the health and safety and/or the resiliency and preventiveness of the mortgaged premises. See "Special Requirements when CHOICERenovation Mortgages are Combined with GreenCHOICE Mortgages" subsequently presented in this subtopic for special requirements that apply when CHOICERenovation mortgages are combined with GreenCHOICE mortgages.
      - Adding or renovating an accessory dwelling unit (ADU). See "Eligibility of a property with an ADU" in the "Improvements Section of the Appraisal Report" subtopic, outlined in the "Appraisal Analysis: Agency Loan Programs" topic, within Section 1.07: Appraisal Standard for requirements for a property with an ADU. (**Note**: Regarding the payoff of short-term financing that financed the addition or renovation of an ADU prior to the note date, see the "Payoff of Short-Term Financing that Financed Renovations Completed Prior to the Note Date" guidance outlined below.)
    - Proceeds may not be used:
      - To raze an existing structure and build a new primary dwelling unit
      - For personal property with the exception of new appliances

    Note: There are no further restrictions on the type of renovations that may be financed in accordance with this offering.

  - **Compliance with Applicable Laws and Project Documents**
    - Renovations must comply with all applicable state and local laws and regulations, including zoning regulations. All required permits and approvals must be obtained. Renovations of properties located in PUDs or condominium projects must comply with all applicable project conditions, covenants and restrictions.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Payoff of Short-Term Financing that Financed Renovations Completed Prior to the Note Date**
  - For CHOICERenovation mortgages that are "no cash-out" refinance mortgages, CHOICERenovation mortgage proceeds can be used to pay off short-term financing that financed renovations, including, but not limited to, the addition or renovation of an ADU, completed prior to the note date, provided the following requirements are met:
    - The borrower on the CHOICERenovation mortgage must be the borrower on, and obligated to repay, the short-term financing, except as follows:
      - A borrower may be omitted in the event of death or divorce, or
      - A borrower who is a related person may be added, provided that all borrowers on the CHOICERenovation mortgage are owner-occupants of the mortgaged premises and considered in the underwriting of the CHOICERenovation mortgage
    - All renovations financed by the short-term financing:
      - Are completed prior to the note date of the CHOICERenovation mortgage and no obligations related to such financing are outstanding
      - Must be completed prior to the appraisal, and the appraisal must reflect such renovations having been made. Additionally, the appraisal report obtained in accordance with "Appraisal Requirements for CHOICERenovation Mortgages" must only be completed subject to completion of any proposed renovations also being financed with the CHOICERenovation mortgage.
    - The mortgage file must contain copies of all relevant documentation, including, but not limited to:
      - The short-term financing agreement
      - Sufficient documentation (e.g., purchase contracts, plans and specifications, receipts, invoices, lien waivers, etc.) on which to validate the actual cost of all renovations financed by the short-term financing
      - A document clearly showing the calculation of the short-term financing
      - The Settlement/Closing Disclosure Statement or an alternative form required by law for the closing of the short-term financing
      - The payoff statement

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Advancing the Cost of Materials**
  - Except as otherwise stated in the "Borrower as Contractor" guidance below, a percentage of the cost of materials may be advanced at closing in lieu of such funds being deposited into the completion escrow account (as described in the "Funds for Renovations Requirements" guidance below) as follows:
    - For contractor(s) and/or tradespersons chosen by the borrower to complete the renovations in accordance with the "Other Lender Responsibilities" guidance below, up to 50% of the cost of materials may be advanced to the contractor(s) and/or tradespersons
    - For renovations purchased from a home improvement store in accordance with the "Renovations Purchased from a Home Improvement Store" guidance below, up to 100% of the cost of materials may be advanced to the home improvement store

- **Maximum Financed Renovation Costs for CHOICERenovation Mortgages**
  - **Purchase Transactions**
    - For purchase transaction mortgages, the total cost of the financed renovations must not exceed 75% of the lesser of the:
      - Sum of the purchase price of the property plus the estimated total of the renovation costs, or
      - "As completed" value of the property as determined by the appraiser pursuant to the "Appraisal Requirements for CHOICERenovation Mortgages" guidance below

  - **Refinance Mortgages**
    - For "no cash-out" refinance mortgages, the total cost of the financed renovations must not exceed 75% of the "as completed" value of the property as determined by the appraiser pursuant to the "Appraisal Requirements for CHOICERenovation Mortgages" guidance below.

- **Appraisal Requirements for CHOICERenovation Mortgages**
  - The lender must obtain an appraisal report based on an interior and exterior inspection. The appraisal report must include an "as completed" value of the subject property. If there are proposed renovations being financed with the CHOICERenovation mortgage, the appraisal report must be completed subject to completion of the proposed renovations.
  - The lender must provide the appraiser with the cost estimates, plans and specifications for the renovations.
  - If, after the appraiser provides the "as completed" value, changes are made to the original plans and specifications, the lender must notify the appraiser of the changes and provide change documentation to the appraiser. The appraiser must provide a new appraisal to reflect the changes and account for the impact on the "as completed" value.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Appraisal Requirements for CHOICERenovation Mortgages**, continued
  - Upon completion of all proposed renovations, the appraiser must perform a final inspection of the property and complete a certification of completion. The completion report must document that all renovations were completed in accordance with the plans and specifications and must include photographs of the completed renovations.

    Reference: See the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic subsequently presented in the "Appraisal Requirements" topic for additional information.

- **Lender Responsibilities for Renovation Work and Process**
  - **Responsibilities During the Renovation Period**
    - During the renovation period, the lender is responsible for managing:
      - Any changes to the plans and specifications the borrower has requested during the course of renovations. If any changes are made to the plans and specifications and/or the estimated time of completion for the renovations, the changes must be agreed upon via a change order by the borrower and the contractor and approved by the lender. Documentation evidencing the change order must be signed by the borrower and the contractor and must include the following, as applicable:
        - Detailed description of the changes
        - Updated itemized renovation costs
        - Updated total cost of the renovations
        - Any changes to the estimated completion date
      - The lender may not approve changes to the plans and specifications if such changes impact the LTV/TLTV/HTLTV ratio or the property such that either the mortgage:
        - Would not have been eligible for sale to Freddie Mac on the settlement date (i.e., date the loan is sold to Freddie Mac), or
        - Would have been eligible for sale but under different terms

  - **Other Lender Responsibilities**
    - The lender is responsible for compliance with the following requirements:
      - The mortgage file must contain all relevant documentation, including, but not limited to, copies of costs of the renovations, purchase contracts, bids, appraisal(s), renovation contract(s), plans and specifications, permits and applicable homeowners association approvals, documents related to change orders and draws, certification of completion, and title updates. See the "Payoff of Short-Term Financing that Financed Renovations Completed Prior to the Note Date" guidance above for mortgage file documentation requirements when CHOICERenovation mortgage proceeds are used to pay off short-term financing that provided the borrower with funds to repair, restore, rehabilitate, or renovate an existing home.

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Other Lender Responsibilities**, continued
  - Unless otherwise noted below, all contractor(s) and/or tradespersons chosen by the borrower to complete the renovations must:
    - Have entered into an executed, binding renovation contract with the borrower to complete the renovations within a reasonable time period. The contract must include an indemnification provision requiring the contractor to indemnify the borrower for any property loss or damage caused by the contractor, its employees or its subcontractors.
    - Be licensed and insured as required by local and/or state requirements, and
    - Be financially able to perform the duties necessary to complete the renovation work in a timely manner.

    Note: The above requirements do not apply if the borrower, acting as general contractor, performs all of the work in accordance with the "Borrower as Contractor" guidance below, or if renovations are purchased from a home improvement store in accordance with the "Renovations Purchased from a Home Improvement Store" guidance below.

  - The lender must obtain title updates as necessary to ensure that the CHOICERenovation mortgage meets all title insurance requirements
  - After all renovations are completed, there must be no outstanding liens related to the renovations and the CHOICERenovation mortgage must remain a valid first lien

- **Lender Responsibilities for Third Parties**
  - For a CHOICERenovation mortgage, a third party may perform all or some of the processing, management and performance of draw inspections and/or maintenance and management of disbursements from the completion escrow account (as described in the "Funds for Renovations Requirements" guidance below) and other requirements described above as responsibilities or obligations of the lender.
  - Although these functions may not be performed directly by the lender, the lender is responsible for the accuracy and integrity of the information provided by the third party and for compliance with these and all Freddie Mac requirements.

Continued on next page

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Borrower as Contractor**
  - The borrower may act as the general contractor for the renovations if the borrower is a licensed contractor. The borrower may perform some or all of the work to complete the renovations as long as the borrower is licensed and qualified to do so.
  - In connection with borrowers who act as the general contractor and/or perform renovation work, the following requirements apply:
    - The borrower must submit to the lender a plan detailing the work items the borrower will perform, and
    - CHOICERenovation mortgage proceeds may be used to reimburse the borrower for the cost of materials but may not be used to reimburse the borrower for labor costs

  Reference: See the "Other Lender Responsibilities" guidance above for contractor(s) and/or tradespersons chosen by the borrower to complete the renovations.

- **Renovations Purchased from a Home Improvement Store**
  - Up to 100% of the renovation costs identified in the renovation contract (including labor costs) may be paid to a home improvement store at closing in lieu of such funds being deposited into the completion escrow account or custodial account for renovation funds if the below requirements are met. See the "Advancing the Cost of Materials" guidance above regarding advancing the costs of materials for renovations purchased from a home improvement store.
  - If the borrower chooses a home improvement store to have the renovation work completed and the home improvement store's renovation program requires payment-in-full at the point of purchase, renovations may be purchased from the home improvement store at closing, provided the following requirements are met:
    - The CHOICERenovation mortgage is a "no cash-out" refinance mortgage
    - The lender must review the home improvement store's renovation program to determine that the following requirements are met:
      - The home improvement store is financially able to perform the duties necessary to have the renovation work completed in a timely manner and pay the contractor(s) and/or tradespersons chosen by the home improvement store to complete the renovations. A contractor and/or tradesperson may not require payment directly from the borrower.
      - The home improvement store has a robust contractor approval process that is managed, maintained, and updated regularly
      - The contractor(s) and/or tradespersons chosen by the home improvement store to complete the renovations is licensed and insured as required by local and/or State requirements, and they must be approved under the home improvement store's contractor approval process during the course of renovations. In the event a contractor and/or tradesperson becomes unapproved or is unable to complete the renovation work in a timely manner, the home improvement store must choose other approved contractor(s) and/or tradespersons to complete the renovations.

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Renovations Purchased from a Home Improvement Store**, continued
    - The borrower may not be chosen by the home improvement store to complete the renovations, even if the borrower is a licensed contractor and/or is licensed and qualified to complete the renovations
    - The home improvement store must have entered into an executed, binding renovation contract with the borrower to complete the renovations within a reasonable time period. The contract must include an indemnification provision requiring the home improvement store to indemnify the borrower for any property loss or damage caused by the contractor(s) and/or tradespersons chosen by the home improvement store to complete the renovations.

- **Funds for Renovations Requirements**
    - **Renovation Funds**
        - On the note date, the renovation funds (sufficient to cover the total cost of the renovations minus any advances for the cost of materials and/or renovation costs paid to a home improvement store) must be deposited into a completion escrow account meeting the requirements outlined in the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic subsequently presented in the "Appraisal Requirements" topic in this document.
        - After taking into consideration any advances for the cost of materials and/or renovation costs paid to a home improvement store, the renovation costs identified in the renovation contract(s) must be consistent with the amount of renovation funds deposited into the completion escrow account. If the CHOICERenovation mortgage proceeds are insufficient to cover the contracted cost of the renovations, the borrower must deposit sufficient funds to pay the remaining amount into the completion escrow account.

    - **Unused Funds**
        - If the CHOICERenovation mortgage is current, any funds remaining in the completion escrow account after the costs of all renovations have been paid to the appropriate parties must be used to reduce the UPB or used for additional renovations as described below.
            - If the transaction is a "no cash-out" refinance transaction, remaining proceeds may be disbursed to the borrower, provided the total amount disbursed to the borrower at closing and from the unused funds does not exceed the maximum amount allowed as described in the "Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out Refinance)" subtopic subsequently presented in this document.
            - If the remaining funds are used for additional renovations, the lender must:
                - Document that additional renovations were paid for from the completion escrow account and verify the funds are being used to further improve the mortgaged premises, and
                - Verify the additional renovation work has been completed by obtaining a completion report

Continued on next page

Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Unused Funds**, continued

  Reference: See the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic subsequently presented in the "Appraisal Requirements" topic for additional information.

  - If the CHOICERenovation mortgage is delinquent, any unused funds must be applied in accordance with the application of payment requirements in the note and security instrument. After the CHOICERenovation mortgage is brought current, any remaining unused funds may be used to reduce the UPB or used for additional renovations (as noted above).
  - If the transaction is a "no cash-out" refinance transaction, remaining proceeds may be disbursed to the borrower, provided the total amount disbursed to the borrower at closing and from the unused funds does not exceed the maximum amount allowed as described in the "Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance)" subtopic subsequently presented in this document. Unused funds in the completion escrow account that were provided by the borrower may be returned to the borrower after the CHOICERenovation mortgage is brought current and all renovations are completed.

- **Property Insurance**
  - CHOICERenovation mortgages must meet Freddie Mac's standard property and flood insurance requirements, which includes requirements for the minimum amount of coverage that must be maintained. Insurance coverage may need to be adjusted during the course of renovations and/or upon completion of all renovations based on the "as completed" value of the property (as determined by the appraiser pursuant to the "Appraisal Requirements for CHOICERenovation Mortgages" guidance above).

Continued on next page

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Special Requirements when CHOICERenovation Mortgages are Combined with GreenCHOICE Mortgages**
  - When CHOICERenovation mortgage proceeds finance renovations completed after the note date to improve the energy and/or water efficiency, the health and safety and/or the resiliency and preventiveness of the mortgaged premises, the CHOICERenovation mortgage may be eligible for the $500 loan level price adjustment for GreenCHOICE mortgages, provided the following requirements are met:
    - Except as stated below, the "Purchase Transaction and "No Cash-Out" Refinance Mortgages Used to Finance Eligible Improvements" requirements previously presented in this document for GreenCHOICE mortgages are met for the subject mortgage. This includes, but is not limited to:
      - The cost of the financed renovations to improve the energy and/or water efficiency, the health and safety and/or the resiliency and preventiveness of the mortgaged premises must not exceed 15% of the "as completed" appraised value of the mortgaged premises. (**Note**: In all cases, the maximum financed renovation costs must comply with the "Maximum Financed Renovation Costs for CHOICERenovation Mortgages" requirements, as applicable.)
      - Basic eligible improvements pursuant to the "Basic Eligible Improvements" requirements (previously presented in this document for GreenCHOICE mortgages) with an aggregate cost of less than or equal to $6,500 may be completed without obtaining an energy report. If the improvements should exceed $6,500, an energy report or alternative documentation in lieu of an energy report meeting the "Energy Report" requirements previously presented in this document for GreenCHOICE mortgages must be obtained and retained in the mortgage file.
      - The energy report exception, when proceeds are used to finance renewable energy sources, may apply so long as the appraiser documents the projected income by utilizing PV Value, Ei Value or a similar tool as referenced in "Properties with Energy Efficient Improvements" requirements in the "Appraisal Analysis: Agency Loan Programs / Improvements Section of the Appraisal Report" topic/subtopic presented in Section 1.07: Appraisal Standard, and that the cost effectiveness has been demonstrated
    - All renovations, including renovations to improve the energy and/or water efficiency, the health and safety and/or the resiliency and preventiveness of the mortgaged premises, must be completed by the required completion date
    - The renovation funds are deposited into a completion escrow account, and
    - If the CHOICERenovation mortgage is current, any funds remaining in the completion escrow account, after the costs of all renovations have been paid to the appropriate parties either must be used to reduce the UPB or may be used for additional renovations, as described in the "Funds for Renovations Requirements" section previously presented in this "Freddie Mac's CHOICERenovation® Mortgages" subtopic.

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Eligible Transactions, Continued

Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage, continued

Freddie Mac LPA, continued

- **Special Requirements when CHOICERenovation Mortgages are Combined with GreenCHOICE Mortgages**, continued
  - See "Special Feature Code Requirements" outlined below for delivery requirements that apply for CHOICERenovation mortgages that are eligible for the $500 loan level price adjustment when combined with a GreenCHOICE mortgage.

- **Special Feature Code Requirements**
  - Use SFC J25 to identify a CHOICERenovation mortgage.
  - **CHOICERenovation Mortgages Combined with GreenCHOICE Mortgages**:
    - When CHOICERenovation mortgage proceeds finance renovations completed after the note date to improve the energy and/or water efficiency, the health and safety and/or the resiliency and preventiveness of the mortgaged premises, *in addition to* SFC J25, also use SFC J08 to identify that the CHOICERenovation mortgage is combined with a GreenCHOICE mortgage.

      Note: When SFC J08 is included as part of the delivery information, Freddie Mac will credit the lender (selling the loan to Freddie Mac) a $500 loan level price adjustment for loans where the proceeds financed renovations to improve the energy and/or water efficiency, the health and safety and/or the resiliency and preventiveness of the mortgage premises. At this time, Truist is unable to pass this $500 price adjustment credit on to the Correspondent Lender.

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Installment Land Contract

Non-AUS

- When the proceeds of a mortgage loan are used to pay off the outstanding balance on an installment land contract (also known as contract or bond for deed) that was executed within the 12 months preceding the date of the loan application, Fannie Mae will consider the mortgage loan to be a purchase money mortgage loan.
  - The LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the lesser of the total acquisition cost (defined as the purchase price indicated in the land contract, plus any costs the purchaser incurs for rehabilitation, renovation, or energy conservation improvements) or the appraised value of the property at the time the new mortgage loan is closed. The expenditures included in the total acquisition cost must be fully documented by the borrower.
- When the installment land contract was executed more than 12 months before the date of the loan application, Fannie Mae will consider the loan to be a limited cash-out refinance in accordance with the limited cash-out refinance requirements subsequently outlined in this document. In this case, the LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the appraised value of the property at the time the new mortgage loan is closed.
- Cash-out refinance transactions involving installment land contracts are not eligible.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- When the proceeds of a mortgage are used to pay the outstanding balance under a land contract or contract for deed, the mortgage may be considered either a purchase or a "no cash-out" refinance mortgage if the requirements in this section are met.
- A copy of the executed land contract or contract for deed must be included in the mortgage file.
  - For transactions that involve the payoff of a 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.
- For the transaction to be considered a purchase transaction:
  - The land contract or contract for deed must have been executed less than 12 months prior to the application received date
  - All of the loan proceeds must be used to pay the outstanding balance under the land contract or contract for deed and no loan proceeds may be disbursed to the borrower.
  - The loan-to-value (LTV) ratio must be calculated using the lesser of the following:
    - The current appraised value of the mortgaged premises, or
    - The total acquisition cost (the purchase price indicated in the original land contract or contract for deed, plus any cost the borrower has expended for rehabilitation, renovation, refurbishment or energy improvements). The mortgage file must contain sufficient documentation on which to calculate the total acquisition cost.

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Eligible Transactions, Continued

Installment Land Contract, continued

Freddie Mac LPA, continued

- For the transaction to be considered a "no cash-out" refinance transaction:
  - The land contract or contract for deed must have been executed at least 12 months prior to the application received date
  - The LTV ratio must be calculated using the current appraised value of the mortgaged premises
  - The mortgage file must include third-party documentation evidencing payments in accordance with the land contract or contract for deed for the most recent 12-month period.
  - The mortgage must meet the requirements for "no cash-out" refinance mortgages subsequently presented in this document.

Maximum Allowable Points and Fees

Reference: See Section 1.35: Compliance Overview Standard for information regarding Maximum Allowable Points and Fees.

Non-Arm's Length Transactions

Truist Notes:

- Certain types of loan transactions may generate an increased risk due to the relationships of the people or companies involved in the transaction. Additional due diligence must be taken during the loan origination process when assessing the risk of these types of loans. Prudent underwriting and thorough analysis of the parties to the transaction may reveal a non-arm's length or conflict-of-interest concern.
- Non-arm's Length transactions are eligible as outlined within this document; however, require additional scrutiny to mitigate risk associated with fraud

Non-AUS

- Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property.
- Fannie Mae allows non-arm's length transactions for the purchase of existing properties unless specifically forbidden for the particular scenario, such as delayed financing.
- For the purchase of newly constructed properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property, Fannie Mae will only purchase mortgage loans secured by a primary residence.
- Fannie Mae will not purchase mortgage loans on newly constructed homes secured by a second home or investment property if the borrower has a relationship or business affiliation with the builder, developer, or seller of the property.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Eligible Transactions, Continued

Non-Arm's Length Transactions, continued	**Freddie Mac LPA** Follow LPA requirements, which are as follows: • Non-arm's length transactions are purchase transactions between parties who are related, are affiliated, or have a pre-existing personal or business relationship. • Freddie Mac allows non-arm's length transactions for the purchase of existing properties unless specifically forbidden for the particular scenario, such as delayed financing. • For newly constructed homes secured by a second home or investment property that are purchase transactions, the borrower may not be affiliated with or related to the builder, developer or the property seller. For these purposes, "affiliated with" means that the borrower may not have an ownership interest in or employment with the builder, developer or property seller.

Property Assessed Clean Energy (PACE) Loans	**Non-AUS**
	• **Overview**
	    • Certain energy retrofit lending programs, often referred to as Property Assessed Clean Energy (PACE) programs, are made by localities to finance residential energy-related improvements and are generally repaid through the homeowner's real estate tax bill. These loans typically have automatic first lien priority over previously recorded mortgages. The terms of the Fannie Mae/Freddie Mac Uniform Security Instruments prohibit loans that have senior lien status to a mortgage.
	
	• **Eligibility**
	    • A purchase or refinance (limited cash-out and cash-out) loan transaction with a PACE loan **remaining** in a first or subordinate lien position to the new mortgage transaction is not eligible. All PACE obligations **must** be paid off as a condition to obtaining a new mortgage loan.
	
	• **Refinancing Options for Properties with a PACE Loan**
	    • The following requirements apply to borrowers with loans that are owned or securitized by Fannie Mae who seek to refinance and who obtained a PACE loan prior to July 6, 2010:
	        • **Paying off the PACE Loan**: The lender must first attempt to qualify the borrower for either a cash-out or limited cash-out refinance option, with the PACE loan being paid off as part of the refinance. To mitigate the risk posed by PACE obligations that take lien priority over the mortgage, Fannie Mae requires that borrowers with sufficient equity pay off the existing PACE obligation as a condition to obtaining a new mortgage loan. The prohibition against using the proceeds of a limited cash-out refinance to pay off a loan not used to purchase the property will not apply. See the "Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance)" subtopic and the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties" requirements for additional information.
	        • **Retaining the PACE loan**: Not permitted.

Continued on next page

Eligible Transactions, Continued

Property Assessed Clean Energy (PACE) Loans, continued

Non-AUS

- **Refinancing Options for Properties with a PACE Loan**, continued
  - See the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties" requirements previously presented in this topic for additional information regarding refinancing option for a PACE loan originated on or after July 6, 2010.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- Loan casefiles underwritten in DU as a limited cash-out refinance may receive an Ineligible recommendation when it appears the borrower is receiving more than 2%/$2,000 cash back due to the payoff of a PACE loan. The lender may deliver the loan with the "Approve/Ineligible" recommendation provided that the mortgage loan meets the requirements contained in this subtopic.

  Note: A DU "Approve/Ineligible" recommendation is **not acceptable** for limited cash-out refinance transactions where the payoff of the PACE loan is NOT originated in conjunction with the HomeStyle® Energy for Energy Improvements on Existing Properties feature.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- A Property Assessed Clean Energy (PACE) or PACE-like obligation (either referred to as a "PACE obligation") refers to any energy retrofit loan that is:
  - Used to finance energy efficiency improvements, and
  - Repaid through a property tax assessment
- A purchase or refinance ("no cash-out" and cash-out) loan transaction with a PACE loan **remaining** in a first or subordinate lien position to the new mortgage transaction is not eligible. All PACE obligations **must** be paid off as a condition to obtaining a new mortgage loan.
- For the "no-cash out" refinance of mortgages secured by properties subject to PACE obligations that result in or provide for first lien priority and where the PACE obligations are paid off with the mortgage proceeds, the following requirements apply:
  - The new refinance mortgage must be originated in accordance with "no cash-out" refinance mortgage requirements
  - The mortgage being refinanced must be owned in whole or in part or securitized by Freddie Mac
  - The PACE obligation must be paid in full
  - The mortgage file must include evidence that the obligation being paid off is a PACE obligation that results in or provides for first lien priority
  - Use SFC H61 to identify a Freddie Mac-owned "no cash-out" refinance mortgage where a PACE obligation is paid off with the mortgage proceeds.
- For the cash-out refinance of mortgages secured by properties subject to PACE obligations and where the PACE obligations are paid off with the mortgage proceeds, the following requirements apply:
  - The new refinance mortgage must be originated in accordance with cash-out refinance requirements
  - The PACE obligation must be paid in full

Continued on next page

Eligible Transactions, Continued

Property Assessed Clean Energy (PACE) Loans, continued

Freddie Mac LPA, continued

- Mortgages secured by properties that are energy efficient and are also subject to PACE obligations may be eligible. See the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/Freddie Mac's GreenCHOICE Mortgages℠" subtopic for additional guidance.
- For the refinance of mortgages with Freddie Mac Settlement Dates before July 6, 2010 secured by properties subject to PACE obligations originated before July 6, 2010 that result in or provide for first lien priority, if the new refinance mortgage does not meet the requirements of a "no cash-out" refinance mortgage or of a cash-out refinance mortgage, as modified above, then the mortgage is not eligible.

Purchase Transactions

Non-AUS

- A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property or to finance the acquisition and construction or rehabilitation of a property. All aspects of the transaction must be in U.S. dollars. The table below provides the general requirements for purchase money mortgage transactions. Certain mortgage loans and products may have different eligibility requirements for purchase mortgage transactions. If applicable, the differences will be stated in the specific mortgage loan or product topic section.

✓	General Requirements
	The minimum borrower contribution requirements for the selected mortgage loan type must be met.
	Proceeds from the transaction must be used to: • finance the acquisition of the subject property, • finance the acquisition and rehabilitation 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.
	Proceeds from the transaction may not be used to give the borrower cash back other than the following: • an amount representing reimbursement for the borrower's overpayment of fees and charges, including refunds that may be required in accordance with certain federal laws or regulations. The Settlement/Closing Disclosure Statement must clearly indicate the refund, and the loan file must include documentation to support the amount and reason for the refund; and • a legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears. Note: If the borrower receives cash back for a permissible purpose as listed above, the lender must confirm that the minimum borrower contribution requirements associated with the selected mortgage product, if any, 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.

Continued on next page

Eligible Transactions, Continued

Purchase Transactions, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements. The following additional requirements apply:

- **Requirements for Standard Agency Purchase Transactions with LTV, TLTV, or HTLTV Ratios of 95.01 – 97%**
  - If the LTV, TLTV, or HTLTV ratio exceeds 95% for a standard Agency purchase transaction, the following requirements apply:
    - At least one borrower must be a first-time home buyer, as indicated on the Form 1003 in the Declarations section, when at least one borrower responds "No" to the question about having an ownership interest in a property in the last three years.
    - All borrowers must occupy the property unless there is a Community Seconds subordinate lien.
    - If all borrowers are first-time homebuyers, homeownership education is required. See the "Homeownership Education and Housing Counseling" subtopic within the "Eligible Borrowers" topic presented in this document for additional information.

    Note: The TLTV ratio can be up to 105% if the subordinate lien is a Community Seconds loan.

  Reference: See the "Agency Maximum LTV/TLTV/HTLTV Ratio Requirements" subtopic previously presented in this document for additional eligibility guidance.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Purchase Transaction Mortgages**
  - A purchase transaction mortgage is a mortgage the proceeds of which are used to:
    - Acquire the mortgaged premises, or
    - Acquire the mortgaged premises and finance improvements to the property as permitted per the standards outlined in this document, or
    - Pay off the outstanding balance under a land contract or contract for deed in accordance with requirements in the "Installment Land Contract" subtopic.

- **Cash Back on Purchase Transaction Mortgages**
  - The borrower may receive cash back, or a principal curtailment may be made, only as a result of the following:
    - Reimbursement for the overpayment of costs, fees and charges paid by the borrower in connection with the purchase transaction mortgage. Examples of such overpayments include, but are not limited to, an earnest money deposit exceeding the required down payment amount, a fee paid at loan application that is covered by a financing concession at loan closing, a closing cost that is reduced after closing, or gift funds given at loan closing and exceeding the amount needed for closing
    - In jurisdictions where real estate taxes are paid in arrears, receipt of funds from the property seller for real estate taxes that cover a period prior to the note date
    - Refunds mandated by federal laws or regulations

Continued on next page

Eligible Transactions, Continued

Purchase Transactions, continued

Freddie Mac LPA, continued

- **Cash Back on Purchase Transaction Mortgages, continued**
  - The minimum borrower contribution, if applicable, must be met at closing. If the projected cash back, as described above, results in the borrower not meeting the minimum borrower contribution at closing, the excess amount of the cash back must be applied as a principal curtailment.
  - Any cash back or principal curtailment, as described above, must be reflected on the Settlement/Closing Disclosure Statement. In instances of reimbursement for the overpayment of costs, fees and charges, and/or refunds mandated by federal law or regulation, the mortgage file must include documentation supporting the amount and the reason for the reimbursement and/or refund.

- **Requirements for Standard Agency Purchase Transactions with LTV, TLTV, and/or HTLTV Ratios Greater than 95%**
  - For standard Agency transactions, if the LTV, TLTV, and/or HTLTV ratio exceeds 95%, the following requirements apply:
    - At least one borrower must be a first-time homebuyer
    - At least one borrower on the transaction must have a usable credit score as determined by Loan Product Advisor
    - When all borrowers are first-time homebuyers, at least one borrower must participate in a homeownership education program according to the requirements outlined in the "Homeownership Education and Housing Counseling" subtopic within the "Eligible Borrowers" topic subsequently presented in this document.

Refinance Transactions

See the *Refinances* topic subsequently presented for information on refinance transactions.

Continued on next page

Eligible Transactions, Continued

Relocation Mortgages

Non-AUS

- A relocation mortgage is an owner-occupied purchase money loan, originated pursuant to an established employee relocation program, administered by the employer (or its agent), where the employer relocates employees as part of its normal course of business.
- **Special Feature Code Requirement**
  - Use SFC013 to identify a relocation mortgage.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Definition of a Relocation Mortgage**
  - A relocation mortgage is an owner-occupied purchase money mortgage, originated pursuant to an established employee relocation program, administered by the employer (or its agent), where the employer relocates employees as part of its normal course of business.
- **Eligible Mortgages**
  - The provisions of this section apply to mortgages made pursuant to an employee relocation program. These mortgages must be made to a newly hired or transferred employee to finance the purchase of a 1- to 4-unit primary residence at a new job location pursuant to an employee relocation program that:
    - Establishes the terms and conditions under which the employer relocates employees, and
    - Is administered by the employer or its agent.
- **Special Occupancy Requirement**
  - The mortgaged premises will be deemed owner-occupied as of the delivery date if the borrower occupies the mortgaged premises as a primary residence by no later than 90 days after the note date.
- **Special Underwriting Requirements**
  - **Loan Product Advisor Mortgages**
    - The borrower's credit reputation is acceptable if the mortgage is submitted to Loan Product Advisor and receives a Risk Class of Accept. Loan Product Advisor mortgages that receive a Risk Class of Caution are not permitted.

Continued on next page

Relocation Mortgages, continued

Freddie Mac LPA, continued

- **Pending Sale of Current Primary Residence**
  - If the borrower's current primary residence is pending sale and the sale will not close before the note date of the mortgage, the monthly payment amount for the property pending sale may be excluded from the monthly debt payment-to-income ratio if the employee relocation program terms include a buyout agreement for the purchase of the borrower's current primary residence and either:
    - The buyout agreement is executed by the borrower; or
    - The buyout agreement is not executed, and:
      - The borrower has sufficient reserves, in addition to any other reserves required (for the transaction type), to pay the monthly payment amount for the property pending sale until the expiration date of the buyout offer as indicated in the buyout agreement; and
      - The lender obtains and retains in the mortgage file a signed statement from the borrower indicating his or her intention to accept the buyout agreement if the current primary residence is not sold prior to the expiration date of the buyout agreement.

- **Special Income and Asset Requirements**
  - **Housing Allowance**
    - A housing allowance provided as part of an employee relocation program may be considered stable monthly income and may be included in the borrower's gross monthly income without documented evidence of the most recent 12 months' receipt, provided that all other “General Requirements for all Stable Monthly Income Qualification Sources” and “Employed Income” requirements are met.

- **10-Day Pre-Closing Verification (10-Day PCV)**
  - For borrowers transferring to a new location with the same employer, a 10-day PCV is not required.

- **Borrower's Revolving Credit Card (Charges/Cash Advances) or Unsecured Line of Credit**
    - The amounts charged by a borrower on credit cards to pay fees associated with the mortgage application process (e.g., origination fees, commitment fees, lock-in fees, appraisal, credit report and flood certifications) or a cash advance taken by the borrower on a revolving credit card account or an unsecured line of credit to pay such fees may be considered borrower personal funds. If the employee relocation program provides that the employer will reimburse the borrower for the fees that were charged or paid by the borrower:

Continued on next page

Relocation Mortgages, continued

Freddie Mac LPA, continued

- **Borrower's Revolving Credit Card (Charges/Cash Advances) or Unsecured Line of Credit**, continued
    - There is no maximum limit on the amount of fees associated with the mortgage application process that may be charged or advanced by the borrower, if the employee relocation agreement specifically identifies such fees as subject to reimbursement by the employer.
    - The borrower is not required to have sufficient verified funds to pay these fees; and
    - No estimated payment based on the amount charged or advanced must be included when determining the borrower's monthly debt payment-to income ratio.

- **Employer Assisted Homeownership (EAH) Benefit**
    - An Employer Assisted Homeownership (EAH) Benefit may be used as a source of funds to qualify the borrower for the mortgage transaction if the terms of the EAH Benefit meet the requirements outlined in the "Employer Assistance" subtopic subsequently presented in this document, except as modified below:
        - **Unsecured Loan**
            - If the monthly loan payment of principal and interest or interest only begins on or after the 24th monthly payment under the first lien mortgage, the amount of the monthly payment may be excluded from the monthly debt payment-to-income ratio; otherwise, the required monthly payments must be included in the monthly debt payment-to-income ratio.
        - **Secondary Financing**
            - If the monthly payment of principal and interest or interest only begins on or after the 24th monthly payment under the first lien mortgage, the amount of the monthly payment may be excluded from the monthly housing expense-to-income ratio; otherwise the required monthly payments must be included in the monthly housing expense-to-income ratio

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Relocation Mortgages, continued

Freddie Mac LPA, continued

- **Special Documentation Requirements for Mortgages Made Pursuant to Employee Relocation Programs**
  - **Mortgage File Documentation Requirements**
    - When a mortgage made pursuant to an employee relocation program is originated in accordance with any provisions of this section, the lender must obtain and retain the following documentation in addition to any other documentation required per standards:
      - Complete documentation of the employee relocation program detailing the relocation benefits, including the employer's contribution to mortgage financing, such as closing costs, buydowns or other mortgage financing costs, and payment of expenses incurred in selling the employer's former residence, if applicable, as well as documentation evidencing that the borrower is eligible for the employee relocation program; or
      - The employer's agreement with the borrower detailing the terms of the employee relocation program and any related benefits, including the employer's contribution to mortgage financing, such as closing costs, buydowns or other mortgage financing costs, and payment of expenses incurred in selling the employee's former residence, if applicable.

- **Special Feature Code Requirement**
  - Use SFC 013 to identify a relocation mortgage.

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Eligible Transactions, Continued

Validation of Parties to the Mortgage Transaction

Non-AUS

- The lender must follow a written procedure for checking all employees, including management, involved in the origination of mortgage loans (including application through closing) against the U.S. General Services Administration (GSA) Excluded Parties List (EPL), the HUD Limited Denial of Participation List (LDP List), and the Federal Housing Finance Agency's (FHFA) Suspended Counterparty Program (SCP) list.
- If, at the time of hire or any time later, the lender has determined that an individual is on the GSA, LDP, or SCP list, the lender may not permit that employee to manage or perform origination functions on loans sold to Fannie Mae, irrespective of the reason the individual is on such list.
- Lenders can access the GSA, LDP, and SCP lists via the links provided below:
  - GSA EPL – available through GSA's System for Award Management website. The review of GSA EPL must include a search for actions taken across all federal agencies.
  - HUD's LDP List – available through HUD's website.
  - FHFA's SCP List – available through FHFA's website.
- The GSA and LDP lists are also available via AllRegs.
- If the lender obtains third-party originated loans, the lender must confirm that the third-party originator has a documented procedure for checking their potential employees against the lists.
- In addition to the requirements listed above, for all transactions, it must be confirmed, as of the note date, that all borrowers and all parties that played a role in the origination of the mortgage or the underlying real estate transaction are not found on the GSA EPL, HUD LDP, or Truist Ineligible Lists.
  - If a party whose name is on the GSA EPL, HUD LDP, or Truist Ineligible List is the borrower on the mortgage or played a role in the origination of a mortgage or the underlying real estate transaction, the mortgage is not eligible to be funded or purchased by Truist.

  Reference: See the "Truist Ineligible List Certification" topic in Section 1.19: Fraud Prevention Standard of the *Correspondent Seller Guide* for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP

- The GSA EPL, HUD LDP, and Truist Ineligible Lists must be reviewed to determine whether, as of the note date, a person or entity whose name is on any of these lists, was the borrower on the mortgage or has played a role in the origination of the mortgage or in the underlying real estate transaction.
- If a party whose name is on the GSA EPL, HUD LDP, or Truist Ineligible List is the borrower on the mortgage or played a role in the origination of a mortgage or the underlying real estate transaction, the mortgage is not eligible to be funded or purchased by Truist.

Reference: See the "Truist Ineligible List Certification" topic in Section 1.19: Fraud Prevention Standard of the *Correspondent Seller Guide* for additional information.

Refinances

Continuity of Obligation

Non-AUS
Continuity of obligation requirements do not apply.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- When an existing mortgage will be satisfied as a result of a refinance transaction, one of the following requirements must be met:
  - At least one borrower on the refinance mortgage was a borrower on the mortgage being refinanced; or
  - At least one borrower on the refinance mortgage held title to and resided in the mortgaged premises as a primary residence for the most recent 12 month period and the mortgage file contains documentation evidencing that the borrower has been making timely mortgage payments, including the payments for any secondary financing, for the most recent 12-month period; or
  - At least one borrower on the refinance mortgage inherited or was legally awarded the mortgaged premises (for example, in the case of divorce, separation or dissolution of a domestic partnership).
- Additional requirements apply for cash-out refinance transactions. See the “Cash-Out Refinance” subtopic for additional details.

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Cash-Out Refinance

Non-AUS

- **Eligibility Requirements**
  - The following requirements apply to cash-out refinance transactions:
    - The transaction must be used to pay off existing mortgage loans by obtaining a new first mortgage secured by the same property, or be a new mortgage on a property that does not have a mortgage lien against it (the borrower owns the property free and clear at the time of refinance).
    - If an existing first mortgage is being paid off through the transaction, it must be at least 12 months old at the time of refinance, as measured by the note date of the existing loan to the note date of the new loan. This requirement does not apply:
      - to any existing subordinate liens being paid off through the transaction, or
      - when buying out a co-owner pursuant to a legal agreement.
    - At least one borrower must have been on title for at least six months prior to the disbursement date of the new loan. See "Ownership of the Property" below for exceptions to this requirement.
    - Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.

- **Ownership of the Property**
  - At least one borrower must have been on title to the subject property for at least six months prior to the disbursement date of the new loan, unless one of the following exceptions apply:
    - There is no waiting period if the lender documents that the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).
    - The delayed financing requirements are met. See the "Delayed Financing Cash-Out Refinance" subtopic for further details.
    - If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement. (In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s).
    - If the property was owned prior to closing by an *inter vivos* revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.
  - The above ownership requirement applies in addition to the requirement that an existing first mortgage being paid off through the refinance is at least 12 months old.

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Cash-Out Refinance, continued

Non-AUS, continued

- **Ineligible Transactions**
  - The following transaction types are not eligible as cash-out refinances:
    - The mortgage loan is subject to a temporary interest rate buydown.
    - For certain transactions on properties that have a Property Assessed Clean Energy (PACE) loan, borrowers who refinance the first mortgage loan and have sufficient equity to pay off the PACE loan but choose not to do so will be ineligible for a cash-out refinance. See the "Property Assessed Clean Energy Loans" subtopic for additional information.
    - Transactions classified as Homestyle Energy loans. However, energy-related improvements are permitted.
    - Transactions in which a portion of the proceeds of the refinance is used to pay off the outstanding balance on an installment land contract, regardless of the date the installment land contract was executed.
    - 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. For example, if a particular state law does not allow a lender to require an escrow account under certain circumstances, the loan would be eligible for sale to Fannie Mae without an escrow account.

- **Acceptable Uses**
  - The following are acceptable uses for cash-out refinance transactions:
    - paying off the unpaid principal balance of the existing first mortgage (provided the existing first mortgage is at least 12 months old);
    - financing the payment of closing costs, points, and prepaid items. The borrower can include real estate taxes in the new loan amount. Delinquent real estate taxes (taxes past due by more than 60 days) can also be included in the new loan amount, but if they are, an escrow account must be established, subject to applicable law or regulation;
    - paying off any outstanding subordinate mortgage liens of any age;
    - taking equity out of the subject property that may be used for any purpose;
    - financing a short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- For DU loan casefiles, if the DTI ratio exceeds 45%, six months reserves are required.

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Cash-Out Refinance, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Requirements for all Cash-Out Refinance Mortgages**
  - A cash-out refinance mortgage must meet the applicable requirements outlined in the "Continuity of Obligation" subtopic previously presented in this topic.
  - A cash-out refinance mortgage is a mortgage in which the use of the loan amount is not limited to specific purposes.
  - For a cash-out refinance mortgage secured by a primary residence, all borrowers must occupy the mortgaged premises.
  - At least one borrower must have been on the title to the subject property for at least six months prior to the note date, except as specified below.
    - For cases in which the property is a leasehold estate, at least one borrower must have been lessee on the ground lease or lease agreement of the subject leasehold estate for at least six months.
    - For cases in which title to the property is held by a limited liability company (LLC) or limited partnership (LP), the time the property was titled in the name of the LLC or LP may be included in the six-month requirement provided:
      - At least one borrower must have been the majority owner or had control of the LLC or LP since the date the property was acquired by the LLC or LP, and
      - Title must be transferred from the LLC or LP into the borrower's name on or before the note date
    - If none of the borrowers have been on the title to the subject property for at least six months prior to the note date of the cash-out refinance mortgage, the following requirement(s) must be met:
      - At least one borrower on the refinance mortgage inherited or was legally awarded the subject property (for example, in the case of divorce, separation or dissolution of a domestic partnership)

      OR

      - All of the Delayed Financing Cash-Out Refinance requirements must be met. See the "Delayed Financing Cash-Out Refinance" subtopic for further details.

- **Requirements for a Cash-Out Refinance Mortgage Used to Pay Off a First Lien Mortgage**
  - When proceeds of a cash-out refinance mortgage are used to pay off a first lien mortgage, the first lien mortgage being refinanced must be seasoned for at least 12 months (i.e., at least 12 months must have passed between the note date of the mortgage being refinanced and the note date of the cash-out refinance mortgage), as documented in the mortgage file (e.g., on the credit report or title commitment).
  - The requirement that the mortgage being refinanced must be seasoned for at least 12 months does not apply when the first lien mortgage being refinanced is a Home Equity Line of Credit (HELOC).

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Refinances, Continued

Cash-Out Refinance, continued

Freddie Mac LPA, continued

- **Cash-Out Refinance Mortgage on a Property Owned Free and Clear**
  - A mortgage placed on a property previously owned free and clear by the borrower is considered a cash-out refinance mortgage, except for:
    - CHOICERenovation® mortgages when proceeds are used only to finance the eligible renovations as described in “Freddie Mac’s CHOICERenovation® Mortgage” requirements previously presented in the “Eligible Transactions” topic. These CHOICERenovation mortgages are considered "no cash-out" refinance mortgages. For more information, see “Freddie Mac’s CHOICERenovation® Mortgage” requirements previously presented in the “Eligible Transactions” topic.
    - GreenCHOICE Mortgages® when proceeds are used only to finance eligible improvements as described in and subject to the additional requirements outlined in the “Fannie Mae’s HomeStyle Energy for Improvements on Existing Properties/Freddie Mac’s GreenCHOICE Mortgages®” subtopic. These GreenCHOICE mortgages are considered "no cash-out" refinance mortgages. For more information, see “Freddie Mac’s GreenCHOICE Mortgages®” requirements previously presented in the “Eligible Transactions” topic.

Reference: See the “Property Assessed Clean Energy (PACE) Loans” subtopic for additional information.

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Delayed Financing Cash-Out Refinance

Non-AUS

- Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a delayed financing cash-out refinance if all of the following requirements are met.
  - The original purchase transaction was an arms-length transaction.
  - The borrower(s) must meet borrower eligibility requirements.
  - The borrower(s) may have initially purchased the property as one of the following:
    - a natural person;
    - an eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust;
    - an eligible land trust when the borrower is the beneficiary of the land trust; or
    - an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.
  - The original purchase transaction is documented by a Settlement Statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed [or similar alternative] confirming the amount paid by the grantee to trustee may be substituted for a Settlement Statement if a Settlement Statement was not provided to the purchaser at time of sale.)
    - The preliminary title search or report must confirm that there are no existing liens on the subject property.
  - The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).
  - If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the Settlement Statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.

    Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

  - The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV/TLTV/HTLTV ratios for the cash-out transaction based on the current appraised value).
  - All other cash-out refinance eligibility requirements are met.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Refinances, Continued

Delayed Financing Cash-Out Refinance, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- If none of the borrowers have been on the title to the subject property for at least six months prior to the note date of the cash-out refinance mortgage, the following requirement(s) must be met:
  - The Settlement/Closing Disclosure Statement or an alternative form required by law from the purchase transaction must reflect that no financing secured by the subject property was used to purchase the subject property. A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement or an alternative form required by law was not used for the purchase transaction.
  - The preliminary title report for the refinance transaction must reflect the borrower as the owner of the subject property and must reflect that there are no liens on the property
  - The source of funds used to purchase the subject property must be fully documented
  - If funds were borrowed to purchase the subject property:
    - Cash-out proceeds must be used to pay off or pay down the borrowed funds, as reflected on the Settlement/Closing Disclosure Statement for the refinance transaction
    - Additional cash-out is permitted only when all borrowed funds are paid in full, and
    - The payment on any remaining outstanding balance of the borrowed funds must be included in the debt payment-to-income ratio
  - The amount of the refinance mortgage must not exceed the sum of the original purchase price and related closing costs as documented by the Settlement/Closing Disclosure Statement or an alternative form required by law for the purchase transaction, less any gift funds used to purchase the subject property. A recorded trustee's deed or equivalent documentation may be used when a Settlement/Closing Disclosure Statement or an alternative form required by law was not used for the purchase transaction.
  - There must have been no affiliation or relationship between the buyer and seller of the purchase transaction

Home Improvements

The table below shows information on loans used for home improvements.

Non-AUS Loans	Fannie Mae DU "Approve/Eligible" Loans	Freddie Mac LP "Accept/Eligible" Loans
• Loan proceeds must be used to reimburse the borrower for cash spent on or lien(s) incurred for home improvements. • The loan must be considered a cash-out refinance transaction.	Non-AUS requirements apply.	Non-AUS requirements apply.

Continued on next page

Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance)

Non-AUS

- **Eligibility Requirements**
  - Limited cash-out refinance transactions must meet the following requirements:
    - The transaction is being used to obtain a new first mortgage secured by the same property to:
      - pay off an existing first mortgage (including an existing HELOC in first lien position);

        Truist Note: Truist provides the following GSE clarification:
        - The HELOC must be paid off completely. It is acceptable for the HELOC to remain open and subordinated to the first mortgage.

      - pay off an existing construction loan and documented construction cost overruns that were incurred outside of the interim construction financing for two-closing construction-to-permanent loans. (These construction cost overruns must be paid directly to the builder at closing.);
      - pay for construction costs to build the home for single-closing construction-to-permanent loans, which may include paying off an existing lot lien; or
      - pay off an installment land contract that was executed more than 12 months before the date of the loan application.
    - **Seasoning Requirement**: If the transaction is being used to pay off an existing first mortgage that was originated as a refinance (cash-out or limited cash-out) transaction, the note date of the first mortgage that is being paid off, must be greater than thirty days prior to the application date of the new limited cash-out refinance mortgage, as documented in the mortgage file (e.g., on the credit report or the title commitment).
    - At least one borrower on the new loan must be an owner (on title) of the subject property at the time of the initial application. Exceptions are allowed if the lender documents that:
      - the borrower acquired the property through an inheritance or was legally awarded the property (such as through a divorce, separation, or dissolution of a domestic partnership);
      - the property was previously owned by an inter vivos revocable trust and the borrower is the primary beneficiary of the trust;
      - the borrower is currently financially obligated on the loan being paid off but not on the title. This includes loans where the property is currently owned by a limited liability corporation (LLC) that is majority owned or controlled by the borrower(s). Ownership must be transferred into the name of the individual borrower(s) at time of closing; or
      - the borrower is paying off an installment land contract that was executed more than 12 months before the date of the loan application.

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Refinances, Continued

Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance), continued	**Non-AUS,** continued
	• **Eligibility Requirements**, continued
	  ◦ Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a Property Assessed Clean Energy (PACE) loan or other debt (secured or unsecured) that was used solely for energy-related improvements. See the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties" requirements and the "Property Assessed Clean Energy (PACE) Loans" subtopic presented in this document for additional information.
	  ◦ If the subject property was previously listed for sale, it must have been taken off the market on or before the disbursement date of the new loan.
	  ◦ **Texas only**: For any refinance of a Texas Constitution Section 50(a)(6) loan that results in a loan originated in accordance with and secured by a lien permitted by Article XVI, Section 50(a)(4) of the Texas Constitution, an affidavit referenced in Section 50(f-1) Article XVI of the Texas Constitution must be prepared and recorded in connection with each such transaction.
	
	Truist Note: In addition to the affidavit requirement outlined above, refinances of an owner's home equity loan as a non-home equity refinance [i.e., non-50(a)(6)] loan under Article XVI, subsection 50(a)(4) of the Texas Constitution must comply with ***all*** Texas state-specific requirements for such transactions.
	
	• **Ineligible Transactions**
	  ◦ When the following conditions exist, the transaction is ineligible as a limited cash-out refinance and must be treated as a cash-out refinance:
	    ▪ no outstanding first lien on the subject property (except for single-closing construction-to-permanent transactions, which are eligible as a limited cash-out refinance even though there is not an outstanding lien on the subject property);

Continued on next page

Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance), continued

Non-AUS, continued

- **Ineligible Transactions**, continued
  - the proceeds are used to pay off a subordinate lien that was not used to purchase the property (other than the exceptions for paying off PACE loans and other debt used for energy-related improvements, described above);
  - the borrower finances the payment of real estate taxes that are more than 60 days delinquent for the subject property in the loan amount; and
  - a short-term refinance mortgage loan that combines a first mortgage and a non-purchase-money subordinate mortgage into a new first mortgage or any refinance of that loan within six months.
- A transaction is not eligible as a limited cash-out refinance if the borrower completed a refinance (cash-out or limited cash-out) transaction with a note date 30 days or less prior to the application date of a new refinance secured by the same property.

- **Acceptable Uses**
  - The following are acceptable in conjunction with a limited cash-out refinance transaction:
    - modifying the interest rate and/or term for existing mortgages,
    - paying off the existing first mortgage (which may include additional amounts required to pay off the loan, such as prepayment penalties, a deferred balance resulting from completion of a prior loss mitigation solution, and late fees),
    - paying for construction costs to build a home for a single-closing construction-to-permanent transaction, which may include paying off an existing lot lien,
    - paying off the construction loan and documented construction cost overruns for a two-closing construction-to-permanent loan,
    - paying off the installment land contract that was executed more than 12 months before the date of the loan application,
    - financing the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount provided:
      - the real estate taxes must be paid in full through the transaction, and
      - payment for the taxes must be disbursed to the taxing authority through the closing transaction, with no funds used for the taxes disbursed to the borrower,
    - receiving cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or $2,000,

Continued on next page

Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance), continued

Non-AUS, continued

- **Acceptable Uses**, continued
  - buying out a co-owner pursuant to an agreement,
  - paying off a subordinate mortgage lien (including prepayment penalties) used to purchase the subject property. (When the subordinate loan is a Community Seconds, payoff may include any required payment of the share of appreciation due to the Community Seconds provider under the terms of the shared appreciation agreement.), or

    Note: The lender must document that the entire amount of the subordinate financing was used to acquire the property.

  - paying off the unpaid principal balance of PACE loans and other debt used for energy-related improvements, described above.

  Note: Disaster related limited-cash-out refinance flexibilities provided by Fannie Mae are not eligible.

- **Cash Back to the Borrower**
  - As noted above, the borrower may receive a small amount of cash back in a limited cash-out refinance transaction. The lender may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations. Refunds such as these are not included in the maximum cash back limitation, provided that:
    - the settlement statement clearly identifies the refund, and
    - the loan file includes documentation to support the amount and reason for the refund.

  Notes:
    - This applies to standard limited cash-out refinance transactions.
    - These refunds may also be applied as a principal balance curtailment.

- **Documentation Requirements**
  - To treat a transaction as a limited cash-out refinance transaction, the lender must document that all proceeds of the existing subordinate lien were used to fund part of the subject property purchase price or pay for permissible energy-related expenses. Written confirmation must be maintained in the mortgage file.
  - The following are acceptable forms of documentation:
    - a copy of the settlement statement 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 a subordinate lien was used to purchase the subject property, or
    - for energy-related expenses, copies of invoices or receipts to evidence funds were used for energy improvements. A copy of an energy report is required in many cases. See "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties" requirements for additional information.

Continued on next page

Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance), continued

Non-AUS, continued

- **Existing Subordinate Liens That Will Not Be Paid Off**
  - When a new limited cash-out refinance transaction will not satisfy existing subordinate liens, the existing liens must be clearly subordinate to the new refinance mortgage. The refinance mortgage must meet Fannie Mae's eligibility criteria for mortgages that are subject to subordinate financing.

    Truist Note: A limited cash-out refinance transaction with an existing PACE loan **remaining** in a first or subordinate lien position to the new mortgage transaction is not eligible. All PACE obligations must be paid off as a condition to obtaining a new mortgage loan.

- **New Subordinate Financing**
  - When a borrower obtains new subordinate financing with the refinancing of a first mortgage loan, Fannie Mae treats the transaction as a limited cash-out refinance provided the first mortgage loan meets the eligibility criteria for a limited cash-out refinance transaction.

    Note: It is acceptable for borrowers to obtain cash from the proceeds of the new subordinate mortgage.

Reference: See the "Construction-Lending - Single-Closing" subtopic in this document for additional information on single-closing limited cash-out (rate/term) refinance transactions.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements. The following additional requirements apply:

- **Additional Requirements for Standard Agency Limited Cash-Out Refinance Transactions with LTV, TLTV, or HTLTV Ratios of 95.01-97%**
  - If the LTV, TLTV, or HTLTV ratio exceeds 95% for a standard Agency limited cash-out transaction, the following requirements also apply:
    - Except as outlined below, the lender must document that the existing loan being refinanced is owned (or securitized) by Fannie Mae. Documentation may come from:
      - the lender's servicing system,
      - the current servicer (if the lender is not the servicer),
      - Fannie Mae's Loan Lookup tool, or
      - any other source as confirmed by the lender.

      Note: The lender must inform DU that Fannie Mae owns the existing mortgage using the Owner of Existing Mortgage field in the online loan application before submitting the loan to DU. This requirement does not apply if the TLTV exceeds 95% only due to a Community Seconds loan.

      Exception: Truist clarifies that when DU identifies that the borrower's existing mortgage loan is a Fannie Mae loan (via message on the DU Findings Report), lender documentation that the existing loan being refinanced is currently owned (or securitized) by Fannie Mae is not required.

  Reference: See the "Agency Maximum LTV/TLTV/ HTLTV Ratio Requirements" subtopic previously presented in this document for additional eligibility guidance.

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Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance), continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- A "no cash-out" refinance mortgage must meet the applicable requirements outlined in the "Continuity of Obligation" subtopic previously presented in this topic.
- A "no cash-out" refinance mortgage is a mortgage for which the proceeds may be used only to:
  - Pay off the principal and interest due, including a balance deferred under a loss mitigation plan, for the first mortgage, regardless of its age, used to acquire the property.

    Truist Note: Truist provides the following GSE clarification:
    - If paying off an existing HELOC in first lien position, the HELOC must be paid off and closed.

  - Pay off the principal and interest due, including a balance deferred under a loss mitigation plan, for the first mortgage, originated as a refinance transaction, with a note date no less than thirty days prior to the note date of the "no cash-out" refinance mortgage, as documented in the mortgage file (e.g., on the credit report or the title commitment)
  - Pay off any costs or fees associated with the satisfaction and release of the first mortgage (e.g., late fees, prepayment penalties, etc.)
  - Pay off or pay down any junior liens secured by the mortgaged premises, that were used in their entirety to acquire the subject property. Any remaining balance must be subordinated to the refinance mortgage.
  - Pay related closing costs

    Note: Real estate taxes that are past due and/or delinquent, as defined by the taxing authority, may not be paid with the proceeds of the "no cash-out" refinance mortgage, except that if the transaction results in cash out as permitted in the following bullet, these funds may be used to pay the delinquent taxes.

  - Disburse cash out to the borrower (or any other payee) up to the greater of 1% of the new refinance mortgage or $2,000
  - Pay off the outstanding balance of a land contract or contract for deed if the requirements in the "Installment Land Contract" subtopic are met
  - Pay off of a Property Assessed Clean Energy (PACE) or PACE-like obligation, subject to the additional requirements outlined in the "Property Assessed Clean Energy (PACE) Loans" subtopic
  - For GreenCHOICE Mortgages®, pay an existing debt, as defined in and subject to the additional requirements outlined in the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/Freddie Mac's GreenCHOICE Mortgages®" subtopic
  - For GreenCHOICE Mortgages, finance eligible improvements, as defined in and subject to the additional requirements outlined in the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/Freddie Mac's GreenCHOICE Mortgages®" subtopic
  - For CHOICERenovation® Mortgages, pay off the exiting mortgage debt and/or finance the eligible renovations described in and subject to the additional requirements outlined in the "Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage" subtopic
- In the event there are remaining proceeds from the "no cash-out" refinance mortgage

Continued on next page

Refinances, Continued

Limited Cash-Out Refinance (LPA Terminology: "No Cash Out Refinance"), continued

Freddie Mac LPA, continued

after the proceeds are applied as described above:
- The mortgage amount must be reduced, or
- The excess amount must be applied as a principal curtailment to the new refinance mortgage at closing and must be clearly reflected on the Settlement/Closing Disclosure Statement.

- Under no circumstances may cash disbursed to the borrower (or any other payee) exceed the maximum permitted for "no cash-out" refinance mortgages.

- **Secondary financing**
  - The borrower is not required to satisfy outstanding junior liens secured by the mortgaged premises, provided that the junior liens meet the requirements pertaining to secondary financing (including the special requirements for Affordable Seconds mortgages, if applicable). See the "Secondary Financing" topic subsequently presented in this document for additional details.

- **Special documentation requirements**
  - If a junior lien was paid off as part of the "no cash-out" refinance transaction, the lender must maintain documentation in the mortgage file demonstrating that the full amount of the lien was used for the purchase of the subject property.

- **Truist Note for Texas only**: For any refinance of a Texas Constitution Section 50(a)(6) loan that results in a loan originated in accordance with and secured by a lien permitted by Article XVI, Section 50(a)(4) of the Texas Constitution, an affidavit referenced in Section 50(f-1) Article XVI of the Texas Constitution must be prepared and recorded in connection with each such transaction.

  In addition to the affidavit requirement outlined above, refinances of an owner's home equity loan as a non-home equity refinance [i.e., non-50(a)(6)] loan under Article XVI, subsection 50(a)(4) of the Texas Constitution must comply with ***all*** Texas state-specific requirements for such transactions.

- **Requirements for Standard Agency "No Cash-Out" Refinance Transactions with LTV, TLTV, and/or HTLTV Ratios Greater than 95%**
  - For standard Agency transactions, if the LTV, TLTV, and/or HTLTV ratio exceeds 95%, all of the following requirements apply:
    - The mortgage being refinanced must be owned or securitized by Freddie Mac unless it has secondary financing that is an Affordable Second.
    - The mortgage being refinanced cannot be a converted ARM loan owned or securitized by Freddie Mac (i.e., Seller-Owned Converted Mortgage).
    - The mortgage being refinanced cannot be a modified loan owned or securitized by Freddie Mac (i.e., Seller-Owned Modified Mortgage).
    - At least one borrower on the transaction must have a usable credit score as determined by Loan Product Advisor.

  - **Note**: To identify if Freddie Mac owns the mortgage, the borrower can look up the loan in Freddie Mac's Loan Look-Up Tool or authorize the lender to obtain this information on the borrower's behalf.

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Refinances, Continued

Refinance of a Restructured Mortgage Loan	Standard limited cash-out and cash-out refinance requirements apply.

Spousal/Partner Buy-Out and Inherited Properties	**Non-AUS**
	• A transaction that requires one owner to buy out the interest of another owner (for example, as a result of a divorce settlement or dissolution of a domestic partnership) is considered a limited cash-out refinance if the following requirements are met:
	  • All parties must sign a written agreement that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction.
	  • Except in the case of recent inheritance of the subject property, documentation must be provided to indicate that the security property was jointly owned by all parties for at least 12 months preceding the disbursement date of the new mortgage loan.
	  • Borrowers who acquire sole ownership of the property may not receive any of the proceeds from the refinancing.
	  • The party buying out the other party's interest must be able to qualify for the mortgage pursuant to standard Agency underwriting requirements.
	
	Fannie Mae DU
	Follow DU requirements, which are the same as non-AUS requirements.
	
	Freddie Mac LP
	Not eligible.

Streamline Refinance Program	The table below shows information on Streamline Refinances **Non-AUS** Not eligible **Fannie Mae DU** Not eligible. **Freddie Mac LPA** Not eligible.

Continued on next page

Student Loan Cash-Out Refinance

Non-AUS
Not Eligible.

Fannie Mae DU
Follow DU requirements, which are as follows:

- The student loan cash-out refinance feature allows for the payoff of student loan debt through the refinance transaction with a waiver of the cash-out refinance LLPA if all of the following requirements are met:
  - DU cannot specifically identify these transactions, but will issue a message when it appears that only subject property liens and student loans are marked paid by closing. The message will remind lenders about certain requirements below; however, the lender must confirm the loan meets all of the requirements outside of DU.
  - The standard cash-out refinance LTV/TLTV/HTLTV ratios apply.
  - At least one student loan must be paid off with proceeds from the subject transaction with the following criteria:
    - 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
    - the student loan must be paid in full — partial payments are not permitted.
  - The transaction may also be used to pay off one of the following:
    - an existing first mortgage loan (including an existing HELOC in first-lien position); or
    - a single-closing construction-to-permanent loan to pay for construction costs to build the home, which may include paying off an existing lot lien.
  - Only subordinate liens used to purchase the property may be paid off and included in the new mortgage. Exceptions are allowed for paying off a PACE loan or other debt (secured or unsecured) that was used solely for energy improvements (see the “Property Assessed Clean Energy (PACE) Loans” subtopic and “Fannie Mae’s HomeStyle® Energy for Improvements on Existing Properties” requirements previously presented in this document for additional information).
  - The transaction may be used to finance the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as long as an escrow account is established, subject to applicable law or regulation.
  - The borrower may receive cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or $2,000. The lender may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations, or apply a principal curtailment.
  - The transaction may be used to finance the payment of closing costs, points, and prepaid items. With the exception of real estate taxes that are more than 60 days delinquent, the borrower can include real estate taxes in the new loan amount as long as an escrow account is established, subject to applicable law or regulation.

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Refinances, Continued

Student Loan Cash-Out Refinance, (continued)	**Fannie Mae DU**, continued • The borrower may receive cash back in an amount that is not more than the lesser of 2% of the new refinance loan amount or $2,000. The lender may also refund the borrower for the overpayment of fees and charges due to federal or state laws or regulations, or apply a principal curtailment. Reference: See the "Limited Cash-Out Refinance" subtopic presented in this document for additional guidance. • Unless otherwise stated, all other standard cash-out refinance requirements apply. • **Special Feature Code Requirement**: ◦ Loans qualified as student loan cash-out refinances must be delivered to Fannie Mae with SFC 841. **Freddie Mac LPA** Not Eligible.
Net Tangible Benefit Form or Appropriate Documentation Required	Reference: See General Section 1.35: Compliance Overview Standard for the requirement information and a sample of the form in the general section of the *Correspondent Seller Guide.*

Secondary Financing

General

Non-AUS

- **Subordinate Financing Requirements**
  - Fannie Mae purchases or securitizes first-lien loans where the secured property is subject to subordinate financing. Subordinate liens must be:
    - evidenced by a promissory note,
    - reflected in a recorded mortgage, deed of trust, or other security instrument, and
    - clearly subordinate to Fannie Mae's first mortgage.
  - Lenders must disclose the existence of subordinate financing and the subordinate financing repayment terms to Fannie Mae, the appraiser, and the mortgage insurer.

    Note: Unless it qualifies as a Community Seconds loan, an agreement under which a borrower is obligated to pay a third-party (other than a co-owner of the subject property) a share in any appreciation in the value of the subject property is not permitted.

  - The lender must consider all subordinate liens secured by the subject property, regardless of the obligated party, when calculating TLTV and HTLTV ratios. This includes business loans, such as those provided by the Small Business Administration.
  - Except as described in "Acceptable Subordinate Financing" below or under the "Community Seconds® (Fannie Mae)" requirements subsequently presented in this topic, no other type of recorded instrument documenting or securing the borrower's obligation to pay an amount in connection with funds advanced to the borrower in relation to the first mortgage is permitted, unless those funds have been advanced to the borrower by a co-owner of the subject property.

- **Acceptable Subordinate Financing**
  - Truist clarifies that institutional (including Community Seconds® mortgages), privately held, and seller held seconds are eligible.

    Reference: See the "Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac)" subtopic, subsequently presented in this document, for requirements for Community Seconds loan eligibility requirements.

Continued on next page

Secondary Financing, Continued

General, continued

Non-AUS, continued

- **Acceptable Subordinate Financing**, continued
  - The table below provides the requirements for acceptable subordinate financing, other than an eligible Community Seconds loan.

✓	Acceptable Subordinate Financing
	Variable payment mortgages that comply with the details outlined in the "Eligible Variable Payment Terms for Subordinate Financing" section below
	Mortgages with regular payments that cover at least the interest due so that negative amortization does not occur
	Mortgages with deferred payments in connection with employer subordinate financing Reference: See the "Employer Assistance" subtopic, subsequently presented in this document, for additional guidance.
	Mortgage terms that require interest at a market rate Note: If the interest rate for financing provided by the property seller is more than 2% below current standard rates for second mortgages, the subordinate financing must be considered a sales concession and the subordinate financing amount must be deducted from the sales price.
	Truist clarifies that secondary financing (new or existing) which could impose a penalty for prepayment is acceptable.

- **Unacceptable Subordinate Financing Terms**
  - The table below describes examples of unacceptable subordinate financing terms on financing that does not qualify as an eligible Community Seconds mortgage.

✓	Unacceptable Subordinate Financing Terms
	Mortgages with negative amortization (with the exception of employer subordinate financing that has deferred payments)
	Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage (with the exception of employer subordinate financing that has deferred payments) Note: Fannie Mae will accept these subordinate financing terms when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile. Truist considers the debt to be minimal when the borrower has sufficient assets available to pay off the outstanding balance in addition to the required funds to complete the transaction. However, Truist does not require actual payoff of the account.
	A PACE loan remaining in a subordinate lien position to the new mortgage transaction. All PACE obligations must be paid off as a condition to obtaining a new mortgage loan.

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General, continued

Non-AUS, continued

- **Eligible Variable Payment Terms for Subordinate Financing**
  - Fannie Mae permits variable payments for subordinate financing that does not qualify as an eligible Community Seconds loan if the following provisions are met:
    - With the exception of HELOCs, when the repayment terms provide for a variable interest rate, the monthly payment must remain constant for each 12-month period over the term of the subordinate mortgage. (For HELOCs, the monthly payment does not have to remain constant.)
    - The monthly payments for all subordinate liens must cover at least the interest due so that negative amortization does not occur (with the exception of employer subordinate financing that has deferred payments).

- **Eligible Repayment Terms for Employer Subordinate Financing**
  - See the "Employer Assistance" subtopic, subsequently presented in this document, for guidance.

- **Resubordination Requirements for Refinance Transactions**
  - If subordinate financing is left in place in connection with a first mortgage refinance transaction, Fannie Mae requires execution and recordation of a resubordination agreement.
  - If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage that is being refinanced, Fannie Mae does not require resubordination. The subordinate lien must satisfy any specified criteria of the applicable statutes.

    Note: Title insurance against the fact that a former subordinate lien is not properly resubordinated to the refinance loan does not release lenders from compliance with these resubordination requirements, or from Fannie Mae's requirement that the property is free and clear of all encumbrances and liens having priority over Fannie Mae's loan.

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Secondary Financing, Continued

General, (continued)

Non-AUS, continued

- **Defining Refinance Transactions Based on Subordinate Lien Payoff**
  - The table below provides the underwriting considerations related to subordinate financing under refinance transactions.

Refinance transaction includes payoff of the first mortgage and…	Then lenders must underwrite the transaction as a …	Comments
The payoff of a purchase money second with no cash out	Limited cash-out refinance	N/A
The payoff of a non-purchase money second, regardless of whether additional cash out is taken	Cash-out refinance	N/A
The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is not taking cash out except to the extent permitted for a limited cash-out refinance transaction	Limited cash-out refinance	The subordinate lien must be resubordinated to the new first mortgage.
The subordinate financing is being left in place, regardless of whether the subordinate financing was used to purchase the property, and the borrower is taking cash out	Cash-out refinance	The subordinate lien must be resubordinated to the new first mortgage.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements. The following additional requirement applies:

- In all cases, the first mortgage data must include secondary financing data so that the accurate TLTV is evaluated.

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General, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **General requirements**
  - Secondary financing is all financing that is subordinate in lien priority to the first lien mortgage.
  - Institutional (including Affordable Seconds® mortgages), privately held, and seller held seconds are permitted. Freddie Mac will purchase first lien mortgages with secondary financing under the terms of this section.

    Note: "Affordable Seconds" is Freddie Mac's terminology for subsidized secondary financing or other type of financial assistance, evidenced in land records, that is provided by an Agency and meets affordable seconds requirements. See the "Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac)" subtopic, subsequently presented in this document, for additional guidance.

  - Terms of any secondary financing must be disclosed to the appraiser and to the MI company. The terms of the secondary financing that must be disclosed include, but are not limited to, the note rate and the institution or individual providing the financing. The lender may not indicate a value needed to support the transaction, or provide any information to the appraiser about an expected LTV ratio.
  - Except as specifically stated in the "Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac)" subtopic (subsequently presented in this topic) with respect to Affordable Seconds®, the terms of secondary financing must not permit the provider or another party to share in the appreciation of the mortgaged premises (equity sharing).

- **Special requirements for new secondary financing**
  - Secondary financing originated concurrently with the first lien mortgage (i.e., the first lien mortgage and the junior lien are originated on the same day) must meet the following requirements:
    - **Maturity Date**
      - The maturity date or amortization basis of the junior lien must not be less than five years after the note date of the first lien mortgage delivered to Freddie Mac, unless the junior lien is fully amortizing or a Home Equity Line of Credit (HELOC). In addition, the junior lien must not contain a call provision within the five-year period, unless the junior lien is a HELOC.
      - If the secondary financing is an Employer Assisted Homeownership (EAH) Benefit, the terms of the secondary financing must permit the borrower to continue making payments on the loan in the event the borrower no longer works for the employer and 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

Continued on next page

Secondary Financing, Continued

General, (continued)

Freddie Mac LPA, continued

- **Scheduled Payments:**
  - The terms of the secondary financing must provide for regular monthly payments sufficient to meet the interest due; interest may not accrue.
  - If the secondary financing is an EAH Benefit and the monthly payment of principal and interest or interest only begins on or after the 61st monthly payment under the first lien mortgage or if repayment of the principal is due only upon sale or default, the amount of the monthly payment may be excluded from the monthly housing expense-to-income ratio and monthly debt payment-to-income ratio. Otherwise, the required monthly payment must be included in both the ratios.
- **Documentation Requirements:**
  - The lender must include a copy of the following documentation in the mortgage file:
    - Note or other evidence of subordinate lien terms
    - Settlement/Closing Disclosure Statement or an alternative form required by law that evidences the fees and costs paid by the borrower at closing in connection with the secondary financing
    - For HELOCs, the HELOC agreement indicating all fees and costs paid by the borrower at closing, and the maximum permitted credit advance.

- **Special requirements for existing secondary financing**
  - Freddie Mac will purchase first lien refinance mortgages with existing junior liens (including HELOCs) that are not paid off from the proceeds of the refinance mortgage provided that:
    - Evidence of subordination of outstanding secondary financing is retained in the mortgage file.
    - The junior lien has scheduled payments sufficient to meet the interest due.

Continued on next page

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac)

Notes:

- "Community Seconds" is Fannie Mae's terminology for a subsidized second mortgage typically made by a federal, state, or local government agency, a nonprofit organization, a regional Federal Home Loan Bank under one of its affordable housing programs, a federally recognized Native American tribe and its sovereign instrumentalities, or an employer, and that meets the requirements outlined below for non-AUS and DU transactions.
- Affordable Seconds" is Freddie Mac's terminology for subsidized secondary financing or other type of financial assistance, evidenced in land records, that is provided by an Agency and that meets the requirements outlined below for LPA transactions.

Non-AUS Loans

- **Community Seconds Loans**
  - **Overview**
    - A Community Seconds loan is subordinate financing that is originated under an affordable housing program. Fannie Mae does not purchase Community Seconds loans; however, first mortgages that are originated with this type of subordinate financing are eligible for purchase in accordance with the requirements outlined in this document.
  - **Review of Community Seconds Programs**
    - The lender is responsible for reviewing Community Seconds programs to ensure the programs comply with the requirements outlined in this section.
    - The *Community Seconds Checklist* includes a checklist that lenders may use to evaluate key considerations in determining whether to grant approval of a Community Seconds program.
    - The following table provides lender requirements for reviewing a Community Seconds program.

✓	The lender must . . .
	Review all documents applicable to the program, including the legal documents (such as the promissory note and the security instrument), the program description, and any other pertinent documents to confirm compliance with Community Seconds requirements.
	Determine the mortgage for the Community Seconds loan is clearly subordinate to the first mortgage. The title insurance in effect must ensure priority of the first mortgage being delivered by showing the Community Seconds loan in a subordinate position.
	Confirm the program allows 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. **Note**: If a Community Seconds provider assumes the first mortgage and cures all outstanding defaults under that mortgage, the Community Seconds financing may be maintained.
	If applicable, evaluate any recorded deed restrictions or option agreements, or local ordinances that impose similar restrictions, to confirm compliance with other Fannie Mae requirements, such as those applicable to resale restrictions.

Continued on next page

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Non-AUS Loans, continued

- <u>**Community Seconds Loan Eligibility**</u>
  - **Eligible Community Seconds Providers**
    - A Community Seconds loan must only be funded by one of the following entities:
      - a federal agency, state, county, or similar political subdivision of a state;
      - any city, town, village, or borough of a state that:
        - has a local government and that has been created by a special legislative act,
        - has been otherwise individually incorporated or chartered pursuant to state law, or
        - is recognized as such under the constitution or by the laws of the state in which it is located,
      - a housing finance agency as defined in 24 C.F.R. §266.5;
      - a nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;
      - a regional Federal Home Loan Bank under one of its affordable housing programs;
      - an employer where a borrower is an employee;
      - a lender, only in connection with an employer-guaranteed Community Seconds loan as part of its affordable housing program; or
      - an Indian tribe on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. §5131.

        Note: A corporation or other legal entity created by or owned in whole or in part by such an Indian tribe is not eligible unless it qualifies as a Tribally Designated Housing Entity, as defined in 25 U.S.C. §4103(22).

    - A Community Seconds provider must not be the property seller or other interested party in the transaction, except when they are the provider of a shared equity program.

  - **Acceptable Uses**
    - A Community Seconds loan must be used to fund one or more of the following:
      - all or part of the down payment, provided the Community Seconds loan is not funded in any way through the first mortgage, such as premium pricing;
      - closing costs;
      - renovations to the property (including energy-related improvements); or
      - a permanent interest rate buydown.
    - In some cases, a Community Seconds loan may not involve the advancement of funds, but instead may facilitate affordability through a subsidized sales price and/or requirements related to the future sale of the home. Community Seconds loans used as a means to "subsidize" the sales price of a property are currently <u>not eligible</u>.

Continued on next page

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Non-AUS, continued

- **Additional Eligibility Requirements**
  - The following table provides additional eligibility requirements for Community Seconds loans originated in connection with a first mortgage.

Criteria	Requirements
First Mortgage Eligibility	The first mortgage must be fixed-rate or an ARM with an initial fixed-rate period of five years or more, and otherwise comply with the requirements outlined in this document.
Maximum LTV and TLTV Ratios	The maximum LTV is based on the first mortgage LTV requirement. The maximum TLTV is 105% with a Community Seconds loan, unless the first mortgage has an independent TLTV cap. Truist Note: Truist clarifies that Fannie Mae does not allow a HELOC as a community seconds loan or in conjunction with a community seconds loan.
Loan Purpose	The transaction is limited to a purchase or limited cash-out refinance. For a limited cash-out refinance, the Community Seconds mortgage holder must acknowledge their lien position by executing a resubordination agreement. The agreement must be recorded to ensure enforceability.
Property and Occupancy	The subject property must be a one- to four-unit primary residence.
Income Limits	If income limits are imposed by both the Community Seconds provider and the first mortgage, the more restrictive will apply.

- **Minimum Borrower Contribution Requirements**
  - See the “Minimum Borrower Contribution Requirements” section in the applicable first mortgage product description for minimum borrower contribution requirements for transactions with a Community Seconds loan.

Continued on next page

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Non-AUS, continued

- **Repayment Structure**
  - Repayment of the Community Seconds loan may be structured in any number of ways provided the terms are consistent with those Fannie Mae considers acceptable. This includes:
    - requiring fully amortizing, equal monthly payments;
    - deferring payments for some period before changing to fully amortizing, equal monthly payments;
    - deferring payments over the entire term, unless the loan is paid off or the property is sold before the maturity date of the loan; or
    - forgiving debt over time.
  - When the borrower's employer is the provider of the Community Seconds loan, the financing terms may provide for the employer to require full repayment of the debt if the borrower's employment is terminated (either voluntarily or involuntarily, for reasons other than those related to disability) before the maturity date of the Community Seconds loan.
  - When repayment is required, the maturity date of the Community Seconds loan, or the due date of any balloon payment on the Community Seconds loan, cannot be before the earlier of:
    - 15 years after the note date of the first mortgage, or
    - the maturity date of the first mortgage.
  - When repayment of the Community Seconds loan **is deferred for five years or more**, a lender is not required to include a monthly payment for the Community Seconds loan in its calculation of the borrower's debt-to-income ratio.
  - When repayment **is deferred for fewer than five years**, the lender must include the monthly payment amount that will be required after the end of the deferral period in its calculation.
  - The Community Seconds loan must be a fixed rate loan and the interest rate may not be more than 2% (200 basis points) higher than the initial note rate of the first mortgage.

    Note: Interest that is imposed as a penalty should the loan be declared in default and called due and payable under its terms is not subject to this interest rate cap.

Continued on next page

Secondary Financing, Continued

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Non-AUS, continued

- **Repayment Structure**, continued
  - The Community Seconds loan may not allow for negative amortization, however, because negative amortization will occur if the interest rate is greater than zero and the payment of interest is ever deferred, negative amortization will be acceptable provided:
    - the amount of scheduled monthly interest deferred on the Community Seconds loan for any full calendar month within the initial five years (of the Community Seconds loan) may never exceed the scheduled monthly principal payment of the first mortgage for that month (see below for an example);
    - interest is accrued on a simple-interest basis at a fixed rate; and
    - the accrued interest is fully deferred until:
      - sale or transfer of the property,
      - the loan is refinanced or the first mortgage is paid in full, or
      - declaration of an event of default under the subordinate note or the security instrument.

  Example
  In the following example, the first mortgage is eligible as the amount of deferred, accrued interest for July on the Community Seconds loan is less than the scheduled principal payment for the first mortgage for the same month.

Note date: May First payment date: July	First Mortgage	Community Seconds Loan
UPB	$150,000	$30,000
Interest rate	5%	7%
Maximum accrued, deferred interest July	NA	$175.00 ($30,000 @ 7% / 12)
Scheduled principal payment July	$180.23	NA

- ***Special Feature Code (SFC) Requirement:*** Use SFC 118 to identify a first mortgage originated as part of a Community Seconds transaction. All other applicable special feature codes must also be reported accordingly.

- **Community Seconds: Shared Appreciation Transactions**
  - **Overview**
    - Shared appreciation programs are a type of Community Seconds offering that create affordability for eligible borrowers by providing down payment, closing cost assistance, and/or funding for renovations to the property, including energy-related improvements, in exchange for repayment of an interest-free loan and a share in any future appreciation to the property. The program provider receives the original amount advanced and a predetermined percentage of any appreciation in value upon the occurrence of specified events defined in the program's legal documentation. Events may include the subsequent sale (or other transfer) of the home and be dependent on the availability of funds.

Continued on next page

Secondary Financing, Continued

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Non-AUS, continued

- **Community Seconds: Shared Appreciation Transactions**, continued
  - **Overview**, continued
    - Appreciation in value is defined as the positive difference between the original sales price of the property and the subsequent value of the property determined in accordance with the shared appreciation program's legal documents (which may but is not required to take into account amounts paid by the borrower to improve the property with the knowledge or consent of the shared appreciation program).
  - **Provider Requirements**
    - The provider of a shared appreciation loan must:
      - be an eligible Community Seconds provider,
      - be responsible for the administration and oversight of the program, and
      - advance its own funds (or those of other parties for whom it is administering the program, so long as each such party is an eligible Community Seconds provider) to the borrower.

      Note: The lender of the first mortgage may advance the funds for the shared appreciation loan if within six months of loan closing the lender assigns the loan to a housing finance agency, as defined in 23 C.F.R. §266.5. In this scenario, the state housing agency will be considered an acceptable Community Seconds shared appreciation provider.
  - **Eligibility**
    - Shared appreciation loans are only eligible as Community Seconds loans. Lenders may deliver first mortgages that are originated with this type of subordinate financing, but the first mortgage must be a purchase or limited cash-out refinance transaction and otherwise meet the requirements outlined in this document.
    - The following table provides additional eligibility requirements for shared appreciation loans.

✓	Requirements
	The shared appreciation loan must comply with the requirements outlined in the "Community Seconds Loans" and "Community Seconds Loan Eligibility" sections previously outlined in this subtopic.
	Interest (deferred or otherwise) is not permitted, other than default interest on overdue principal or a share in appreciation.
	Expenses or fees must not be imposed on the borrower after loan origination, except in cases of default or in connection with borrower-initiated transactions, as defined in the program's legal documentation.
	After completion of the obligations to the shared appreciation provider (or its assignee), including payment of any shared appreciation in value, the borrower must not have any further obligation to the shared appreciation provider or any assignee.

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Secondary Financing, Continued

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Non-AUS, continued

- **Community Seconds: Shared Appreciation Transactions**, continued
  - **Repayment Distribution Requirements**
    - The following table describes the requirements related to repayment of a shared appreciation loan.

Criteria	Requirements
Repayment of the Community Seconds loan and Payout of Appreciation	The shared appreciation loan and any share in appreciation must only be payable in connection with one or more of the following events as specified in the shared appreciation program's legal documentation: • a specific date, which must not be earlier than the scheduled maturity date of the first mortgage granted in connection with the purchase of the property; • repayment in full of the first mortgage (except when the shared appreciation loan is being resubordinated in connection with a refinance; • acceleration of the first mortgage in accordance with its terms (for purchase mortgages only, this is limited to acceleration after the conclusion of loss mitigation or other measures to cure a delinquency); or • an unauthorized transfer, or unauthorized change in occupancy status, of the property, or an event of default relating to the failure to maintain collateral (after notice and an opportunity to cure). In addition, the program's legal documents must allow the borrower an option to prepay the loan in its entirety at any time and to pay all other amounts due to the provider, including any shared appreciation. If the shared appreciation loan becomes due and payable, all amounts then due and payable to the first mortgagee must be paid first, followed by other entitled parties, such as the shared appreciation provider and the borrower.
Basis for Determining the Amount of Appreciation	In the program's legal documentation, the appreciation in value must be based on one of the following: • When the property is sold on the open market, the appreciation must be based on the actual sales price of the property. • In any other instance, the appreciation must be based on an appraisal from a state-licensed or state-certified appraiser obtained in accordance with the program's terms, or if explicitly indicated as permitted in the program's legal documents, a current value established by a third-party, commercial automated valuation model (AVM). For limited cash-out refinances, appreciation in value may be based on any method included in the program's legal documentation.

Continued on next page

Secondary Financing, Continued

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Non-AUS, continued

- **Community Seconds: Shared Appreciation Transactions**, continued
  - **Repayment Distribution Requirements**, continued

Criteria	Requirements
Provider's Share of Appreciation	Except as permitted below, the provider's share of appreciation must not exceed the "Standard Percentage" which is derived by dividing the original shared appreciation loan amount by the original sales price. For example, if the provider contributed a 10% down payment towards the purchase of a home, the provider cannot share in appreciation greater than 10% (the Standard Percentage) when the home is sold. **Exceptions** The provider's share of appreciation may be greater than the Standard Percentage in either of the two scenarios below: 1. The borrower must first recover the following (which will result in a reduction in the amount of appreciation) before the provider is able to share in appreciation: • 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 by the borrower to the property (provided they were allowed under the program's legal documentation and not otherwise taken into account in determining the amount of appreciation), and • the principal portion of all payments the borrower made on the first mortgage. 2. The provider may share in appreciation greater than the Standard Percentage if: • in the first year following origination of the shared appreciation loan, the share does not initially exceed 75%, or • after the first year following origination of the shared appreciation loan, the share is reduced at least proportionally each year, so the share is equal to or less than the Standard Percentage no later than five years following origination of the shared appreciation loan. For example, if the provider's share of appreciation is 70% in the first year, and the Standard Percentage is 10%, then the provider's share must decrease by at least 15% annually (70% minus 10%, divided by 4), so that in the second, third, and fourth years, the provider's share of appreciation must not exceed 55%, 40%, and 25%, respectively.

Continued on next page

Secondary Financing, Continued

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Non-AUS, continued

- **Community Seconds: Shared Appreciation Transactions**, continued
  - **Special Feature Code (SFC) Requirement**: Use SFC 176 to identify a first mortgage with a subordinate community seconds loan with shared appreciation.

    Truist Note: Truist clarifies that the SFC 176 requirement is **in addition to** the SFC 118 requirement outlined in the "Community Seconds Loan Eligibility" section previously presented in this subtopic.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- **Special Requirements for Affordable Seconds**
  - Affordable Seconds must comply with the "General Requirements" outlined in the "Secondary Financing / General" topic previously presented in this document and the requirements outlined in this section, regardless of whether they are originated concurrently (i.e., the first lien mortgage and the Affordable Second are originated on the same day) or are being subordinated to the first lien mortgage in a refinance transaction. A checklist for Affordable Seconds is available as an additional resource at https://sf.freddiemac.com/content/_assets/resources/pdf/fact-sheets/affordable_seconds_guidelines_factsheet.pdf.
  - For special requirements for Affordable Seconds used to provide financial assistance for subsidizing the property's sales price, see "Special Requirements for Properties Subject to Income-Based Resale Restrictions and Affordable Seconds Used to Subsidize the Property's Sales Price" subsequently outlined in this section.

Continued on next page

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Freddie Mac LPA, continued

- **Source**
- **General Requirements**
  - An Affordable Second must be provided by an Agency under an established, ongoing, documented secondary financing or financial assistance program.

    Reference: See the "Note" at the end of the "Donations From Entities - Grants" subtopic subsequently presented in this document for Freddie Mac's definition of "Agency."

  - With respect to the subject mortgage, the Agency must not:
    - Be the lender or have participated in any aspect of the mortgage origination process, other than to assess the borrower's ability to meet the requirements of the program and to fund the Affordable Second
    - Be affiliated with, under contract to, or financed (directly or indirectly) by the lender or any party that participated in the mortgage origination process such as the property seller, builder, developer or real estate agent

      Notes:
      - For these purposes, "affiliated with" means that the Agency and the lender or other party are related to each other as a consequence of one entity directly or indirectly controlling the other party, being controlled by the other party or being under common control with that party.
      - If the source of funds is an Employer Assisted Homeownership (EAH) Benefit, see the "Employer Assistance" subtopic subsequently presented in this document for the permitted exceptions to the above guidance.

  - The Affordable Second must not be funded by the property seller or another interested party to the transaction.

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Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Freddie Mac LPA, continued

- **Special Requirements for Mortgages Secured by Properties Subject to Income-Based Resale Restrictions**
  - For mortgages secured by properties subject to income-based resale restrictions:
    - The source of the Affordable Second may be a government agency or a non-profit entity that acts as the program administrator for the government agency. The non-profit entity may also act as the property seller on behalf of the government agency.
    - The source of the Affordable Second may be a non-profit entity that is also the property seller but is not affiliated with a government agency; provided, however, that the lender confirms the:
      - Mortgage file contains the Internal Revenue Code 501(c) determination letter that allows for federal tax exemption of non-profit entities,
      - Non-profit entity has the financial capacity to provide the Affordable Second, and
      - Affordable Second meets all other applicable requirements
      - Properties subject to resale control deed restrictions that combine income limitations with resale price controls are considered to be "shared equity" properties which are not acceptable at this time.

  - **Special Feature Code Requirement**
    - Use SFC J07 to identify mortgages secured by properties subject to income-based resale restrictions with Affordable Seconds for which the source is a non-profit entity that is also the property seller but not affiliated with a government agency.

- **Eligible First Lien Mortgages**
  - The first lien mortgage must be:
    - A fixed-rate mortgage or an ARM with an initial fixed-rate period of five years or greater
    - A purchase transaction or a "no cash-out" refinance, and
    - Secured by a 1- to 4-unit primary residence

- **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 Lien 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

Continued on next page

Secondary Financing, Continued

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Freddie Mac LPA, continued

- **Scheduled Payments**
  - The interest rate of the Affordable Second must not be more than 2% higher than the interest rate of the first lien mortgage. Interest accruals, which are added to principal, may not increase the total loan-to-value (TLTV) ratio beyond the maximum TLTV ratio allowed for the first lien mortgage at any time during the term of the first lien mortgage.
  - If monthly payments on the Affordable Second are required and begin before the 61st monthly payment under the first lien mortgage, such monthly payments must be included in the borrower's monthly housing expense-to-income ratio and monthly debt payment-to-income ratio. If monthly payments on the Affordable Second begin on or after the 61st monthly payment under the first lien 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.

- ***For Loans Originated Using the Legacy 07/05 (Rev. 06/09) version of Form 65, Uniform Residential Loan Application AND the Legacy LPA Specification Version 4.8.01 and Lower ONLY***
  - **Treating an Affordable Second in LPA as a Gift**
    - Treating an Affordable Second in LPA as a gift, rather than as secondary financing, is not permitted.

- **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 mortgaged premises, 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 the "Calculation of LTV/TLTV/HTLTV Ratios" subtopic previously presented in this document ("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 program and the lender confirms that:

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Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Freddie Mac LPA, continued

- **Participation in Appreciation (Equity Sharing),** continued
    - All of the special requirements for mortgages secured by properties subject to income-based resale restrictions, as outlined in the "Properties with Resale Restrictions" subtopic subsequently presented in this document, 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 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
    - The payments of principal of the first lien mortgage
  - The right of the Agency or subsidy provider to share in the appreciation must be clearly subordinate to the first lien mortgage
  - Properties subject to resale control deed restrictions that combine income limitations with resale price controls are considered to be "shared equity" properties which are not acceptable at this time.

  - **Special Feature Code (SFC) Requirement**: Truist requires the use of SFC 176 to identify a first mortgage with a subordinate affordable second loan with shared appreciation.

    Truist Note: Truist clarifies that the SFC 176 requirement is **in addition to** the SFC 583 requirement referenced in the "Special Feature Code Requirement" section subsequently outlined in this subtopic.

- **Financing Structure**
  - The Affordable Second financing cannot be a HELOC.

- **Documentation Requirements**
  - The lender must include a copy of the following documentation for the Affordable Second in the mortgage file:
    - Note or other evidence of terms for the Affordable Second
    - Settlement/Closing Disclosure Statement or an alternative form required by law that evidences the fees and costs paid by the borrower at closing in connection with a new Affordable Second
    - For refinance transactions, evidence of subordination of an existing Affordable Second

- **Special Feature Code Requirement**
  - Truist requires the use of SFC 583 to identify all loans with a subordinate Affordable Second.

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Secondary Financing, Continued

Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac), continued

Freddie Mac LPA, continued

- **Special Requirements for Properties Subject to Income-Based Resale Restrictions and Affordable Seconds Used to Subsidize the Property's Sales Price**

  - An Affordable Second can be used to provide financial assistance by subsidizing the property's sales price in certain affordable housing programs, and as a result, the programs may impose income-based resale restrictions. The difference between the market sales price and the resale-restricted price represents the subsidy amount provided by the Affordable Second and creates the subsidized sales price. The subsidy provider for the Affordable Second may have the preemptive option to purchase the home and/or transfer this option to an eligible buyer.
  - The mortgage terms for the Affordable Second typically provide for either no payments or deferred payments and the entire outstanding balance may be forgiven at some specified point in time. The terms of the Affordable Second mortgage may not, however, restrict Freddie Mac's sale or transfer of a property once Freddie Mac has acquired title to the property as an REO.
  - When an Affordable Second is used to subsidize the property's sales price and income-based resale restrictions are imposed, the Affordable Second must not be used toward the borrower's down payment or closing costs.
  - Properties subject to resale control deed restrictions that combine income limitations with resale price controls are considered to be "shared equity" properties which are not acceptable at this time.

Home Equity Lines (HELOCS)

Non-AUS

- The HTLTV calculation is based on the total HELOC credit line when the first mortgage is closed, unless the HELOC has been permanently modified.
  - See Permanently Modified HELOC requirements outlined below for further guidance.
- When the first mortgage product that will be delivered to Fannie Mae also has a home equity line of credit (HELOC) that provides for a monthly payment of principal and interest or interest only, the payment on the HELOC must be considered as part of the borrower's recurring monthly debt obligations. If the HELOC does not require a payment, there is no recurring monthly debt obligation so the lender does not need to develop an equivalent payment amount.

  Note: Additional and/or different qualifying requirements may be applied by the subordinate lien holder (i.e., Truist Bank, etc.).

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Secondary Financing, Continued

Home Equity Lines (HELOCS), continued

Non-AUS, continued

- **Permanently Modified HELOC**
  - If the lender determines the HELOC has been permanently modified and the outstanding unpaid principal balance (UPB) is less than the permanently modified HELOC, the lender must use the modified HELOC amount in calculating the HTLTV ratio for eligibility purposes and for delivery.
    - The lender must obtain appropriate documentation that the HELOC has been permanently modified and include this documentation in the loan file.
  - If the outstanding unpaid principal balance (UPB) is greater than the permanently modified HELOC, the lender must use the outstanding UPB to calculate the HTLTV ratio for eligibility purposes and for delivery.
    - As noted above, the lender must obtain appropriate documentation and include that documentation in the loan file.
  - In no case may the TLTV ratio exceed the HTLTV ratio.

    Note: The HTLTV ratio calculation may differ for certain mortgage loans.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- HELOC payments must be included in the monthly debt payment-to-income ratio when there is an outstanding balance on the account. In the absence of a monthly payment on the credit report, and if there is no documentation in the mortgage file indicating a monthly payment amount, 1.5% of the outstanding balance will be considered to be the HELOC monthly payment amount.
- The Lender must submit both the limit of the HELOC and the disbursed amount of the HELOC to Loan Product Advisor.

References:
- See the “Secondary Financing / General” subtopic previously presented in this topic for when documentation of HELOC terms is required.
- See the “Sale of Real Property / Sale of Real Property or Proceeds from a Loan Secured by Real Property” subtopic subsequently presented in the “Cash Requirements” topic for when HELOC proceeds are used for the transaction.

Note: Additional and/or different qualifying requirements may be applied by the subordinate lien holder (i.e., Truist Bank, etc.).

- Non-AUS requirements apply if the lender determines the HELOC has been permanently modified.

**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Geographic Restrictions

Introduction

- As determined by HUD, the following states are NOT considered as a high cost area and are ***NOT eligible*** for originations under the Agency Plus and Agency Plus Select loan standards:

State	State	State
Alabama	Maine	Ohio
Arkansas	Michigan	Oklahoma
Arizona	Minnesota	Oregon
Delaware	Missouri	Rhode Island
Iowa	Mississippi	South Carolina
Illinois	Montana	South Dakota
Indiana	North Dakota	Texas
Kansas	Nebraska	Vermont
Kentucky	New Mexico	Wisconsin
Louisiana	Nevada	

- The following table shows additional information on geographic restrictions applicable to the standard Agency, Agency Plus, and Agency Plus Select loan standards.

State	Restrictions
Georgia	Georgia Power leasehold properties are not eligible.
New York	As a result of state legislation, primary residences are not eligible if the transaction is determined to be a "sub-prime home loan".

Reference: See General Section 1.02: Eligible Mortgages Standard, of the *Correspondent Seller Guide* for Truist specific geographic restrictions that may apply and General Section 1.35: Compliance Overview Standard for state specific predatory lending restrictions.

Occupancy/Property Types

Primary Residences

Non-AUS

- A principal residence is a property that the borrower occupies as their primary residence. The following table describes conditions under which Fannie Mae considers a residence to be a primary residence even though the borrower will not be occupying the property.

Borrower Types	Requirements for Owner Occupancy
Multiple borrowers	Only one borrower must occupy and take title to the property, except as otherwise required for mortgages that have co-signers or guarantors.
Military Service Members	A military service member borrower currently on active duty and temporarily absent from their primary residence because of military service is considered to be an owner occupant. Lenders must verify the borrower's temporary absence from the subject property by obtaining a copy of the borrower's military orders. The military orders must evidence the borrower will be absent from the subject property as of the date the owner occupancy must be established as required by the security instrument. **Special Feature Code Requirement**: Use Special Feature Code 754 to identify loans that meet these requirements.
Parent(s) or legal guardian(s) wanting to provide housing for their handicapped or disabled adult child	If the child is unable to work or does not have sufficient income to qualify for a mortgage on their own, the parent(s) or legal guardian(s) is considered the owner/occupant.
Children wanting to provide housing for parents	If the parent is unable to work or does not have sufficient income to qualify for a mortgage on their own, the child is considered the owner/occupant.

  Note: If a property is used as a group home, and a natural-person individual occupies the property as a primary residence, Fannie Mae's terms and conditions for such occupancy status as provided will be applicable.

- **Reporting of Gross Monthly Rent**
  - Eligible rents on the subject property (gross monthly rent) must be reported in the loan delivery data for all two- to four-unit primary residence properties, regardless of whether the borrower is using rental income to qualify for the loan.
    - If the borrower is using rental income from the subject property to qualify for the loan, the requirements in the "Rental Income" subtopic must be followed to document and calculate the income. See the "Rental Income" subtopic within the "Income" topic for requirements related to rental income.
    - If the borrower is not using any rental income from the subject property to qualify, gross monthly rent must be documented only for lender reporting purposes. The borrower can provide one of the sources listed in the "Rental Income" subtopic or may provide one of the following sources (listed in order of preference):
      - the appraisal report for a one-unit investment property or two- to four-unit property, or *Single-Family Comparable Rent Schedule* (Form 1007), provided neither the applicable appraisal nor Form 1007 is dated 12 months or more prior to the date of the note;

Continued on next page

Occupancy/Property Types, Continued

Primary Residences, continued

Non-AUS, continued

- **Reporting of Gross Monthly Rent**, continued
    - if the property is not currently rented, the lender may use the opinion of market rents provided by the appraiser; or
    - if an appraisal or Form 1007 is not required for the transaction, the lender may rely upon either a signed lease from the borrower or may obtain a statement from the borrower of the gross monthly rent being charged (or to be charged) for the property. The monthly rental amounts must be stated separately for each unit in a two- to four-unit property. The disclosure from the borrower must be in the form of one of the following:
        - a written statement from the borrower, or
        - an addition to the Uniform Residential Loan Application (Form 1003).

Note: The lender must retain the documentation in the loan file that was relied upon to determine the amount of eligible rent reported.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- If a property is used as a group home, and a natural-person individual occupies the property as a primary residence or as a second home, Fannie Mae's terms and conditions for such occupancy status as provided will be applicable.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- A mortgage is considered to be secured by a primary residence when at least one of the borrowers occupies all or part of the mortgaged premises as a primary residence.
    - A borrower may be considered an occupying borrower, if the mortgaged premises is occupied as a primary residence by an individual(s) who:
        - Is the borrower's parent(s), or
        - Has a disability and the borrower is the individual(s)'s parent or legal guardian
- A mortgage is considered to be secured by a primary residence when made to an active-duty military borrower who is unable to occupy the primary residence prior to the delivery date due to military service when the following requirements are met:
    - The mortgage file must contain the borrower's military orders verifying the borrower is temporarily unable to occupy the primary residence due to the military assignment.
    - **Special Feature Code Requirement**
        - Use SFC D76 to identify mortgages to active-duty military borrowers unable to occupy the property as a primary residence due to military service.

Continued on next page

Occupancy/Property Types, Continued

Primary Residences, continued

Freddie Mac LPA, continued

Reference: See the "Relocation Mortgages" subtopic previously presented in the "Eligible Transactions" topic within this document for a special occupancy requirement for mortgages made pursuant to employee relocation programs.

- Regardless of whether rental income from the subject 2 to 4 unit primary residence is being used to qualify the borrower, the ULDD Data Point *Property Dwelling Unit Eligible Rent Amount* for each non-owner occupied unit in a 2- to 4-unit primary residence must be delivered.
  - Enter the gross monthly rental income for each non-owner-occupied unit as indicated on the signed lease(s) for the mortgaged premises. If there is no active lease for a unit, or the borrower rents the unit to a family member, enter the gross monthly rental income as estimated on the applicable appraisal report or addenda.

Continued on next page

Occupancy/Property Types, Continued

Second Homes

Non-AUS
Not eligible

Fannie Mae DU
Follow DU requirements, which are as follows:

- The list below provides the requirements for second home properties:
  - must be occupied by the borrower for a some portion of the year,
  - is restricted to one-unit dwellings,
  - must be suitable for year-round occupancy,
  - the borrower must have exclusive control over the property,
  - must not be a rental property or timeshare arrangement,

    Note: If the lender identifies rental income from the property, the loan is eligible as a second home as long as the income is not used for qualifying purposes, and all other requirements for second homes are met (including the occupancy requirement above).

  - cannot be subject to any agreements that give a management firm control over the occupancy of the property.
- For newly constructed homes secured by a second home, the borrower cannot have a relationship or business affiliation with the builder, developer, or seller of the property.

Freddie Mac LPA

- **Eligibility Requirements**
  - The following eligibility requirements apply to second home mortgages:
    - The mortgage must be secured by a 1-unit property
    - The borrower must occupy the second home for some portion of the year
    - The borrower must keep the property available primarily (i.e., more than half of the calendar year) for the borrower's personal use and enjoyment
    - The borrower may rent the property on a short-term basis provided that the property is not subject to any rental pools or agreements that require the borrower to rent the property, give a management company or entity control over the occupancy of the property or involve revenue sharing between any owners and the developer or another party
    - The mortgaged premises must be in such a location to function reasonably as a second home
    - The second home must be suitable for year-round occupancy with the following exception: a second home with seasonal limitations on year-round occupancy (e.g. lack of winter accessibility) is eligible provided the appraiser includes at least one comparable sale with similar seasonal limitations to demonstrate the marketability of the subject property. See “General Property Eligibility Requirements” subsequently presented in the “Appraisal Requirements” topic within this document for general property eligibility requirements.
    - The property must not be subject to any timesharing or other shared ownership arrangement
  - Freddie Mac's determination of whether a property is a second home is conclusive. A 2-unit property used as a second home is considered an investment property and must meet all investment property requirements.

Continued on next page

Occupancy/Property Types, Continued

Second Homes, (continued)

Freddie Mac LPA, continued

- **Special Underwriting Requirements**
  - Each second home mortgage must meet the following requirements:
    - For newly constructed homes that are purchase transactions, the borrower may not be affiliated with or related to the builder, developer or the property seller
    - The applicable requirements outlined in the "Multiple Financed Properties for the Same Borrower" subtopic, previously presented in this document, must be met.
    - The reserves requirements outlined in the applicable first mortgage product description must be met.
    - Rental income from the borrower's second home may not be considered as stable monthly income in the credit qualification analysis
    - The monthly housing expense related to a borrower's current primary residence must be used in computing the borrower's monthly housing expense-to-income ratio
    - The monthly payment amount (as described in the "Qualifying Ratios" subtopic subsequently presented in this document) on the second home must be considered in calculating the borrower's monthly debt payment-to-income ratio

Continued on next page

Occupancy/Property Types, Continued

Investment Properties

Non-AUS
Not eligible

Fannie Mae DU
Follow DU requirements, which are as follows:

- An investment property is owned but not occupied by the borrower.
- For newly constructed homes secured by an investment property, the borrower cannot have a relationship or business affiliation with the builder, developer, or seller of the property.

- **Reporting of Gross Monthly Rent**
    - Eligible rents on the subject property (gross monthly rent) must be reported in the loan delivery data for all investment properties, regardless of whether the borrower is using rental income to qualify for the loan.
        - If the borrower is using rental income from the subject property to qualify for the loan, the requirements in the "Rental Income" subtopic must be followed to document and calculate the income. See the "Rental Income" subtopic within the "Income" topic for requirements related to rental income.
        - If the borrower is not using any rental income from the subject property to qualify, gross monthly rent must be documented only for lender reporting purposes. The borrower can provide one of the sources listed in the Rental Income subtopic or may provide one of the following sources (listed in order of preference):
            - the appraisal report for a one-unit investment property or two- to four-unit property, or *Single-Family Comparable Rent Schedule* (Form 1007), provided neither the applicable appraisal nor Form 1007 is dated 12 months or more prior to the date of the note;
            - if the property is not currently rented, the lender may use the opinion of market rents provided by the appraiser; or
            - if an appraisal or Form 1007 is not required for the transaction, the lender may rely upon either a signed lease from the borrower or may obtain a statement from the borrower of the gross monthly rent being charged (or to be charged) for the property. The monthly rental amounts must be stated separately for each unit in a two- to four-unit property. The disclosure from the borrower must be in the form of one of the following:
                - a written statement from the borrower, or
                - an addition to the Uniform Residential Loan Application (Form 1003).

Note: The lender must retain the documentation in the loan file that was relied upon to determine the amount of eligible rent reported.

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Occupancy/Property Types, Continued

Investment Properties, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For newly constructed homes that are purchase transactions, the borrower may not be affiliated with or related to the builder, developer, or property seller. For these purposes, "affiliated with" means that the borrower may not have an ownership interest in or employment with the builder, developer or property seller.
- Mortgages with temporary subsidy buydowns are not eligible for delivery as investment property mortgages.
- If the borrower owns more than one financed investment property, the loan must be a fixed rate, or 7/6-Month, or 10/6-Month ARM.
- The monthly housing expense related to the borrower's current primary residence must be used in calculating the borrower's monthly housing expense-to-income ratio.
- Regardless of whether rental income from the mortgaged premises is used in qualifying, the reserves requirements outlined in the applicable first mortgage product description must be met.
- Gift funds, gifts of equity or grants are not permitted.
- Regardless of whether rental income from the subject investment property is being used to qualify the borrower, the lender must deliver the ULDD Data Point *Property Dwelling Unit Eligible Rent Amount* for the subject 1-unit investment property and each unit in a subject 2- to -4 unit investment property.
    - Enter the gross monthly rental income for each unit as indicated on the signed lease(s) for the mortgaged premises. If there is no active lease for a unit, or the borrower rents the unit to a family member, enter the gross monthly rental income as estimated on the applicable appraisal report or addenda.

Reference: See the "Rental Income" subtopic subsequently presented in this document for requirements related to rental income.

Continued on next page

Occupancy Verification

Reference: See Section 1.05a: Occupancy Misrepresentation–Red Flags Standard in the *Correspondent Seller Guide* for guidance..

Accessory Dwelling Units

Non-AUS

- An accessory dwelling unit (ADU) is typically an additional living area independent of the primary dwelling that may have been added to, created within, or detached from a primary one-unit dwelling. The ADU must provide for living, sleeping, cooking, and bathroom facilities and be on the same parcel as the primary one-unit dwelling.
- The following table describes the requirements for classifying an ADU.

✓	Requirements
	• Only one ADU is permitted on the parcel of the primary one-unit dwelling. • ADUs are not permitted with a two- to four-unit dwelling.

	• The ADU must:
	  • be subordinate in size to the primary dwelling.
	  • have the following separate features from the primary dwelling:
	    • means of ingress/egress,
	    • kitchen,
	    • sleeping area,
	    • bathing area, and
	    • bathroom facilities.
	• The ADU may, but is not required to, include access to the primary dwelling. However, it is not considered 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 the following:
	  • cabinets;
	  • a countertop;
	  • a sink with running water; and
	  • a stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes).
	• An independent second kitchen by itself does not constitute an ADU.
	• The removal of a stove does not change the ADU classification.

	A borrower must qualify for the mortgage without considering any rental income from the ADU. References: • See “Rental Income”, subsequently presented within the “Income” topic, for additional information, and • See the “Rental Income from a One-Unit Primary Residence with an Accessory Unit” subtopic within Section 2.01a: Fannie Mae HomeReady® and Freddie Mac Home Possible® Mortgages Standard for an exception to this requirement for HomeReady mortgage loans.

Continued on next page

Occupancy/Property Types, Continued

Accessory Dwelling Units, continued

Non-AUS, continued

- **Construction of an ADU**
  - The construction method of an ADU can be site- or factory-built. If factory-built, all designs must be multi-width and the primary dwelling must be site-built.
  - **Manufactured Home Accessory Dwelling Unit**
    - A mortgage on a one-unit dwelling that contains a manufactured home accessory dwelling unit (ADU) is not eligible.

- **Examples of ADUs**
  - Examples of ADUs include, (but are not limited to):
    - a living area over a garage,
    - a living area in a basement,or
    - a small addition to the primary dwelling.
  - Whether a property is defined as a one-unit property with an accessory unit or a two- to four-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. See "Accessory Dwelling Units" in the "Appraisal Analysis: Agency Loan Programs / Improvements Section of the Appraisal Report" topic/subtopic within Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional ADU appraisal requirements.

- **Zoning for an ADU**
  - Some ADUs may predate the adoption of the local zoning ordinance and therefore be classified as legal nonconforming. An ADU should always be considered legal if it is allowed under the current zoning code for the subject property.
  - If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:
    - The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
    - The appraisal requirements related to zoning for an ADU are met. See "Accessory Dwelling Units" in the "Appraisal Analysis: Agency Loan Programs / Improvements Section of the Appraisal Report" topic/subtopic within Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for guidance.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Reference: See "Eligibility of a Property with an ADU" in the Appraisal Analysis: Agency Loan Programs / Improvements Section of the Appraisal Report" topic/subtopic within Section 1.07: Appraisal Standard of the *Correspondent Seller Guide*.

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Occupancy/Property Types, Continued

Condominiums	Reference: See Section 1.06: Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide* for a complete overview of condominium warranty requirements.
PUDs	Reference: See Section 1.06: Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide* for a complete overview of PUD eligibility requirements.

Leasehold Estates

Non-AUS

- **Leasehold Estates**
  - Fannie Mae purchases or securitizes loans that are secured by properties subject to leasehold estates in areas in which this type of property ownership has received market acceptance.
  - Eligible property types are:
    - one-to-four-unit properties,
    - condo units,
    - PUD units,
  - Ineligible property types include:
    - Community Land Trusts,
    - Georgia Power leaseholds,
    - Indian lands, and
    - manufactured homes.
  - A loan secured by a unit in a project that is subject to a ground lease is considered a loan secured by a leasehold estate for purposes of this subtopic. For these loans, lenders must also comply with all legal and eligibility requirements for condos and PUDs. See Section 1.06: Condominium and PUD Approval Requirements Standard for additional information.

    Truist Note: For condominium transactions underwritten by Truist, the Condominium Department in Richmond, VA will also review the lease agreement, but reserves the right to request the Correspondent lender to obtain a legal opinion from the Correspondent lender's legal counsel, the title company or the HOA attorney in the cases where it is not clear that all leasehold requirements are met.

- **Definitions**
  - The following definitions apply to this subtopic:
    - A loan secured by a leasehold estate is also known as a "leasehold mortgage."
    - The term "lease" includes any form of lease or ground lease (for example, a master lease, business lease, sublease, or unit lease), together with any addendum, amendment, or rider, or a memorandum thereof.

Continued on next page

Occupancy/Property Types, Continued

Leasehold Estates, continued

Non-AUS, continued

- **Definitions,** continued
    - The terms "lessor" and "lessee" includes sublessor and sublessee.
    - For loans secured by units in projects subject to a ground lease:
        - The borrower may also be called the "unit lessee," "unit mortgagor," or "unit owner."
        - The "ground lease" may also be called a "land lease" or "underlying lease."
        - For a loan secured by a unit in a project, the term "lender" does not refer to the project's blanket lender or blanket mortgagee, if applicable.

- **General Requirements for Leasehold Mortgages**
    - The lender must comply with all requirements for leasehold mortgages. In addition, the lender agrees that in accordance with Fannie Mae Selling Guide A2-2-07, Life-of-Loan Representations and Warranties, any failure to comply at any time with requirements in this subtopic is a breach of the life-of-loan representations and warranties if it impacts first-lien enforceability.
    - The following table provides general requirements for leasehold mortgages.

✓	Requirements for Leasehold Mortgages
	The loan must be secured by a first lien in the property improvements and the borrower's rights in the leasehold interest in the land. Note: For loans with new leases entered into on or after September 01, 2025: • The fee estate must not be subject to any prior secured loans or other liens, unless the secured party or lienholder has agreed to recognize and not disturb the lease if it becomes the owner of the fee estate, as evidenced by an agreement recorded in the appropriate land records.
	The lease estate and the improvements must constitute real property and be subject to the mortgage lien.
	The appraisal must meet the requirements outlined in the “Leasehold Estates” subtopic in the “Appraisal Requirements” topic subsequently outlined in this document.
	The loan must meet the applicable title insurance requirements outlined in Section 1.16: Title Insurance Standard.
	All rents, other payments, or assessments under the lease that have become due must be paid.
	The lease must not be in default under any provision of the lease and the lessor must not have claimed any such default.
	The lease must be recorded in the appropriate land records.
	The lease must be in full force and effect, and enforceable in all respects.

Continued on next page

Occupancy/Property Types, Continued

Leasehold Estates, continued

Non-AUS, continued

- **Lease Requirements**
  - The lender must ensure all leases associated with the subject property, regardless of the form of the lease (including a master lease, sublease, or unit lease) comply with the requirements below. The lessee (or sublessee, when applicable) must be the borrower, condo or PUD homeowners' association (HOA).
  - Compliance with these lease requirements may be satisfied by:
    - separate agreement(s) incorporated into the lease (e.g., addendum, amendment, or rider), or
    - the project's constituent documents (project documents).

    Note: For units in projects subject to a ground lease in which the HOA is the lessee, the lender must ensure the lease complies with these lease requirements unless the project has been approved by Fannie Mae in Condo Project Manager (CPM).

  - Regardless of the lessee, the lender must ensure the terms of the lease address all of the following:
    - The lease must have an unexpired term that exceeds the maturity date of the loan by five (5) years or more.
    - The lease must not preclude the borrower's membership or voting rights in the HOA.
    - If the loan is secured by a sublease, a default under the master lease will not automatically result in the termination of the sublease.
  - The following table provides additional lease requirements depending on whether the borrower or the HOA is the lessee.

Lease Requirements if the Borrower is the Lessee	Lease Requirements if the HOA is the Lessee
The lease must allow the lease for it (including the lessee's option to purchase) to be assigned, transferred, mortgaged, and subleased an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lease must not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee. The lease may include the following restrictions, if applicable: • limitations in accordance and compliance with the “Loans with Resale Restrictions: Non-Shared Equity Transactions” requirements subsequently presented in the “Properties with Resale Restrictions” subtopic within this document.	No lease requirements relating to assignments, transfers, subleases or mortgages.

Continued on next page

Occupancy/Property Types, Continued

Leasehold Estates, continued

Non-AUS, continued

- **Lease Requirements,** continued

Lease Requirements if the Borrower is the Lessee	Lease Requirements if the HOA is the Lessee
The lease must provide protection of the lender's financial interests in the event of a condemnation or similar taking proceeding. **Note:** If the lease provisions are silent or insufficient, the lender may rely on applicable state law or other written agreement that provides substantially the same protections.	See "Additional Requirements for Units in New and Newly Converted Condo Projects" and "Condo Project Legal Document Review Requirements for Units in New or Newly Converted Projects" in the "Full Review Process (Fannie Mae)" requirements presented in the "Agency" topic of Section 1.06: Condominium and PUD Approval Requirements Standard for guidance.
The lease must not include any default provisions that could result in forfeiture or termination of the lease, unless the lease provides the lender with: • the right to receive notice of any lessee default under the lease, and • at least 30 days, at the lender's option, to either cure the default, take over the lessee's rights under the lease, or commence foreclosure. **Note:** If the property is located in Maryland, it is exempt from this requirement if applicable state law provides for the registration of residential leases with the state and requires the lessor to send written notice of default under the lease to the lender at least 30 days prior to the lessor filing an action for possession.	The lease or project documents must provide that the lender receives notice of any lessee default under the lease not more than 30 days after such default, and at least 30 days' prior notice of termination of the ground lease.
The lease must not include any provisions that allow the leasehold estate to be extinguished or otherwise impaired by any merger of title between the lessor and lessee without the lender's prior consent.	No lease requirements relating to extinguishment or impairment of the lessee's leasehold estate.

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Leasehold Estates, continued

Non-AUS, continued

- **Borrower's Option to Purchase Fee Interest**
  - The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable, together, subject to permissible restrictions noted above.
  - The following table provides requirements for establishing the purchase price of the land.

Status of Property Improvements	Purchase Price of Land
Already constructed at the time the lease is executed.	The initial purchase price should be established as the appraised value of the land on the date the lease is executed.
Already constructed 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. • The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year. • Leases may be offered with or without a limitation on increases or decreases in the rent payments.
Will be constructed after the lease is executed.	The purchase price of the land should be the lower of the following: • the current appraised value of the land, or • the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements. For 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 is $225,000, $50,000 for land and $175,000 for improvements, the purchase price would be $50,000 (the current appraised value of the land, because it is less than 25% of $225,000). **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.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

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Occupancy/Property Types, Continued

Leasehold Estates, continued	**Freddie Mac LPA**
	Follow LPA requirements, which are as follows:
	• Freddie Mac will purchase a mortgage secured by either a leasehold estate or a leasehold estate in a ground lease community where there is a demonstrated market acceptance of this type of property ownership.
	• The mortgage must be secured by a leasehold interest in the land or ground lease and the property improvements to be a leasehold mortgage.
	• The following property types are eligible to secure leasehold mortgages:
	    • 1 to 4 unit properties
	    • Planned Unit Development (PUD) units
	    • Condominium units
	• Manufactured homes are not eligible to secure leasehold mortgages.
	• Mortgages secured by properties located within Indian lands that are leasehold estates are not eligible.
	• Community land trusts are not eligible.
	• Documents affecting the leasehold estate, if any, securing the indebtedness must be included in the file. This includes an original executed or certified copy of the lease containing the recordation location.
	• **Terms:** The following terms apply for purposes of this section:
	    • **Basic Rent:** The amount paid for the use of the leasehold estate under the terms of the lease (or sublease, if applicable). Basic rent does not include:
	        • Taxes
	        • Insurance
	        • Utilities for the leasehold estate or common areas, or
	        • Use fees or operating expenses for the common areas, facilities and services
	    • **Ground Lease Community:** A planned residential development, including infrastructure, common areas and community facilities for use by the individual lessee, with the following characteristics:
	        • Under the terms of the lease, the individual lessee holds a real property leasehold estate in a parcel of land improved by a dwelling and has an undivided common interest in the infrastructure, common areas and community facilities
	        • The ground lease community is either a Planned Unit Development (PUD) or Condominium Project, administered by a HOA; or the community is administered by the fee simple land owner/lessor that owns, and is obligated under the lease to maintain, the infrastructure, common areas and community facilities for the common use and benefit of the individual lessees
	    • **Leasehold Mortgagee**: The mortgagee that has a lien on the lessee's (or sublessee's) leasehold estate including improvements.

Continued on next page

Occupancy/Property Types, Continued

Leasehold Estates, continued

Freddie Mac LPA, continued

- **Leasehold Estate Eligibility Requirements**
  - The lender must ensure that the following eligibility requirements are met:
    - The leasehold estate and property improvement must:
      - Constitute real property
      - Be covered by a title insurance policy that complies with the applicable title insurance requirements outlined in Section 1.16: Title Insurance Standard of the *Correspondent Seller Guide.*
    - The lease and any sublease (including all amendments) must be:
      - Recorded in the appropriate land records
      - In full force and effect, and
      - Binding and enforceable against the lessor (and sublessor)
    - The leasehold estate and mortgage must not be impaired by any merger of the fee interest and leasehold interest in the event the same person or entity acquires both interests
    - 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
    - All basic rent and amounts due (for taxes, insurance, utilities and use fees or operating expenses) relating to the land and improvements must be current and the borrower must not be in default under any provision of the lease nor may the lessor have claimed such a default
    - The lease must not preclude the borrower from retaining voting rights in the homeowners association, if applicable

- **Lease Provisions**
  - The lease must permit assignments, transfers, mortgaging and subletting of the leasehold (or subleasehold) estate, including any improvements on the leasehold estate
  - The lease must provide that for a notice of lessee's default (monetary or non-monetary) to be valid, the lessor must send written notice of the lessee's default to the leasehold mortgagee not more than 30 days after such default
  - The lease must provide for the right of the leasehold mortgagee, in its sole discretion, to cure a default for the lessee's (or sublessee, if applicable) account within the time permitted to lessee or take over the rights under the lease (sublease). The lease is not required to include a notice of default provision if the mortgaged premises is located in Maryland and applicable state law provides for all lessors to register residential leases with the state and requires the lessor to send written notice of default to the leasehold mortgagee no less than 30 days prior to the lessor filing an action of possession.
  - The lease cannot contain default provisions allowing forfeiture or termination of the lease for non-monetary default

Continued on next page

Occupancy/Property Types, Continued

Leasehold Estates, continued

Freddie Mac LPA, continued

- **Lease Provisions**, continued
  - The lease must provide for protection of the mortgagee's interests including an insurable interest in the subject property unless otherwise required by law, and interest in the lease, ground lease community and leasehold estate
  - The lease may, but is not required to, include an option for the borrower to purchase the fee interest; provided, however, there can be no time limit on when the option must be exercised, and the lease and option to purchase must be assignable

- **Projects on Leasehold Estates**
  - Freddie Mac will purchase a mortgage secured by a unit in a Condominium Project or Planned Unit Development situated on a leasehold estate if the requirements in the section are met.

- **Appraisal Requirements for Leasehold Mortgages**
  - Reference: See the "Leasehold Estates" subtopic subsequently presented in the "Appraisal Requirements" topic for additional guidance.

- **Ground Lease Requirements for Leasehold Mortgages**
  - A copy of the lease, with recordation information, must be maintained in each leasehold mortgage file. The documents must be provided to Freddie Mac upon request.

Manufactured Housing

Non-AUS

- Manufactured housing is NOT eligible for financing, including manufactured home accessory dwelling units.
- Manufactured housing is defined as any dwelling unit built on a permanent chassis and attached to a permanent foundation system.

Note: Other factory built housing (not built on a permanent chassis), such as modular, prefabricated, panelized, or sectional housing is NOT considered manufactured housing.

Fannie Mae DU
Non-AUS requirements apply.

Freddie Mac LPA
Non-AUS requirements apply.

Continued on next page

Occupancy/Property Types, Continued

Mixed-Use Properties

Non-AUS

- Fannie Mae purchases or securitizes mortgages that are secured by properties that have a business use in addition to their residential use, such as a property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office.
- The following special eligibility criteria must be met:
  - The property must be a one-unit dwelling that the borrower occupies as a primary residence.
  - The borrower must be both the owner and the operator of the business.
  - The property must be primarily residential in nature.
  - The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.
- The appraisal requirements for mixed-use properties must:
  - provide a detailed description of the mixed-use characteristics of the subject property;
  - indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;
  - report any adverse impact on marketability and market resistance to the commercial use of the property; and
  - report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Eligibility Requirements**
  - A residential property with mixed-use must meet the following requirements:
    - The property must be a 1-unit primary residence.
    - The property must be located in a predominately residential neighborhood, be primarily residential in nature based on the characteristics of the property and be typical for the properties in the market area
    - The mixed use must represent a legal, permissible use of the property under the local zoning requirements
    - If the property has a commercial use, the borrower must be the owner and the operator of the business
    - The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residence
    - The commercial use must not have an adverse effect on the habitability and safety of the property or site
- **Appraisal Requirements**
  - The appraiser must provide the following when appraising a mixed-use property:
    - An appraisal with an interior and exterior inspection
    - A detailed description of any accommodations made for the commercial use of the subject property
    - A discussion of any positive or adverse impacts of the commercial use and whether the cost to restore the property to solely residential use will affect its value
    - A statement describing any market resistance to the commercial use, and adjustments for any commercial features made to the comparable sales
    - An opinion of market value based on the property's residential nature

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Occupancy/Property Types, Continued

Modular, Prefabricated, Panelized, or Sectional Housing

Non-AUS

- **Modular, Prefabricated, Panelized, or Sectional Housing Eligibility**
  - **Modular Homes**
    - Modular homes must be built under the International Residential Code (IRC) that is administered by the state agency that is responsible for adopting and administering building code requirements for the state in which the modular home is installed. Prefabricated, panelized, or sectional housing does not have to satisfy either HUD's Federal Manufactured Home Construction and Safety Standards or the IRC that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be installed.
    - Fannie Mae purchases loans secured by modular homes built in accordance with the International Residential Code administered by state agencies responsible for adopting and administering building code requirements for the state in which the modular home is installed.
  - **Prefabricated, Panelized, and Sectional Homes**
    - Loans secured by prefabricated, panelized, or sectional housing are eligible for purchase. These properties do not have to satisfy HUD's Federal Manufactured Home Construction and Safety Standards or the International Residential Codes that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be located.
- **Modular, Prefabricated, Panelized, or Sectional Housing Requirements**
  - Factory-built housing such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible under the requirements for one-unit properties. These types of properties must:
    - be built of the same quality of materials as and assume the characteristics of site-built housing,
    - be legally classified as real property, and
    - conform to all local building codes in the jurisdiction in which they are permanently located.
  - The purchase, conveyance, and financing (or refinancing) must be evidenced by a valid and enforceable first-lien mortgage or deed of trust that is recorded in the land records, and must represent a single real estate transaction under applicable state law. The lender is responsible for perfecting the real estate title and obtaining any needed title endorsements before selling the loan to Fannie Mae when a unit is titled as personal property similarly to manufactured homes.
  - All factory-built units must be permanently attached to a foundation that meets the standards for local building codes where the unit will be placed and in accordance with the recommendations prescribed by the unit's manufacturer (when applicable). If the unit had axles, wheels, tow hitch, or other hardware to facilitate ease of transportation to the site, the lender is responsible for ensuring that all such hardware is removed prior to selling the loan to Fannie Mae.
  - Fannie Mae affords modular, prefabricated, panelized, or sectional housing homes the same treatment as site-built housing. Therefore, Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction details.

Continued on next page

Modular, Prefabricated, Panelized, or Sectional Housing, continued

Non-AUS, continued

- **Modular Construction Techniques on Multi-Unit Buildings**
  - Multi-unit buildings such as condos and townhomes may be constructed, in whole or in part, through the use of modular construction techniques. All buildings must conform to local building codes in the jurisdiction in which they are permanently located. Units in these buildings are provided the same treatment as units in multi-unit buildings constructed with site-built techniques.

- **Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing**
  - Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for modular homes, or any other types of factory-built homes. Because quality can account for large differences in the values of factory-built homes, it is important for the appraiser to become familiar with the features that affect the quality of a factory-built home so that the information can be included in the appraisal report if needed to support his or her opinion of value.

- **Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing**
  - The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. Fannie Mae requires the appraiser to address both the marketability and comparability of modular homes and other types of factory-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, it is not required that one or more of the comparable sales be the same type of factory-built housing, although using comparable sales of similar types of homes generally enhances the reliability of the appraiser's opinion of value. Fannie Mae requires the appraiser to include in the appraisal report the most appropriate comparable sales data to support his or her opinion of value for the subject property.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Freddie Mac will purchase a mortgage secured by modular, prefabricated, panelized, or sectional housing, as long as standard LPA mortgage and property eligibility requirements are met.

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Occupancy/Property Types, Continued

Properties Listed For Sale	**Non-AUS** See the “Cash-Out Refinance” and “Limited Cash-Out Refinance” subtopics previously presented in the “Refinances” topic for guidance. **Fannie Mae DU** See the “Cash-Out Refinance” and “Limited Cash-Out Refinance” subtopics previously presented in the “Refinances” topic for guidance. **Freddie Mac LP** See the ‘Cash-Out Refinance” and “Limited Cash-Out Refinance” subtopics previously presented in the “Refinances” topic for guidance.
Properties Purchased at Auction	Reference: See General Section 1.25: Properties Purchased at Auction Standard of the *Correspondent Seller Guide* for information on Properties Purchased at Auction.

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Short Sale Property

Non-AUS

- Borrowers may pay additional fees, assessments, or payments in connection with acquiring a property that is a pre-foreclosure or short sale that are typically the responsibility of the seller or another party. Examples of additional fees, assessments, or payments include, but are not limited to, the following:
  - short sale processing fees (also referred to as short sale negotiation fees, buyer discount fees, short sale buyer fees);

    Note: This fee does not represent a common and customary charge and therefore must be treated as a sales concession if any portion is reimbursed by an interested party to the transaction.

  - payment to a subordinate lienholder; and
  - payment of delinquent taxes or delinquent HOA assessments.
- The following requirements apply:
  - The borrower (buyer) must be provided with written details of the additional fees, assessments, or payments and the additional necessary funds to complete the transaction must be documented.
  - The servicer that is agreeing to the pre-foreclosure or short sale must be provided with written details of the fees, assessments, or payments and has the option of renegotiating the payoff amount to release its lien.
  - All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees, assessments, or payments. This can be accomplished by using the "Request for Approval of Short Sale" or "Alternative Request for the Approval of Short Sale" forms published by the U.S. Treasury *Supplemental Directive 09–09* or any alternative form or addendum.
  - The Settlement Statement must include all fees, assessments, and payments included in the transaction.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP

Follow LP requirements, which are noted below:

- Fees paid to any party to evaluate, negotiate or process a short sale with the Servicer, which are commonly referred to as "short sale negotiation fees," "short sale processing fees," "marketing fees," or "administrative fees," must not be deducted from the proceeds of sale or charged to the borrower. Additionally, neither the Servicer nor its agents may charge Freddie Mac or the borrower, either directly or indirectly, any fee whatsoever in connection with processing a short sale on any mortgage. Standard and customary real estate commissions and settlement service fees agreed to by the borrower and paid to the real estate brokerage and settlement agent are not prohibited.

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Properties with Private Transfer Fee Covenants

- In accordance with a regulation issued by the Federal Housing Finance Agency on March 16, 2012, and codified at 12 CFR Part 1228 (the "Private Transfer Fee Regulation"), Fannie Mae and Freddie Mac will not purchase or securitize loans on properties encumbered by private transfer fee covenants if those covenants were created on or after February 8, 2011, unless permitted by the Private Transfer Fee Regulation.

  Truist Notes:
  - The Private Transfer Fee Regulation excludes private transfer fees paid to homeowner associations, condominiums, cooperatives, and certain tax-exempt organizations that use private transfer fee proceeds to benefit the property. Fees that do not directly benefit the property are subject to the rule, and would disqualify mortgages on the property from being sold to Fannie Mae or Freddie Mac.
  - Shared equity loans secured by properties subject to private transfer fee covenants that meet the eligibility conditions outlined in Fanne Mae Lender Letter LL-2023-02 and Freddie Mac Bulletin 2023-11 are currently <u>not eligible</u> for purchase.

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Properties with Resale Restrictions

Non-AUS

- **Loans with Resale Restrictions: Non-Shared Equity Transactions**
  - **Overview**
    - Resale restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease, agreement, or other instrument executed by or on behalf of the owner of the land.
    - The resale restrictions may limit the occupancy of all or part of the land to individuals meeting certain conditions, such as age (senior communities must comply with applicable law).
    - When resale restrictions are included in a mortgage, the terms must comply with the requirements outlined in this document.

    Note: This "Loans with Resale Restrictions: Non-Shared Equity Transactions" section **does not pertain to** loans that are part of **shared equity transactions**, which have resale restrictions that limit **both** income eligibility and impose a maximum resale price. See the "Loans with Resale Restrictions: Shared Equity Transactions" section subsequently presented in this subtopic for requirements specific to shared equity transactions.

  - **Allowable Resale Restrictions**
    - Lenders may deliver loans that are subject to one or more of the following types of resale restrictions:
      - age related requirements,
      - employment-related requirements,
      - occupancy requirements,
      - first-time home buyer requirements, and
      - restrictions on group homes or homes that are principally used to serve residents with disabilities.
    - Some restrictions are likely to occur only in combination with others and it is permissible for more than one resale restriction to apply to a single loan.
    - Properties subject to resale control deed restrictions that combine income limitations with resale price controls are considered to be "shared equity" properties which are not acceptable at this time.

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Occupancy/Property Types, Continued

Properties with Resale Restrictions, continued

Non-AUS, continued

- **Loans with Resale Restrictions: Non-Shared Equity Transactions**, continued
  - **Duration of Resale Restrictions**
    - Lenders may deliver loans secured by properties subject to resale restrictions in the following circumstances:
      - when the restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period),
      - upon the recordation of a deed-in-lieu of foreclosure, or
      - when the resale restrictions survive foreclosure.

      Note: If the resale restrictions survive foreclosure, the lender represents and warrants that the resale restrictions do not impair the servicer's ability to foreclose on the restricted property.

    - There are no restrictions on the length of the period in which the resale restrictions may remain in place on the property.
  - **Title 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.
  - **Default Remedies**
    - The presence of resale restrictions must not impair Fannie Mae's legal rights to cure a default under the loan terms, to foreclose on the subject property, or to otherwise protect Fannie Mae's interests under the mortgage.
  - **Rights to Insurance Settlements and Condemnation Proceeds**
    - Fannie Mae must have first claim to insurance settlements and condemnation proceeds.

Continued on next page

Occupancy/Property Types, Continued

Properties with Resale Restrictions, (continued)

Non-AUS, continued

- **Loans with Resale Restrictions: Non-Shared Equity Transactions**, continued
  - **Eligibility Requirements**
    - The following table describes the eligibility requirements for loans with resale restrictions.
    - Properties subject to resale control deed restrictions that combine income limitations with resale price controls are considered to be "shared equity" properties which are not acceptable at this time.

Criteria	Requirements
Loan Eligibility	The loan must be a fixed-rate or ARM with an initial fixed period of five years or more and must comply with the requirements outlined in this document.
Borrower Eligibility	Borrowers must meet applicable criteria of the deed restriction. If income limit requirements are imposed by both the resale restrictions and the terms of the mortgage, the most restrictive will apply. Note: Age-related restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. In such a case, the borrower could be younger than 55 provided there is a unit occupant aged 55 and over. This occupant can be a non-borrower household member.
Property Type	One- and two-unit properties are eligible, including PUDs and condos.

  - **Appraisal Requirements**
    - In cases where the resale restrictions terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or upon recordation of a deed-in-lieu of foreclosure, the appraisal should reflect the market value of the property without resale restrictions.
      - The lender must ensure that the borrower and appraiser are aware of the resale restrictions and should advise the appraiser that they must include the following statement in the appraisal report:
        - *"This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure."*
    - In cases where the resale restrictions survive foreclosure or a deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on value and be supported by comparable sales with similar restrictions. The appraisal report must note the existence of the resale restrictions and comment on any impact the resale restrictions have on the property's value and marketability.

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Properties with Resale Restrictions, (continued)

Non-AUS, continued

- **Loans with Resale Restrictions: Non-Shared Equity Transactions**, continued
  - **Special Feature Code (SFC) Requirements**
    - Use SFC 631 to identify a loan secured by a property with resale restrictions that survive foreclosure or deed-in-lieu of foreclosure.
    - No special feature code is required to identify a loan secured by a property with resale restrictions that terminate automatically upon foreclosure (or the expiration of any applicable redemption period), or the recordation of a deed-in-lieu of foreclosure.

- **Loans with Resale Restrictions: Shared Equity Transactions**
  - **Overview**
    - Shared equity programs, sometimes called "below-market programs," create long-term affordability by both limiting income eligibility and imposing a maximum resale price (or a resale formula applies that limits the homeowner's proceeds upon resale). Shared equity providers typically make a one-time investment in a property by subsidizing the sales price for the first buyer and recycling the subsidy for subsequent, income-eligible buyers of the same property. In exchange for purchasing a home below market value, the homeowners agree to restrictions on the future sale of the home, including limitations on sales price or proceeds that maintain affordability for the next buyer.
    - Loans originated in connection with the following shared equity program are not eligible for purchase by Truist:
      - Community land trusts.
      - Loans with both income and resale restrictions
      - Loans in Massachusetts that are subject to the Affordable Housing Restriction document
    - Community land trusts (which are also considered a shared equity program) are not eligible for purchase.

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Properties with Resale Restrictions, (continued)

Non-AUS, continued

- **Loans with Resale Restrictions: Shared Equity Transactions**, continued
  - **Income and Resale Price Restrictions**
    - Resale restrictions are a right in perpetuity or for a certain number of years and are binding on current and future property owners. They remain in effect until they are 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.

      Note: Shared equity transactions with income and resale price restrictions that terminate at foreclosure are currently not eligible for purchase.

    - Income and resale price restrictions help maintain long-term affordability for shared equity programs. These programs include both an income and a maximum resale price restriction that effectively subsidize the sales prices for income-eligible buyers, and in exchange for the subsidy, the buyers agree to resale restrictions that limit the future sales price of the home to preserve affordability for future income-eligible buyers.
    - For information on other types of resale restrictions, see the "Loans With Resale Restrictions: Non-Shared Equity Transactions" section previously presented in this subtopic.

  - **General Requirements**
    - The following table describes general requirements for shared equity transactions.
    - Properties subject to resale control deed restrictions that combine income limitations with resale price controls are considered to be "shared equity" properties which are not acceptable at this time.

Criteria	Income and Resale Price Restrictions
Required Legal Documentation	The lender must review the resale restrictions to confirm compliance with this subtopic.
Properties Subject to Private Transfer Fees	See the "Properties with Private Transfer Fee Covenants" subtopic previously outlined in this document for guidance.
Certified Shared Equity Program List	Truist has not adopted use of the Certified Shared Equity Program List to assist with a lender's review of shared equity providers and transactions. Loans where the Certified Shared Equity Program List was used to confirm compliance with certain shared equity requirements are currently not eligible for purchase. **Note:** Lenders are responsible for reviewing **all** applicable Fannie Mae requirements and obtaining the pertinent information needed to complete their review. Lenders also are obligated for other representations and warranties including life of loan representations and warranties, such as clear title and first lien enforceability.

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Properties with Resale Restrictions, (continued)

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Loans with Resale Restrictions: Non-Shared Equity Transactions**
  - **Eligibility Requirements**
    - **Borrower Eligibility**:
      - Borrowers must meet applicable criteria of the deed restriction.
      - If income limit requirements are imposed by both the resale restrictions and the terms of the mortgage, the most restrictive will apply.
      - Properties subject to resale control deed restrictions that combine income limitations with resale price controls are considered to be "shared equity" properties which are not acceptable at this time.

    Note: Age-related restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. In such a case, the borrower could be younger than 55 provided there is a unit occupant aged 55 and over. This occupant can be a non-borrower household member or a renter in the case of an investment property.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **General Requirements**
  - **Overview**
    - Mortgages secured by properties subject to resale restrictions including, but not limited to, age-based restrictions (such as senior housing or units restricted to one or more occupants age 55 and over), are eligible if the requirements of this section are met. The resale restrictions must be in compliance with all federal, state and local laws, rules and regulations.
    - Community land trusts are not eligible.
    - Properties subject to resale control deed restrictions that combine income limitations with resale price controls are considered to be "shared equity" properties which are not acceptable at this time

  - **General Purchase Requirements for all Mortgages Secured by Properties Subject to Resale Restrictions**
    - The mortgages must be first lien, conventional mortgages. Freddie Mac purchase requirements including, but not limited to, all applicable condominium project and planned unit development (PUD) requirements must be met.
    - The restrictions must be binding on current and subsequent property owners, and remain in effect (i.e., survive) until they are formally removed or modified, or terminate automatically in accordance with their terms, such as upon completion of foreclosure or recordation of a deed-in-lieu of foreclosure and, if necessary, upon recordation of the associated deed transferring the property to Freddie Mac or third-party purchaser.
    - See "Special Requirements for all Mortgages Secured by Properties Subject to Income-Based Resale Restrictions" presented below for special additional requirements applicable to mortgages secured by properties subject to income-based resale restrictions.

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Occupancy/Property Types, Continued

Properties with Resale Restrictions, continued

Freddie Mac LPA, continued

- **General Requirements, continued**
  - **Length of Resale Restrictions; Effect of Foreclosure or Deed-in-Lieu of Foreclosure**
    - There are no restrictions on the length of the period in which the resale restrictions may remain in place on the property.
    - A mortgage secured by a property subject to resale restrictions is eligible for purchase if the resale restrictions:
      - Survive conveyance of the subject property following foreclosure or recordation of a deed-in-lieu of foreclosure, or
      - Terminate upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure.
    - If the resale restrictions survive foreclosure or recordation of a deed-in-lieu of foreclosure, the subsidy provider is not entitled to obtain any proceeds from the initial sale or transfer of the property after foreclosure or a deed-in-lieu of foreclosure, from the foreclosing mortgage holder who obtained the property at foreclosure or pursuant to a deed-in-lieu of foreclosure.
    - Whether the resale restrictions survive or terminate upon foreclosure or recordation of a deed-in-lieu of foreclosure, once Freddie Mac has acquired title to the property as an REO, the subsidy provider is not entitled to obtain any "excess proceeds" from Freddie Mac's sale or transfer of the REO property except as provided in the ”Special Requirements for all Mortgages Secured by Properties Subject to Income-Based Resale Restrictions / Excess Proceeds” subsection presented below for mortgages secured by properties subject to income-based resale restrictions.
  - **Public Land Records**
    - The terms of the resale restrictions must appear in the public land records for the property in a manner discoverable by a routine title search.
  - **Right of First Refusal**
    - For properties subject to resale restrictions, any right of first refusal must run to:
      - The enabling authority or jurisdiction that imposed the resale restrictions, or
      - The subsidy provider or program administrator
    - When a mortgage secured by a resale-restricted property is in foreclosure and/or subject to an approved short sale, the right of first refusal must have a time period not exceeding 120 days from the date of written notice to the parties to which the notice runs that the resale restricted property is being offered for sale.
  - **Payment of Financial Obligations**
    - Any requirement included in a mortgage, deed covenant or any other agreement executed by or on behalf of the owner of the property requiring the owner of the property to make payments under certain circumstances or requiring repayment of financial subsidies must state that the payment obligation is subordinate to the lien of the first lien mortgage.

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Occupancy/Property Types, Continued

Properties with Resale Restrictions, continued

Freddie Mac LPA, continued

- **Private Transfer Fee Covenants**
  - See the "Properties with Private Transfer Fee Covenants" topic outlined in this document for guidance.

- **Appraisal Requirements for Properties Subject to Resale Restrictions**
  - The appraisal report must note the existence of any resale restrictions. Additionally, the appraisal must include an analysis that addresses any impact the resale restrictions have on the property's value or marketability. Mortgages for properties with age-based resale restrictions may qualify for an automated collateral evaluation (ACE) appraisal waiver or ACE+ PDR. See the "Freddie Mac's LPA Automated Collateral Evaluation (ACE)" or the "Freddie Mac's LPA ACE+PDR" subtopic subsequently presented in this document for details regarding an ACE appraisal waiver or ACE+ PDR.
    - **Resale Restrictions Survive Foreclosure or Recordation of a Deed-in-Lieu of Foreclosure**
      - When the resale restrictions survive foreclosure or recordation of a deed-in-lieu of foreclosure, the appraisal must reflect the impact the restrictions have on the subject property's value and when available, be supported by comparable sales with similar restrictions.

      - If recent comparable sales with similar resale restrictions are not available in the subject neighborhood, the appraiser should then use similarly restricted older comparable sales from the subject neighborhood or consider recent and older similarly restricted sales from competing neighborhoods as comparable sales or as supporting market data. When comparable sales with similar resale restrictions are not available, the appraiser may use comparable sales with different resale restrictions or comparable sales without resale restrictions as long as the appraiser can justify and support their use in the appraisal report.

    - **Resale Restrictions Terminate Upon Foreclosure (or Expiration of any Applicable Redemption Period) or Recordation of a Deed-in-Lieu of Foreclosure**
      - When the resale restrictions terminate upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure, the appraisal **must** reflect the market value of the property without resale restrictions by using comparable sales that are not resale restricted.
      - The lender, or any third party authorized by the lender, must ensure that the borrower and appraiser are aware of the resale restrictions and must advise the appraiser that he or she must include the following statement in the appraisal report:
        - *"This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recordation of a deed-in-lieu of foreclosure."*

Continued on next page

Occupancy/Property Types, Continued

Properties with Resale Restrictions, continued

Freddie Mac LPA, continued

- **Value for the Calculation of Loan-to-Value (LTV), Total LTV (TLTV) and Home Equity Line of Credit (HELOC) TLTV (HTLTV) Ratios**
  - **Resale Restrictions Survive Foreclosure or Recordation of a Deed-in-Lieu of Foreclosure**
    - For a purchase transaction when an appraisal is obtained, value is the lesser of the appraised value or the purchase price of the mortgaged premises. When an appraisal waiver is offered and accepted, value is the purchase price of the mortgaged premises.
    - For a refinance transaction when an appraisal is obtained, value is the appraised value of the mortgaged premises. When an appraisal waiver is offered and accepted, value is the estimated value of the mortgaged premises submitted by the lender.
  - **Resale Restrictions Terminate Upon Foreclosure (or Expiration of any Applicable Redemption Period) or Recordation of a Deed-in-Lieu of Foreclosure**
    - For purchase and refinance transactions, value is the appraised value of the property without resale restrictions as determined in accordance with the requirements previously outlined in the "Appraisal Requirements for Properties Subject to Resale Restrictions" subsection above.
- **Submission to Loan Product Advisor®** ***(Purchase Transactions)***
  - When submitting a purchase transaction mortgage secured by property subject to resale restrictions that terminate upon foreclosure or recordation of a deed-in-lieu of foreclosure, the lender must enter the appraised value in the purchase price field and the appraised value field.

    Truist Note: For purchase transaction mortgages secured by property subject to resale restrictions that terminate upon foreclosure or recordation of a deed-in-lieu of foreclosure, the appraised value must also be entered in the **BOTH** the purchase price field and the appraised value field on Truist systems. The actual sales price is not required to be entered on Truist systems or in LPA for these purchase transactions.

Continued on next page

Occupancy/Property Types, Continued

Properties with Resale Restrictions, continued

Freddie Mac LPA, continued

- **Special Requirements for all Mortgages Secured by Properties Subject to Income-Based Resale Restrictions**
  - **Overview**
    - Mortgages secured by properties subject to income-based resale restrictions must meet the requirements of this section in addition to the "General Requirements" outlined above. For mortgages secured by income-based resale restricted properties with Affordable Seconds used to subsidize the sales price of such properties, the requirements outlined in the "Community Seconds® (Fannie Mae) / Affordable Seconds® (Freddie Mac)"subtopic previously presented in this document, also apply.
    - Affordable housing programs use income-based resale restrictions to create affordable housing opportunities. These affordable housing programs are often based on state or local inclusionary housing policies, which typically require a specified number or percentage of properties in a designated area to be dedicated as housing individuals and households with very low, low- or moderate-incomes. These resale restrictions are typically administered by a subsidy provider or program administrator. The lender must review the terms and conditions of the affordable housing program including, but not limited to, any provisions that describe the resale restrictions.
    - Properties subject to resale control deed restrictions that combine income limitations with resale price controls are considered to be "shared equity" properties which are not acceptable at this time.
  - **Property Type and Occupancy**
    - The mortgage must be secured by a 1- or 2-unit primary residence that is not a manufactured home. The property must be an attached or detached dwelling unit located on an individual lot or in a condominium project or planned unit development (PUD).
  - **Special Requirements for Cash-out Refinance Mortgages**
    - Cash-out refinance mortgages are only permitted if the subsidy provider or program administrator approves the transaction and the transaction meets the requirements of the applicable program. The mortgage file must contain evidence of the required approval and the approved amount of the proceeds that the borrower may receive.
  - **Ineligible Mortgages**
    - The following mortgages are ineligible for purchase if the property securing the mortgage is subject to income-based restrictions
      - CHOICERenovation® Mortgages
      - GreenCHOICE Mortgages®
    - Additionally, financed permanent buydown mortgages are not eligible for purchase if the property securing the mortgage is subject to income-based resale restrictions that terminate upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure and property value is determined in accordance with the "Appraisal Requirements for Properties with Resale Restrictions" subsection outlined above.

Continued on next page

Occupancy/Property Types, Continued

Properties with Resale Restrictions, continued

Freddie Mac LPA, continued

- **Minimum Down Payment Requirements**
  - For mortgages secured by properties subject to income-based resale restrictions, minimum down payment requirements are based on the resale-restricted price.

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

- **Resale Restriction Controls**
  - The resale restriction controls must be administered by the subsidy provider or a program administrator.

- **Excess Proceeds**
  - If the income-based resale restrictions survive foreclosure or recordation of a deed-in-lieu of foreclosure, the subsidy provider may be entitled to obtain "excess proceeds" (not to exceed an amount equal to the subsidy provided to the previous property owner by the subsidy provider and secured by a subordinate lien) from Freddie Mac's sale or transfer of the REO property if the resale restrictions allow a foreclosing mortgage holder, who acquires title to a restricted property as real estate owned, to recover from the initial sale or transfer of the real estate owned property an amount satisfying the total indebtedness previously secured by the property, as well as any amount incurred during the real estate owned holding period attributable to the real estate owned property.

    Note: The subsidy provider may be entitled to obtain proceeds from any future sale(s) or transfer(s) of the property following Freddie Mac's sale or transfer of the REO property.

Continued on next page

Properties with Resale Restrictions, continued

Freddie Mac LPA, continued

- **Additional Requirements for Subsidy Providers and Program Administrators**
  - By delivery of a mortgage originated under the provisions of this section, the lender/Servicer represents and warrants that the following requirements are met:
    - The subsidy provider is, or is managed by, or is housed within, a state or local government, a government sponsored program or a non-profit corporation that is legally chartered in the state in which it is located and has a 501(c)3 tax exemption from the IRS. The subsidy provider may employ a third-party non-profit or, as allowed by the applicable jurisdiction, a for-profit corporation, as a program administrator to manage the affordable housing program, its resale restrictions and controls.
    - The resale restrictions are imposed by state or local governments, municipalities or nonprofit entities, to create and preserve affordable housing (including entities administering governmental sponsored subsidy programs)
    - The subsidy provider or program administrator provides home counseling services or has established partnerships with at least one organization that does
    - The subsidy provider or program administrator has established procedures for screening, processing applicants and approving transactions (when applicable, i.e., cash-out refinance transactions)
    - The subsidy provider or program administrator has procedures to approve capital improvements on the property and requirements to allow the borrower to receive credit for any costs of capital improvements paid by the borrower that are eligible by the subsidy provider's program

- **Special Feature Code (SFC) Requirements**
  - Use SFC 630 to identify a mortgage secured by a property with **income-based** resale restrictions that terminate upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure.
  - Use SFC 631 to identify a mortgage secured by a property with **income-based** resale restrictions that survive foreclosure or recordation of a deed-in-lieu of foreclosure.

Continued on next page

Occupancy/Property Types, Continued

Properties with Solar Panels

Non-AUS

- The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:
  - borrower-owned panels,
  - leasing agreements,
  - separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
  - power purchase agreements.
- Fannie Mae will purchase or securitize a mortgage loan on a property with solar panels. 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 apply (for example, appraisal, insurance, and title).
- Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible for delivery to Fannie Mae if the PACE loan is not paid in full prior to or at closing. See the "Property Assessed Clean Energy (PACE) Loans" subtopic subsequently presented in this document for additional information.
- Lenders are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, lenders may be able to make this determination by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan. The lender must also 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 the lender obtains a UCC "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

  Note: A Uniform Commercial Code (UCC) financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

- Lenders are responsible for ensuring the appraiser has 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" guidance outlined in the "Appraisal Analysis: Agency Loan Programs / Improvements Section of the Appraisal Report" topic/subtopic presented in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide*.

- 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.

Continued on next page

Occupancy/Property Types, Continued

Properties with Solar Panels, (continued)

Non-AUS, continued

If the solar panels are…	Then the lender must…
Financed and collateralized -- the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing[1] has been filed for the panels in the real estate records	• Obtain and review the credit report, title report, appraisal, and/or UCC fixture filing[1], related promissory note and related security agreement that reflect the terms of the secured loan; • Include the debt obligation in the DTI ratio calculation; • Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and • Include the solar panels in other debt secured by the real estate in the TLTV ratio calculation because a UCC fixture filing[1] is of record in the land records. **Note**: If a UCC fixture filing[1] is in the land records as a priority senior to the mortgage loan, it must be subordinated.
Financed and collateralized -- the solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report	• 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); • Include the debt obligation in the DTI ratio calculation; • Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt; • Not include the panels in the LTV ratio calculation; and • Not include the debt in the other debt secured by the real estate in the TLTV ratio calculation since the security agreement or any UCC financing statement treat the panels as personal property not affixed to the home.

[1] 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.

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Occupancy/Property Types, Continued

Properties with Solar Panels, (continued)

Non-AUS, continued

- If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar lease arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).
  - The lender must obtain and review copies of the lease or power purchase agreement.
  - The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to:
    - provide delivery of a specific amount of energy at a fixed payment during a given period, and
    - have 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 power purchase agreements 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 of the property.
  - The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.

    Note: A "precautionary" UCC filing is one that lessors often file 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), as long as the loan is underwritten in accordance with this topic.

  - The value of the solar panels must not be included in other debt secured by real estate in the TLTV ratio calculation because the documented lease or power purchase agreement status takes priority.
  - The property must maintain access to an alternate source of electric power that meets community standards.
  - The lease or power purchase agreement must indicate that:
    - any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner 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),
    - the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and

Continued on next page

Properties with Solar Panels, (continued)

Non-AUS, continued

- 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 or 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.

- Any exceptions to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with standard title insurance requirements (as outlined in Section 1.16: Title Insurance Standard of the *Correspondent Seller Guide*).

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Freddie Mac purchases mortgages secured by properties with solar panels. When considering properties with solar panels, lenders must take into consideration ownership of the solar panels and any liens upon the property relating to debt or lease payments used to obtain the solar panels. For example, solar panels not owned by the borrower can be financed via several types of agreements such as lease agreements or a power purchase agreement (PPA). Lenders must review any UCC-1 Financing Statement or lease agreement associated with the solar panels to determine if liens are against the real estate or against the solar panels themselves.
- The property must maintain access to electrical utilities consistent with community standards.
- Lenders must adhere to the following requirements when solar panels are present on the mortgaged premises based on whether the solar panels are leased, financed, or owned:

Continued on next page

Properties with Solar Panels, (continued)

Freddie Mac LPA, continued

<table>
<tr><th></th><th>Solar Power Purchase Agreement (PPA)</th><th>Solar Panel Lease</th><th>Solar Panels Financed as Personal Property</th><th>Solar Panel Financed as a Fixture to Real Estate</th><th>Solar Panels Owned Free and Clear</th></tr>
<tr><td>Description</td><td>The borrower purchases power produced by the solar panels, and the borrower is not the owner of the solar panels.</td><td>The borrower does not own the solar panels and the borrower pays monthly lease payments to have access to the solar panels.</td><td colspan="2">The borrower owns the solar panels, purchased the solar panels with a note/security agreement and is entitled to power produced by the panels.</td><td>Borrower owns the solar panels and has no related debt.</td></tr>
<tr><td>Title</td><td colspan="3">UCC-1 Financing Statement or lease agreement associated with the solar panels recorded in the applicable land records and claiming an interest in the solar panels but not the real estate; the lender does not need to obtain a subordination agreement of the UCC-1 Financing Statement.</td><td>UCC-1 Financing Statement recorded against title to the mortgaged premises, creating a lien on the real estate itself (i.e., claiming an interest in both the solar panels and the real estate, not just the solar panels); it must be subordinated or released.</td><td>There must be no UCC-1 Financing Statement or notice recorded against the mortgage premises.

In the event there is a UCC-1 Financing Statement, it must be released.</td></tr>
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Occupancy/Property Types, Continued

Properties with Solar Panels, (continued)

Freddie Mac LPA, continued

	Solar Power Purchase Agreement (PPA)	Solar Panel Lease	Solar Panels Financed as Personal Property	Solar Panel Financed as a Fixture to Real Estate	Solar Panels Owned Free and Clear
Appraisal	The solar panels must not be included in the appraised value of the property. The appraiser must comment on the marketability of the home with solar panels present and identify solar panels and system features.			The solar panels must not be included in the appraised value of the property if the lender may repossess the solar panels for default on the financing terms.	The lender must ensure 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.

Continued on next page

Occupancy/Property Types, Continued

Properties with Solar Panels, (continued)

Freddie Mac LPA, continued

	Solar Power Purchase Agreement (PPA)	Solar Panel Lease	Solar Panels Financed as Personal Property	Solar Panel Financed as a Fixture to Real Estate	Solar Panels Owned Free and Clear

Debt-to-income (DTI ratio	• Lease payments for solar panels may be excluded from the monthly DTI ratio if the lease:
	  ◦ Provides for delivery of a specific amount of energy for an agreed upon payment during a given period, and
	  ◦ Includes a production guarantee under which the borrower is compensated on a prorated basis when the energy produced by the solar panels is less than the level required by the lease agreement
	• Payments for solar panels subject to a PPA or similar type of agreement may be excluded from the monthly DTI ratio if the payment is calculated based only on the generated energy.
			Payment to solar company or lender is included in the DTI ratio	Payment to solar company or lender is included in the DTI ratio	N/A – no payment required

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**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Occupancy/Property Types, Continued

Properties with Solar Panels, (continued)

Freddie Mac LPA, continued

	Solar Power Purchase Agreement (PPA)	Solar Panel Lease	Solar Panels Financed as Personal Property	Solar Panel Financed as a Fixture to Real Estate	Solar Panels Owned Free and Clear
Total loan-to-value (TLTV) ratio	Not included in the TLTV ratio		Included in the TLTV ratio		N/A
Obtain a copy of the lease, PPA or note/security agreement	Damage that occurs as a result of installation, malfunction, or the removal of the solar panels is the responsibility of the owner of the equipment. The owner must be obligated to repair the damage and return the improvements to their original or prior condition. In the event of foreclosure, the lender may: • Terminate the lease agreement or PPA and require the owner of the equipment to remove the panels and supporting equipment • Become the beneficiary of the borrower's lease agreement or PPA without incurring a transfer fee; or • Enter into a new lease agreement or PPA with the owner of the equipment under terms no less favorable than the existing lease agreement or PPA				N/A
Homeowner's Insurance	The owner of the solar panels agrees to not be a loss payee (or named insured) on the homeowner's insurance policy covering the property.				N/A

- Any title insurance policy exceptions due to the existence of the lease agreement, PPA or similar type of agreement must comply with the following guidance:
  - Exceptions for liens and leases, including UCC-1 Financing Statements, for solar panels are acceptable provided the exception is for a lien or lease that lists only the solar panels as the collateral.

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Occupancy/Property Types, Continued

Properties With Two or More Parcels

Non-AUS

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other, unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must have the same basic zoning (for example, residential, agricultural).
- The entire property may contain only one residential dwelling unit. Limited additional non-residential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. 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 that covers each parcel.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- When the mortgaged premises includes two or more parcels of real estate, the following requirements apply:
  - The parcels must be adjoining

    Exception: Parcels that would otherwise be adjoined but are separated by a road (e.g., a waterfront property where the parcel without the residence offers access to the water) are eligible if the parcel without the residence is non-buildable but may include non-residential improvements such as a garage or dock and the lender provides evidence in the mortgage file that the parcel without the residence cannot be improved with a dwelling.

  - The mortgaged premises must contain only one residence. (An ADU is allowed only on the parcel that contains the residence if the "Eligibility of a Property with an ADU" requirements subsequently presented in the "Improvements Section of the Appraisal Report" subtopic are met.)
  - The mortgage must be a valid first lien on each parcel
  - Each parcel must have the same basic zoning (e.g., residential or agricultural)
  - Each parcel must be conveyed in its entirety
  - The site description must accurately describe the land and any improvements included in each of the parcels
  - The residence or improvements may be built across the lot lines
  - Non-residential improvements such as garages or outbuildings are acceptable on any parcel
- In addition, the appraiser must consider how the existence of two or more parcels, adjoining or not, influence the value use and marketability of the property.

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Occupancy/Property Types, Continued

Rural Properties

Reference: See the following subtopics within the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for specific rural properties guidance:

- Review of the Appraisal Report
- Neighborhood Section of the Appraisal Report
- Improvements Section of the Appraisal Report
- Comparable Sales

Group Homes

Non-AUS

- A group home is a residential structure utilized for occupancy by persons with disabilities.
- If a property is used as a group home, and a natural-person individual occupies the property as a primary residence or as a second home, Fannie Mae's terms and conditions for such occupancy status as provided will be applicable.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP

Mortgages secured by a group home are acceptable provided that:

- the borrower on the mortgage is an individual or individuals and is not a corporation or a partnership and no party that is not an individual has an ownership interest in the property; and
- the mortgage meets all other eligibility requirements for the transaction type.

Continued on next page

Occupancy/Property Types, Continued

Ineligible Properties

Non-AUS
Ineligible property types include the following:
- Agricultural properties, such as farms or ranches
- Bed and breakfast properties
- Boarding houses
- Community Land Trusts
- Condominium hotels or condotels
- Co-ops
- Georgia Power Leaseholds
- Indian lands that are leasehold estates
- Investment properties
- Land development properties
- Manufactured housing, including manufactured home accessory dwelling units
- Non-warrantable condominium projects
- Properties that are not secured by real estate such as, houseboats, boat slips, timeshares, and other forms of property that are not real estate
- Properties that are not readily accessible by roads that meet local standards
- Properties that are not suitable for year-round occupancy regardless of location
- Second homes
- Vacant land

Fannie Mae DU
Follow DU requirements, which are as follows:
- Ineligible property types include the following:
  - Agricultural properties, such as farms or ranches
  - Bed and breakfast properties
  - Boarding houses
  - Community Land Trusts
  - Condominium hotels or condotels
  - Co-ops
  - Georgia Power Leaseholds
  - Land development properties
  - Non-warrantable condominium projects
  - Properties that are not secured by real estate such as, houseboats, boat slips, timeshares, and other forms of property that are not real estate
  - Properties that are not readily accessible by roads that meet local standards
  - Properties that are not suitable for year-round occupancy regardless of location
  - Vacant land
- The following additional ineligible property type applies:
  - Indian lands that are leasehold estates, and
  - Manufactured housing, including manufactured home accessory dwelling units.

Continued on next page

Ineligible Properties, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Ineligible property types include the following:
  - Community Land Trusts
  - Co-ops,
  - Georgia Power Leaseholds
  - Houseboat projects
  - Land development properties,
  - Properties that do not have legal access (ingress and egress)
  - Properties that are not suitable for year-round occupancy regardless of location
  - Properties used primarily for agriculture or farming
  - Properties used primarily for commercial enterprises (including, but not limited to, bed and breakfasts, boarding houses, condominium hotels and units located in a PUD operating as a hotel or similar type of transient housing that includes hotel type services and characteristics)
  - Timeshare or segmented ownership projects
  - Vacant or undeveloped land
- The following additional ineligible property type applies:
  - Indian lands that are leasehold estates, and
  - Manufactured housing (including manufactured home accessory units)

Eligible Borrowers

Permanent Resident Aliens

The following table shows information on permanent resident aliens.

Non-AUS Loans	Fannie Mae DU "Approve/Eligible" Loans	Freddie Mac LP "Accept/Eligible" Loans

• A permanent resident alien is an individual who is lawfully accorded the privilege of residing permanently in the United States.
• The following documentation is acceptable:
  • *USCIS Form I-551*, *Alien Registration Receipt* ("green card"), with an unexpired date on the front,
  • *USCIS Form I-551*, *Conditional Alien Registration Receipt*, with an unexpired *USCIS I-751*, or
  • Unexpired passport with an unexpired stamp reading "Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until [date]. Employment authorized."
 	
Note: A "green card" that has no expiration date (issued between March 1977 and January 1987) is acceptable with no additional requirements.
 	
  • If the "green card" will expire within six (6) months after closing, the borrower must provide the following:
    • Copy of filed USCIS I-90 *Application to Replace Permanent Resident Card*, and
    • Receipt Notice (USCIS I-797 Notice of Action) for the I-90.
  • Borrowers with a Conditional Green card (issued for two [2] years cannot apply for renewal earlier than three (3) months prior to expiration date. One of the following forms (USCIS I-751 or I-829) must be filed before loan application can proceed:
    • I-751 *Petition to Remove Conditions of Residence* (green card by marriage)
    • I-829 *Petition by Entrepreneur to Remove Conditions*
	Non-AUS requirements apply.	Non-AUS requirements apply.

Continued on next page

Eligible Borrowers, Continued

Permanent Resident Aliens, (continued)

Non-AUS Loans	Fannie Mae DU "Approve/Eligible" Loans	Freddie Mac LP "Accept/Eligible" Loans

• Refugees and others seeking political asylum who are immigrating to and seeking permanent residency in, the United States are also classified as a permanent resident alien. Typically, these types of borrowers are NOT able to produce the standard permanent resident alien documentation outlined above. Therefore, documentation requirements for refugee (or others seeking political asylum) include the following:
  • the borrower must have an acceptable 2 year credit, 2 year employment and 2 year residency history in the U.S., and
  • written documentation must be provided evidencing the borrower is legally allowed to work in the U.S.
• Each borrower on the loan transaction must have a valid social security number.
  • Truist does not allow the use of an Individual Tax Identification Number (ITIN) in lieu of a valid SSN. An ITIN is a nine digit number, beginning with the number 9, issued by the IRS for tax reporting purposes to non-U.S. citizens who are not eligible to obtain an SSN.
	Non-AUS requirements apply.	Non-AUS requirements apply.

Non-Permanent Resident Aliens

Reference: See General Section 1.24: Non-Permanent Resident Alien Requirements Standards of the *Correspondent Seller Guide* for information on Non-Permanent Resident Aliens.

Note: The term "non-permanent resident alien" is referred to as a "non-U.S. citizen" in DU messages.

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Eligible Borrowers, Continued

Homeownership Education and Housing Counseling

Non-AUS

- **Overview**
  - Fannie Mae believes that credit and underwriting requirements alone are not always enough to assess a borrower's readiness for homeownership. High-quality homeownership education and housing counseling can provide the borrower with additional information and resources to make informed decisions that support long-term homeownership sustainability. Fannie Mae requires programs that are aligned with the National Industry Standards (NIS) for Homeownership Education and Counseling or the U.S. Department of Housing and Urban Development (HUD) Counseling Program, or provided by a HUD-approved counseling agency.

- **Compliance With Law**
  - All education, collection, and counseling efforts must comply with the requirements of applicable federal and state laws, including the Equal Credit Opportunity Act, the Fair Debt Collections Practices Act, and the Fair Credit Reporting Act.

- **Definitions**
  - The following definitions apply to these requirements:
    - **Homeownership Education**: Education with an established curriculum and instructional goals, provided in a group, classroom setting, or via other formats, that covers homeownership topics such as the home-buying process, how to maintain a home, budgeting, and the importance of good credit.
    - **Housing Counseling**: One-on-one assistance that addresses unique financial circumstances and housing issues, and focuses on overcoming specific obstacles to achieve housing goals. Counseling includes topics such as repairing credit, locating cash for a down payment, recognizing predatory lending practices, understanding fair lending and fair housing requirements, avoiding foreclosure, and resolving a financial crisis. All housing counseling involves the creation of a budget and a written action plan and includes a homeownership education component.

- **Transactions that Require Homeownership Education**
  - For the following standard Agency transactions, at least one borrower on the loan must complete homeownership education prior to loan closing:
    - if all borrowers on the loan are relying solely on nontraditional credit to qualify, regardless of the loan product or whether the borrowers are first-time homebuyers; or
    - purchase transactions with LTV, TLTV, or HTLTV ratios greater than 95%, when all borrowers are first-time homebuyers.

  Note: The requirements that apply to purchases also apply to construction-to-permanent transactions that are processed as a purchase.

Continued on next page

Homeownership Education and Housing Counseling, continued

Non-AUS, continued

- **Meeting the Homeownership Education Requirement**
  - To satisfy the homeownership education requirement, Fannie Mae permits any qualified third-party provider, independent of the lender, to administer homeownership education. The provider's content must be aligned with NIS or HUD standards. The education may be delivered in various formats (in-person, Internet, via telephone, or a hybrid format). In lieu of homeownership education, the borrower may receive housing counseling.
  - The lender must confirm the course content is aligned with NIS or HUD standards and must retain a copy of the certificate of course completion in the loan file.

- **Housing Counseling**
  - Housing counseling must be provided by a HUD-approved agency and meet HUD standards for the delivery of this service. The following requirement applies when counseling is obtained to satisfy the homeowner education requirement above:
    - If a borrower opts to work with a housing counselor, completion of housing counseling prior to closing will satisfy Fannie Mae's homeownership education requirement. The lender must retain a copy of the certificate of course completion in the loan file.

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

- **Completion of Form 1103**
  - Lenders are required to present the *Supplemental Consumer Information Form* (Form 1103) to the borrower. The lender or borrower should complete the Homeownership Education and Housing Counseling section of the form for those transactions where homeownership education or housing counseling is required. A copy of this form must be maintained in the loan file.

- **Additional Resources**
  - Fannie Mae provides additional resources to lenders, borrowers, and nonprofit agencies in support of homeownership education and housing counseling on its website.

Continued on next page

Eligible Borrowers, Continued

Homeownership Education and Housing Counseling, continued

Non-AUS, continued

- **Summary of Homeownership Education and Housing Counseling Options**
  - The following table provides additional information to differentiate between homeownership education and housing counseling.

	Homeownership Education	Housing Counseling
Eligible Provider	• Any qualified third-party provider, independent of the lender; which can include a mortgage insurance company (without regard to whether they provide mortgage insurance coverage for the particular transaction) • Education course provided by a Community Seconds or other down payment assistance program provider, where the program requires homeownership education or counseling provided by a HUD-approved agency	HUD-approved Agency
Course Content	Course content must align with NIS or HUD standards	Course content must align with HUD standards
Method of Delivery	Any method offered by an eligible provider	Any method offered per HUD standards

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Homeownership Education and Housing Counseling, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- For Agency Plus and Agency Plus Select transactions, homeownership education and housing counseling is not required.
- Standard Agency transactions, where all borrowers on the loan are relying solely on nontraditional credit to qualify (i.e., no borrowers on the loan have a credit score), are not eligible.

  Reference: For standard Agency transactions, see the "Nontraditional Credit History" subtopic, subsequently presented in this document, for underwriting and eligibility requirements for DU loans when at least one borrower has no credit score and another borrower has a credit score.

- Any data collected that is associated with the *Supplemental Consumer Information Form* (Form 1103) should be provided to DU. Though not required for underwriting, the date of completion and Housing Counseling Agency ID must be provided to DU.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **General Requirements**
  - For standard Agency transactions, at least one borrower must participate in a homeownership education program before the note date, in the following instance:
    - For purchase transactions with an LTV, TLTV, and/or HTLTV ratio greater than 95% when all borrowers are first-time homebuyersr
  - For Agency Plus and Agency Plus Select transactions, homeownership education and housing counseling is not required.

  - **Acceptable Education Providers and Format**
    - Homeownership education must not be provided by an interested party to the transaction, the originating lender or by the lender selling the loan to Freddie Mac.

    - **Homeownership Education Programs**
      - Homeownership education programs may use different formats and require different lengths of time to complete. The following are acceptable:
        - Programs provided by mortgage insurance companies, HUD-approved counseling agencies, Housing Finance Agencies (HFAs) or Community Development Financial Institutions (CDFIs)
        - Programs that meet the standards of the National Industry Standards for Homeownership Education and Counseling (www.homeownershipstandards.org)

    - **Homeownership Education Program Alternative**
      - As an alternative to the programs listed above, Freddie Mac's free homeownership education curriculum, CreditSmart® Homebuyer U, meets the homeownership education requirements.

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Homeownership Education and Housing Counseling, continued

Freddie Mac LPA, continued

- **Documentation**
  - To document completion of a homeownership education program, if required, a copy of Freddie Mac's Exhibit 20, *Homeownership Education Certification* (see below), or another document (such as the CreditSmart® Homebuyer U certificate of completion) containing comparable information must be retained in the mortgage file.

    Exhibit 20: Homeownership Education Certification

HOMEOWNERSHIP EDUCATION CERTIFICATION	
Borrower's Name:	______________________
Property Address:	______________________ ______________________
Mortgage Lender:	______________________
Trainer's Name:	______________________ *(typed)* ______________________ *(signature)*
Date: ______________ *The Trainer certifies that the Borrower named above has completed the following Homeownership Education Program:* *[Insert Name of Program]*	

- **Form 1103, *Supplemental Consumer Information Form***
  - Additionally, as part of the mortgage application process, Form 1103, *Supplemental Consumer Information Form*, must be presented to at least one borrower on the loan application. The "Homeownership Education and Housing Counseling" section of the form must be completed for any transaction where homeownership education is required. A copy of this form must be maintained in the loan file.

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Eligible Borrowers, Continued

Inter Vivos Revocable Trusts/Living Trust

Non-AUS

- **Overview**
  - Fannie Mae only accepts individuals as credit-qualifying borrowers. In addition, Fannie Mae normally deems property in which no borrower has an ownership interest as ineligible collateral. However, to accommodate the use of inter vivos trusts as an estate planning tool, Fannie Mae provides an exception for property held by inter vivos revocable trusts created by credit-qualifying borrowers.

- **Inter Vivos Revocable Trust as Eligible Mortgagor**
  - An inter vivos revocable 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 that individual's lifetime.
  - Fannie Mae will accept an inter vivos revocable trust that has an ownership interest in the security property as an eligible mortgagor (a party to the security instrument) for a mortgage for all transaction types, provided it complies with the requirements in this topic.

    Note: A trust must meet Fannie Mae's revocability and other eligibility requirements at the time the loan is delivered. Trust eligibility is not affected if the trust documents contain a provision that the trust will, in the future, become irrevocable upon the death of one of the settlors. However, such a change in the trust structure after delivery of the mortgage loan may affect the eligibility of the trust as a mortgagor in a subsequent loan transaction.

- **Lender Requirements**
  - A lender delivering a loan that has an inter vivos revocable trust as mortgagor is responsible for:
    - determining that both the trust and the mortgage satisfy Fannie Mae eligibility criteria and documentation requirements;
    - determining under the laws of the states in which it does business that it can originate mortgages to validly created inter vivos revocable trusts that meet the terms and conditions specified by Fannie Mae; and
    - completing a review of the mortgage documentation, applicable state law, and the trust documents to ensure that title insurers provide full title insurance coverage without exceptions for the trust or the trustees for inter vivos revocable trusts in that state.

Continued on next page

Inter Vivos Revocable Trusts/Living Trust, (continued)

Non-AUS, continued

- **Lender Requirements**, continued

  Truist Notes:
  - Although there may be differences from one state to another in laws governing or affecting inter vivos revocable trusts, the correspondent lender is responsible for ensuring that the trust meets the requirements established by Truist and Fannie Mae, and that Truist's rights are fully protected. The lender must insure that holding title does not diminish Truist's rights as a creditor, including the right to have full title vested to us should foreclosure proceedings have to be initiated to cure a default under the terms of the mortgage. Truist recommends the trustee sign Hypothecation Letter (COR 0008), or a substantially similar document, at closing to ensure Truist's rights.
  - The lender is responsible for ensuring that the trust has not been revoked. Truist recommends the trustee sign Non-Revocation Affidavit (COR 0009), or a substantially similar document, at closing.

- **Trust and Trustee Requirements**
  - The inter vivos revocable trust must be established by one or more natural persons, solely or jointly. The primary beneficiary of the trust must be the individual(s) establishing the trust. If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.
  - 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(s) must have the power to mortgage the security property for the purpose of securing a loan to the individual (or individuals) who are the borrower(s) under the mortgage or deed of trust note.

  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.

- **Eligible Property and Occupancy Types**
  - All property and occupancy types are eligible. For properties that are the borrower's primary residence, at least one individual establishing the trust must occupy the security property and sign the loan documents.

Continued on next page

Inter Vivos Revocable Trusts/Living Trust, (continued)

Non-AUS, continued

- **Underwriting Considerations**
  - The loan must be underwritten with at least one individual establishing the trust as borrower. Additional individuals, including other individuals establishing the trust, may also be considered co-borrowers if those individuals' credit will be used to qualify for the loan).

- **Title and Title Insurance Requirements**
  - See the "Inter Vivos Revocable Trusts/Living Trust" subtopic subsequently presented in the "Closing and Loan Settlement Documentation" topic for additional guidance.

- **Special Feature Code Requirement:**
  - Use SFC 168 to identify a mortgage that has an inter vivos revocable trust as a mortgagor.

Reference: See the "Inter Vivos Revocable Trusts/Living Trust" subtopic subsequently presented in the "Closing and Loan Settlement Documentation" topic for additional guidance.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- A living trust is an inter vivos revocable trust that meets all of the following requirements:
  - The trust is created by one or more settlors during his or her lifetime;
  - The trust becomes effective during the lifetime of the settlor(s); and
  - Each settlor retains the right during his or her lifetime to revoke or amend the trust

  Note: Living trusts also may be referred to as "inter vivos trusts" or "inter vivos revocable trusts".

- A settlor is the individual who creates a living trust. A living trust may have one or more settlors.
- An underwritten settlor is a settlor in the settlor's individual capacity who is underwritten and qualified according to the loan program requirements as if the settlor were the borrower.
- The lender warrants and represents that the living trust meets Freddie Mac's revocability and all other eligibility requirements as of the delivery date and the funding date.

Continued on next page

Inter Vivos Revocable Trusts/Living Trust, (continued)

Freddie Mac LPA, continued

- **Additional Truist Guidance:**
  - Although there may be differences from one state to another in laws governing or affecting inter vivos revocable trusts, the correspondent lender is responsible for ensuring that the trust meets the requirements established by Truist and Freddie Mac, and that Truist's rights are fully protected. The lender must insure that holding title does not diminish Truist's rights as a creditor, including the right to have full title vested to us should foreclosure proceedings have to be initiated to cure a default under the terms of the mortgage. Truist recommends the trustee sign Hypothecation Letter (COR 0008), or a substantially similar document, at closing.
  - The lender is responsible for ensuring that the trust has not been revoked. Truist recommends the trustee sign Non-Revocation Affidavit (COR 0009), or a substantially similar document, at closing.
- A living trust is an eligible borrower for a home mortgage if it meets all of the following conditions:
  - **Special underwriting requirement**
    - The mortgage applicants must include an underwritten settlor (or at least one underwritten settlor if there is more than one settlor)
  - **Trust requirements**
    - The settlor (or each settlor, if there is more than one) is the primary beneficiary of the trust
    - The trustee(s) must be the settlor (or at least one settlor if there is more than one), or a settlor and one or more co-trustees. A financial institution customarily engaged in trust functions in the applicable jurisdiction may serve as a co-trustee.
    - The trustee(s) must be specifically authorized to:
      - Borrow money for the benefit of an underwritten settlor
      - Purchase, construct or encumber realty to secure a loan to an underwritten settlor
  - **Property type, occupancy and ownership requirements**
    - The mortgage is secured by:
      - A 1- to 4-unit primary residence occupied by an underwritten settlor, or
      - A second home occupied for some portion of the year by an underwritten settlor, or
      - A 1- to 4-unit investment property
    - If a living trust is a borrower, then:
      - The occupancy of the property/mortgaged premises by an underwritten settlor of that living trust will be considered to be occupancy by the borrower of the property/mortgaged premises
      - The underwritten settlor is an individual who is deemed to be the owner of the property/mortgaged premises

Continued on next page

Eligible Borrowers, Continued

Inter Vivos Revocable Trusts/Living Trust, (continued)

Freddie Mac LPA, continued

- **Title and Title Insurance Requirements**
  - See the “Inter Vivos Revocable Trusts/Living Trust” subtopic subsequently presented in the “Closing and Loan Settlement Documentation” topic for additional guidance.

- **Lender Review**
  - The lender must review:
    - Either (a) the trust agreement for the living trust or, (b) an abstract, certification or other summary of the trust agreement if and to the extent the laws of the applicable jurisdiction require or permit a third-party dealing with a trustee to rely on such abstract, certification or other summary. Based on such review, the lender must determine that:
    - The settlor (or each settlor, if there is more than one) has retained the power to revoke or amend the trust
    - There is specific authorization for the trustee(s) to borrow money and to purchase, construct, or encumber realty as more fully described above
    - There is no unusual risk or impairment of lenders' rights (such as distributions required to be made in specified amounts from other than net income)
    - The beneficiary need not grant written consent for the trust to borrow money or, if such consent is required, it has been granted in writing for purposes of the mortgage
    - If the trust agreement requires more than one trustee to borrow money or to purchase, construct or encumber realty, that the requisite number of trustees have signed the loan documents
  - The deed conveying the mortgaged premises to the trustee or trust to verify that title is vested in the trustee(s) on behalf of the living trust (or is vested in such other manner as is customary in the jurisdiction for living trusts)

- **The Mortgage file**
  - When the borrower is a living trust, the mortgage file also must contain either:
    - A complete copy of the trust agreement
    - An abstract, certification or other summary of the trust agreement if and to the extent the laws of the applicable jurisdiction require or permit a third-party dealing with a trustee to rely on such abstract, certification or other summary

- **Special Feature Code Requirement:** Use SFC 168 to identify a mortgage that has an inter vivos revocable trust.

Reference: See the “Inter Vivos Revocable Trusts/Living Trust (” subtopic subsequently presented in the “Closing and Loan Settlement Documentation” topic for additional guidance.

Continued on next page

Eligible Borrowers, Continued

Non-Occupant Borrowers

Non-AUS Loans

- Non-occupant borrowers are credit applicants on a primary residence transaction who:
  - Do not occupy the subject property;
  - May or may not have an ownership interest in the subject property as indicated on the title;
  - Sign the mortgage or deed of trust note;
  - Have joint liability for the note with the borrower(s); and
  - Do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

  Note: Non-Occupant borrowers are permitted on purchase, limited cash-out, and cash-out refinance transactions.

- If the income of a co-borrower is used for qualifying purposes and that co-borrower will not occupy the subject property, the maximum LTV, TLTV, and HTLTV ratio may not exceed 90% (unless a Community Seconds is part of the transaction, in which case the TLTV ratio may not exceed 105% where permitted in the "Maximum LTV/TLTV/HTLTV Matrices").

Fannie Mae DU

- Follow DU requirements, which are the same as non-AUS requirements, except as outlined below:
  - DU analyzes the risk factors in the loan casefile for all borrowers on the mortgage loan. Regardless of whether an individual borrower will be occupying the property as his or her primary residence, DU will consider the income, assets, liabilities, and credit of that borrower.
  - If the income of a co-borrower is used for qualifying purposes and that co-borrower will not occupy the subject property, the maximum LTV, TLTV, and HTLTV ratio may not exceed 95% (unless a Community Seconds is part of the transaction, in which case the TLTV ratio may not exceed 105% where permitted in the "Maximum LTV/TLTV/HTLTV Matrices").

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- When a mortgage includes a non-occupying borrower, the following requirements apply:
  - The LTV ratio must not exceed 95%
  - The mortgage must be a purchase or "no cash-out" refinance transaction.
  - The non-occupying borrower must not be an interested party to the transaction (for example, the builder, property seller, real estate agent, or broker)

Reference: See the "Non-Occupant Borrower Income," "Qualifying Ratios," and "Non-Occupant Borrower Asset Requirements" subtopics subsequently presented in this document for additional requirements related to non-occupying borrowers.

Continued on next page

Land Trusts

Non-AUS
Not eligible

Fannie Mae DU
Not eligible

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- A Land Trust is a trust arrangement that meets all of the following requirements:
  - The legal and equitable title to the trust property is held by a trustee
  - The interest of any beneficiary of the trust is personal property, and
  - The beneficiary(ies) of the trust possesses (possess) the sole:
    - Power of direction and control over the trustee in dealing with title to the trust property
    - Control of the management, operation, renting, and selling of the trust property, and
    - Right to the earnings and proceeds of the sale or rental of the trust property
- A Land Trust Mortgage is a mortgage secured by property for which the title is held by a land trust.

- **General Eligibility Requirements**
  - **Location of Mortgaged Premises**
    - The mortgaged premises must be located in a state that by statute recognizes and permits the use of land trusts.

    Truist Note: Truist research reflects that the following states, by statute, recognize and permit the use of land trusts:
    - Colorado
    - Florida
    - Illinois
    - Indiana
    - Virginia

    Land trust mortgage originations in any other state will not be eligible for purchase by Truist.

  - **Beneficiary of a Land Trust**
    - At least one beneficiary of the land trust must be a borrower.
    - Each beneficiary who is a borrower has been fully underwritten and is a qualified borrower in the beneficiary's individual capacity.

  - **Trust Requirements**
    - All beneficiaries of the land trust must be individuals.
    - The trustee of the land trust must be a corporation or financial institution customarily engaged in the business of acting as trustee for land trusts in the applicable jurisdiction.
    - The mortgaged premises must be the only asset of the land trust.

Continued on next page

Eligible Borrowers, Continued

Land Trusts, (continued)

Freddie Mac LPA, *continued*

- **Property and Occupancy Types; Ownership Requirements**
  - Each land trust mortgage must be secured by:
    - A 1- to 4-unit primary residence occupied by a beneficiary of the land trust who is a borrower, or
    - A second home occupied for some portion of the year by a beneficiary of the land trust who is a borrower, or
    - A 1- to 4-unit investment property, provided at least one beneficiary of the land trust is a borrower
  - For land trust mortgages, a beneficiary of the land trust mortgage who is a borrower is deemed to be an owner of the property/mortgaged premises.

- **Signatures and Documentation**
  - See the “Land Trusts” subtopic subsequently presented in the “Closing and Loan Settlement Documentation” topic for guidance.

- **Title and Title Insurance**
  - See the “Land Trusts” subtopic subsequently presented in the “Closing and Loan Settlement Documentation” topic for guidance.

- **The Mortgage File**
  - For land trust mortgages the mortgage file must contain:
    - **Copy of Land Trust Agreement:** A copy of the original land trust agreement or an abstract if required by the jurisdiction
    - **Documentation of Power of Direction:** Documentation evidencing that the beneficiary(ies) of the land trust holding the power of direction as provided in the trust documents have authorized and directed the trustee of the trust to execute the mortgage documents. If the trust documents require more than one beneficiary holding the power of direction to so authorize and direct the trustee, then the documentation must evidence that the requisite number of beneficiaries have so directed the trustee; and
    - **Collateral Assignment:** A fully executed or certified copy of Collateral Assignment, as described below for the applicable jurisdiction. A "Fully Executed Collateral Assignment" is the original Collateral Assignment executed by each beneficiary of the land trust who is a borrower in that beneficiary's individual capacity, accepted by the lender named in the security instrument and the note in whose favor the beneficiary of the land trust grants a security interest under the Collateral Assignment (the "Assignee"), and received and agreed to or endorsed and/or acknowledged by the trustee. A "Certified Copy of Collateral Assignment" is a copy, certified by the trustee as a true and complete copy, of the Fully Executed Collateral Assignment.

      Reference: See the “Land Trusts” subtopic subsequently presented in the “Closing and Loan Settlement Documentation” topic for additional Collateral Assignment guidance.

Continued on next page

Land Trusts, (continued)

Freddie Mac LPA, *continued*

- **Mortgaged Premises Located in Illinois:** For mortgaged premises located in Illinois:
    - **A Certified Copy of Collateral Assignment:** Lender must ensure that the Fully Executed Collateral Assignment can be obtained from the trustee upon request by a lender/servicer and/or by Freddie Mac.
    - **Facsimile Assignment of Beneficial Interest**
        - If:
            - An Illinois jurisdiction requires recording of a facsimile assignment of beneficial interest (or similar document) ("facsimile"), and
            - Until the trustee is provided with the recorded facsimile, the trustee will not receive and agree to and/or endorse and/or acknowledge the Collateral Assignment executed by each beneficiary of the land trust who is a borrower in that beneficiary's individual capacity and accepted by the assignee,
        - Then:
            - The lender may retain in the mortgage file copies of the executed and accepted Collateral Assignment and the facsimile sent for recording, provided that the lender also retains in the mortgage file a letter of intent confirming that the lender will:
                - Obtain the trustee receipt and agreement/endorsement/acknowledgement upon receipt of the recorded facsimile, and
                - Place the certified copy of Collateral Assignment in the mortgage file

- **Mortgaged Premises located in a State other than Illinois**: For mortgaged premises located in any other state that by statute recognizes and permits the use of land trusts: The fully executed Collateral Assignment.

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Eligible Borrowers, Continued

Co-Signers and Guarantors

Non-AUS

- Co-signers and guarantors are credit applicants who:
  - do not have ownership interest in the subject property as indicated on the title;
  - sign the mortgage or deed of trust note;
  - have joint liability for the note with the borrower; and
  - do not have an interest in the property sales transaction, such as the property seller, the builder, or the real estate broker.

  Note: Guarantors and co-signers are permitted on purchase, limited cash-out, and cash-out refinance transactions.

- If the income of a co-signer or guarantor is used for qualifying purposes and that co-signer or guarantor will not occupy the subject property, the maximum LTV, TLTV, and HTLTV ratio may not exceed 90% (unless a Community Seconds is part of the transaction, in which case the TLTV ratio may not exceed 105% where permitted in the "Maximum LTV/TLTV/HTLTV Matrices").

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- DU analyzes the risk factors in the loan casefile for all borrowers on the mortgage loan. Regardless of whether an individual borrower will be occupying the property as his or her primary residence, DU will consider the income, assets, liabilities, and credit of that borrower.
- If the income of a co-signer or guarantor is used for qualifying purposes and that co-signer or guarantor will not occupy the subject property, the maximum LTV, TLTV, and HTLTV ratio may not exceed 95% (unless a Community Seconds is part of the transaction, in which case the TLTV ratio may not exceed 105% where permitted in the "Maximum LTV/TLTV/HTLTV Matrices").

Freddie Mac LPA

Follow LPA requirements which are as follows:

- A mortgage with a personal endorser, guarantor and/or surety may be eligible for purchase provided the following requirements are met:
  - The endorsement, guaranty or surety agreement must not be qualified or limited in any manner
  - The endorser, guarantor or surety must not be an interested party to the transaction (for example, the builder, property seller, real estate agent, or broker)
- Endorsers, guarantors and sureties that do not occupy the mortgaged premises must comply with all requirements for non-occupying borrowers. See the "Non-Occupant Borrowers" subtopic in the applicable first mortgage product description for non-occupying borrower requirements.

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Eligible Borrowers, Continued

Number of Borrowers on Loan Application

The following table shows information on the number of borrowers on a loan application.

Non-AUS Loans	Fannie Mae DU "Approve/Eligible" Loans	Freddie Mac LP "Accept/Eligible" Loans
No limit.	The number of borrowers is limited to four (4).	The number of borrowers is limited to five (5).

Tax Identification Numbers

Non-AUS

- Fannie Mae requires that each borrower have a valid Social Security number (SSN). Truist does not allow the use of an Individual Taxpayer Identification Number (ITIN) in lieu of a valid SSN.
- Loan Delivery may identify data integrity issues pertaining to the borrower's Social Security number. Lenders must take steps to resolve any issues, including invalid format, numbers not issued, borrower age/issue date discrepancies, or Social Security numbers associated with deceased individuals. If a lender cannot resolve any Social Security number inconsistencies, the lender must validate the Social Security number directly with the Social Security Administration (SSA). The following requirements apply:
    - The lender may use one of the two methods listed below to validate a borrower's Social Security number:
        - Form SSA-89 (Authorization for the Social Security Administration to Release Social Security Number Verification), or
        - Electronic Consent Based Social Security Number Verification (eCBSV) Service.
    - If using a third party vendor, the lender must ensure that the vendor goes directly to the SSA to validate the Social Security number using one of the two methods listed above.
    - The lender must retain documentation in the loan file that evidences the validation of the Social Security number.
    - **Special Feature Code Requirement**: The lender must deliver the loan with SFC 162 if the Social Security number was validated through the SSA but . there is a discrepancy identified with the Social Security number in the credit report or Loan Delivery edits.
    - If the Social Security number cannot be validated with the SSA, the loan is not eligible for delivery to Truist.

Reference: See General Section 1.36: Social Security Validation Standard of the *Correspondent Seller Guide* for additional information.

Continued on next page

Eligible Borrowers, Continued

Tax Identification Numbers, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- DU and Loan Delivery may identify data integrity issues pertaining to the borrower's Social Security number. Lenders must take steps to resolve any issues, including invalid format, numbers not issued, borrower age/issue date discrepancies, or Social Security numbers associated with deceased individuals. If a lender cannot resolve any Social Security number inconsistencies, the lender must validate the Social Security number directly with the Social Security Administration (SSA). The following requirements apply:
  - The lender may use one of the two methods listed below to validate a borrower's Social Security number:
    - Form SSA–89 (Authorization for the Social Security Administration to Release Social Security Number Verification), or
    - Electronic Consent Based Social Security Number Verification (eCBSV) Service.
  - If using a third-party vendor, the lender must ensure that the vendor goes directly to the SSA to validate the Social Security number using one of the two methods listed above.
  - The lender must retain documentation in the loan file that evidences the validation of the Social Security number.
  - **Special Feature Code Requirement**: The lender must deliver the loan with SFC 162 if the Social Security number was validated through the SSA but there is a discrepancy identified with the Social Security number in the credit report, DU, or Loan Delivery edits.
  - If the Social Security number cannot be validated with the SSA, the loan is not eligible for delivery to Truist.

Freddie Mac LPA
Reference: See General Section 1.36: Social Security Validation Standard of the *Correspondent Seller Guide* for additional information.

- **Special Feature Code Requirement**: Upon positive validation of the Social Security number with the SSA, the lender must deliver the loan with SFC 162. SFC 162 should only be used if there is a discrepancy identified with the Social Security number.

Continued on next page

**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Eligible Borrowers, continued

Ineligible Borrowers	**Non-AUS**
	Ineligible borrowers include:
	• Corporations and partnerships
	• LLCs
	• Foreign Nationals
	• Borrowers with diplomatic immunity
	• Land Trusts (including Illinois Land Trusts)
	• Trailing Co-borrowers
	
	Fannie Mae DU
	Follow DU requirements, which are the same as non-AUS requirements.
	
	Freddie Mac LPA
	Follow LPA requirements, which are as follows:
	• Ineligible borrowers include:
	  • Corporations and partnerships
	  • LLCs
	  • Foreign Nationals
	  • Borrowers with diplomatic immunity
	  • Trailing Co-borrowers

Income

General Income Information

Non-AUS

- **Stable and Predictable Income**
  - Fannie Mae's underwriting requirements emphasize the continuity of a borrower's stable income. The stable and reliable flow of income is a key consideration in mortgage loan underwriting. Individuals who change jobs frequently, but who are nevertheless able to earn consistent and predictable income, are also considered to have a reliable flow of income for qualifying purposes.
  - To demonstrate the likelihood that a consistent level of income will continue to be received for borrowers with less predictable sources of income, the lender must obtain information about prior earnings. 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.

- **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. Examples of income of this type include income from hourly workers with fluctuating hours, or income that includes commissions, bonuses, or overtime.
  - **History of Receipt**: Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history.
  - **Frequency of Payment:** The lender must determine the frequency of the payment (weekly, biweekly, monthly, quarterly, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis (see below). Examples:
    - 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 produces a much higher, inaccurate monthly average.
    - 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, why. 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 (transportation employees who operate snow plows in winter, package delivery service workers who work longer hours through the holidays). The lender must investigate the difference between current period overtime and year-to-date earnings and document the analysis before using the income amount in the trending analysis.

Continued on next page

General Income Information, continued

Non-AUS, continued

- **Variable Income**, continued

  - **Income Trending:** After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W-2's or signed federal income tax returns (or a standard Verification of Employment completed by the employer or third-party employment verification vendor).
    - If the trend in the amount of income is stable or increasing, the income amount should be averaged.
    - If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of 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 variable income should be used, but in no instance may it be averaged over the period when the declination occurred

- **Continuity of Income**
  - A key driver of successful homeownership is confidence that all income used in qualifying the borrower will continue to be received by the borrower for the foreseeable future. Unless the lender has 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 (per the specific income type), the lender may conclude that the income is stable, predictable, and likely to continue. The lender is not expected to request additional documentation 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, the lender must document the likelihood of continued receipt of the income for at least three years.
  - If the lender is notified that the borrower is transitioning to a lower pay structure, for example due to pending retirement or a new job, the lender must use the lower amount to qualify the borrower.
  - The following table contains examples of income types with and without defined expiration dates. This information is provided to assist lenders in determining whether additional income documentation may be necessary to support a three-year continuance. Lenders are responsible for making the final determination of whether the borrower's specific income source has a defined expiration date. See the applicable income subtopic subsequently presented in this topic for additional information related to the use and documentation of specific income sources.

Continued on next page

Income, Continued

General Income Information, continued

Non-AUS, continued

- **Continuity of Income,** continued

Examples of Income Types without a Defined Expiration Date	Examples of Income Types with a Defined Expiration Date
Lender does not need to document 3–year continuance • automobile allowance • base salary • bonus, overtime, commission, or tip income • capital gains income • corporate retirement or pension • disability income — long-term • foster-care income • interest and dividend income (unless other evidence that asset will be depleted) • military income • mortgage credit certificates • part-time job, second job, or seasonal income • performance-based restricted stock units or restricted stock income • rental income • self-employment income • Social Security, VA, or other government retirement or annuity • time-based restricted stock units or restricted stock income when awarded in multiple consecutive years	Lender must document 3–year continuance • alimony, child support, or separate maintenance • distributions from a retirement account – for example, 401(k), IRA, SEP, Keogh • mortgage differential payments • notes receivable • public assistance (not including Section 8 Housing Choice Voucher Homeownership payments) • royalty payment income • Social Security (not including retirement or long-term disability) • time-based restricted stock units or restricted stock income when receipt was a one-time event • VA benefits (not including retirement or long-term disability) **Note:** Because these income sources have a defined expiration date or allow the depletion of an asset, care must be taken when this is the sole source or the majority of qualifying income. Lenders must consider the borrower's continued capacity to repay the loan when the income source expires or the distributions will deplete the asset prior to maturation of the loan.

  - Note that continuity of income for trust income must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined.
  - Income sources that are not listed above will require lender judgment to determine if documentation of continuance must be obtained.

- **Determining the Need for Federal Income Tax Returns**
  - See the "General Income Documentation Requirements" subtopic subsequently presented in this topic for guidance.

- **Analyzing Individual and Business Tax Returns**
  - Click here for analyzing individual tax returns guidance.
  - Click here for analyzing business tax returns guidance.

Continued on next page

General Income Information, continued

Non-AUS, continued

- **Verification of Income for Non-U.S. Citizen Borrowers**
  - The following table describes income verification requirements for borrowers who are non-U.S. citizens:

Employment Type	Employment and Income Verification Requirements
Salaried or commissioned borrower employed by a U.S. company or individual	Same as for a U.S. citizen. See the "Salaried or Hourly Wage Income" and "Commission Income" subtopics subsequently presented in this topic for employment and income verification requirements.
Self-employed	Same as for a U.S. citizen. See the "Self-Employment Income" subtopic subsequently presented in this topic for employment and income verification requirements.
Employed by a foreign corporation or a foreign government and paid in foreign currency ("foreign income")	See the "Foreign Income" subtopic subsequently presented in this topic for employment and income verification requirements.

- **Using Nontaxable Income to Adjust the Borrower's Gross Income**
  - See the "Tax Exempt Income" subtopic subsequently presented in this topic for guidance.

- **Income Paid in Virtual Currency**
  - Any income paid to or earned by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan.

    Reference: See the following sections/subtopics subsequently presented in this "Income" topic for additional guidance related to virtual currency:
    - "Other Sources of Income - Documentation Requirements for Current Receipt of Income" subsequently presented in the "General Income Documentation Requirements" subtopic
    - "Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)"
    - "Virtual Currency (Fannie Mae Terminology) / Cryptocurrency (Freddie Mac Terminology)"

- **Base Income Calculation Requirements**
  - After the applicable income documentation has been obtained, the lender must calculate the borrower's eligible qualifying base income. The following table provides guidance for standard employment documentation:

How Often Paid	How to Determine Monthly Income
Annually	Annual gross pay / 12 months
Monthly	Use monthly gross payment amount
Twice Monthly	Twice monthly gross pay x 2 pay periods
Biweekly	(Biweekly gross pay x 26 pay periods) / 12 months

Continued on next page

General Income Information, continued

Non-AUS, continued

- **Base Income Calculation Requirements**, continued

How Often Paid	How to Determine Monthly Income (continued)
Weekly	(Weekly gross pay x 52 pay periods) / 12 months
Hourly	(Hourly gross pay x average # of hours worked per week x 52 weeks) / 12 months
All of the above calculations must be compared with the documented year-to-date base earnings (and past year earnings, if applicable) to determine if the income amount appears to be consistent. See the "Variable Income" section previously presented in this subtopic, for additional information about variable income (bonus and overtime).	

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- If the lender is unable to determine the stability of the borrower's income on the basis of the available documentation, the income must be removed and the loan resubmitted to DU.
- For loans with variable income validated by the DU validation service, the required history of receipt may differ from the requirements described in the non-AUS section above. DU will determine the history required to validate an income type.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **General Requirements for all Stable Monthly Income Qualification Sources**
  - **Overview of Stable Monthly Income**
    - The "Income" topic outlined in this document provides requirements and guidance for the determination of stable monthly income. The lender must determine when additional analysis and documentation is needed to support the determination of stable and consistent monthly income.
  - **General Requirements for all Stable Monthly Income**
    - **Stable Monthly Income:**
      - Stable monthly income is the borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the borrower, the lender must determine that both the source and the amount of the income are stable, with a consistent level of earnings.
      - The income used to qualify the borrower (whether or not specifically addressed as an income source or type in this topic) and the documentation in the mortgage file must be evaluated for stable monthly income qualification requirements and must meet the requirements outlined in this document.
      - Income that does not meet these requirements or is not calculated correctly may invalidate the Loan Product Advisor Risk Class on the Feedback Certificate.
    - **Cryptocurrency**:
      - Income that is paid to the borrower in cryptocurrency may not be used for qualification.
    - **Written Analysis:**
      - The lender must include a written analysis of the income and amount in the mortgage file. A written analysis includes topics such as:
        - The calculation used to determine the amount of the qualifying income, unless the qualifying income can be clearly derived from documentation in the mortgage file (e.g., Social Security pre-determined payment amounts, annual salary); and

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **General Requirements for all Stable Monthly Income Qualification Sources,** continued
  - The rationale for determining that the source and the amount of the qualifying income are stable, including any rationale applicable to the stability, history, calculation, and continuance of the income.
  - **Mortgage File Documentation:**
    - All documentation used to establish stable monthly income must be retained in the mortgage file.
- **Income Stability and History Requirements**
  - The lender must consider the length of history of the income and whether the earnings have been consistent. When evaluating stability of income based upon historical receipt, additional layering of risk may be present depending upon the degree of income fluctuation. As a result, the lender must determine when additional documentation (e.g., an additional year of earnings history) is necessary to support income stability.
  - In most instances, a two-year history of receiving a consistent level of income is required for the income to be considered stable and used for qualifying. While the source of income may vary, the borrower must have a consistent level of income despite changes in the sources of income.
- **Income Continuance Requirements**
  - For all income used to qualify the borrower, the lender must determine whether the income is reasonably expected to continue. This determination must focus on the borrower's past employment/self-employment history, history of receipt of other income and the probability of continued consistent receipt of the income used to qualify the borrower. At a minimum, the lender must base the determination on the requirements outlined in this document and any other documentation contained in the mortgage file. Additional documentation may be required, as described in the "Introduction to Documentation Requirements" section subsequently presented in the "General Income Documentation Requirements" subtopic.
  - The lender must not consider all income for qualifying the borrower if the lender has knowledge, information or documentation that contradicts a reasonable expectation of continuance or probability of consistent receipt over at least the next three years.
  - **Income Continuance Categories and Tables**
    - Continuance of income is categorized as follows:
      - Income and earnings types typically without documentable continuance (likely to continue) **(Table A)**
      - Income types with documentable continuance **(Table B)**
      - Income types that may or may not have documentable continuance, depending upon the source (e.g., government program, private insurer) and terms of the specific income type (e.g., retirement, long-term disability) **(Table C)**

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **General Requirements for all Stable Monthly Income Qualification Sources,** continued
  - **Income Continuance Requirements**, continued
    - **Income and Earnings Types Typically without Documentable Continuance (Likely to Continue)**

Table A: Income and earnings types typically without documentable continuance	
Earnings types and income types	**Continuance requirements**
Employed Income • **Base employment earnings** • **Military earnings (base, entitlements, Reserve, National Guard)** • **Bonus, commission, overtime, and tip earnings** • **Restricted stock (RS) and restricted stock units (RSU) subject to performance-based vesting provisions** • **Recurring RS and RSU awards subject to time-based vesting provisions** • **Automobile allowance** • **Unemployment (associated with seasonal employment)**	**Income must be likely to continue for at least the next three years**. The lender is not required to obtain documentation to verify income continuance, absent any knowledge, information, or documentation that the income is no longer being received or is likely to cease. When the lender has knowledge or information that the income may not be reasonably expected to continue, the lender must conduct additional evaluation and/or obtain documentation in order to determine if the income can be used. **Example (lender knowledge):** If a borrower has been receiving overtime or bonuses, but the lender has information or documentation evidencing that the income is already discontinued or will be discontinued due to the completion of a project or termination of a bonus program, the "likely to continue" requirement would not be met, and the income cannot be used for qualification purposes.
Rental Income	
Self-employment income	
Other Income • **Foster-care income** • **Housing or parsonage allowance** • **Mortgage Credit Certificate** • **Royalty payments (two-year history)** • **Tax-exempt income**	

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **General Requirements for all Stable Monthly Income Qualification Sources,** continued
  - **Income Continuance Requirements**, continued
    - **Income Types with Documentable Continuance**
      - For income types with documentable continuance, the documentation requirements outlined in the specific income subtopic, subsequently presented in this topic, provide the minimum documentation required in order for the lender to verify income continuance for at least three years.

Table B: Income types with documentable continuance

Income types	Continuance requirement highlights[1]
Mortgage differential **Notes receivable** **Royalty payments (one-year history)** **Nonrecurring RS and RSU awards subject to time-based vesting provisions** **Trust income (fixed payment)**	Document duration of payments Reference: See the applicable specific income subtopic, the "Additional Employed Income" and the "General Requirements for all Other Income (Non-Employment/Non-Self-Employment" sections subsequently presented in this topic for additional guidance.
Alimony, child support and/or separate maintenance	Document duration of obligation Reference: See the applicable specific income subtopic and the "General Requirements for all Other Income (Non-Employment/Non-Self-Employment" section subsequently presented in this topic for additional guidance.
Homeownership Voucher Program (HOV)	Document duration of HOV term limit for assistance Reference: See the applicable specific income subtopic and the "General Requirements for all Other Income (Non-Employment/Non-Self-Employment" section subsequently presented in this topic for additional guidance.
Capital gains **Dividend and interest** **Retirement account distributions as income** **Trust income (fluctuating payments)**	Document sufficient assets Reference: See the applicable specific income subtopic and the "General Requirements for all Other Income (Non-Employment/Non-Self-Employment" section subsequently presented in this topic for additional guidance.

[1] Highlights of the requirements from the individual income types are provided for illustrative purposes only. Refer to the sections referenced above for complete requirements.

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **General Requirements for all Stable Monthly Income Qualification Sources,** continued
  - **Income Continuance Requirements**, continued
    - **Income Types that May or May Not Have Documentable Continuance**

<table>
<tr><th colspan="2">Table C:
Income Types that may or may not have documentable continuance</th></tr>
<tr><td colspan="2">Certain income types are associated with multiple income sources, each of which may have specific requirements with respect to continuance, whether defined or undefined. For this reason, this grouping of income types may or may not have documentable continuance.

Example:
• If the source of retirement income is social security retirement benefits, no additional documentation of continuance is required.
• If the source is a retirement annuity from an insurance company, there will generally be a defined term in which case continuance must be documented.</td></tr>
<tr><th>Income types</th><th>Continuance requirement highlights[1]</th></tr>
<tr><td>Retirement income

(e.g., Social Security, defined benefit pension, annuity, other similar benefits)</td><td rowspan="5">Lenders must be knowledgeable about the source of the specific income type in order to determine whether or not documentable continuance is applicable. This includes, but is not limited to, knowledge of factors with respect to whether the payments are received pursuant to a written agreement, government program, law and/or regulation, as well as the applicable eligibility criteria governing the continued receipt of the income.

Reference: See “General Requirements for all Other Income (Non-Employment/Non-Self-Employment” for general requirements for these income types and the specific income subtopic subsequently presented in this topic for topic-specific requirements for these income types.

For long-term disability and SSI income types:
Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.</td></tr>
<tr><td>Survivor and dependent benefits

(e.g., Social Security Survivor Benefits, Survivors' VA benefits, other similar benefits)</td></tr>
<tr><td>Long-term disability income

(e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)</td></tr>
<tr><td>Social Security Supplemental Security Income (SSI)</td></tr>
<tr><td>Public assistance income

(e.g., Temporary Assistance for Needy Families)</td></tr>
<tr><td colspan="2">[1] Highlights of the requirements from the individual income types are provided for illustrative purposes only. Refer to the sections referenced above for complete requirements.</td></tr>
</table>

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General Income Information, continued

Freddie Mac LPA, continued

- **General Requirements for all Stable Monthly Income Qualification Sources,** continued
  - **Alimony Payments**
    - The amount of the monthly alimony payment must be deducted from the stable monthly income if both of the following apply:
      - The borrower is obligated to pay alimony
      - There are more than 10 months of payments remaining

      Reference: See the "Alimony, Child Support, and/or Maintenance Payments" subtopic subsequently presented in the "Liabilities" topic for additional information.

- **When Tax Returns are Required**
  - See the "General Income Documentation Requirements" subtopic subsequently presented in this topic for guidance.

- **Employed Income**
  - **General Requirements for all Employed Income**
    - The lender must determine that the borrower's income is stable and likely to continue at the level used to qualify for at least the next three years. The lender must analyze all income documentation while taking into consideration the characteristics of the employed income (e.g., employment source, income type, and stability of the employment history, including any gaps in employment).
    - A borrower who has had different types of employment in the past may be considered to have stable income if the income amount has remained at a consistent level. When evaluating a borrower who has changed jobs frequently, the lender must focus on whether the changes have affected the borrower's ability to pay the borrower's obligations.

  - **Primary and Secondary Employment and Income**
    - Primary employment is considered as the borrower's primary source of employed income whether derived from employment such as full-time employment, part-time employment, full-time and/or part-time seasonal employment.
    - Secondary employment is considered as any type of employment (e.g., second part-time job or multiple jobs) that is in addition to the borrower's primary employment.
    - **Employment History Requirements – Primary and Secondary Employment**
      - **Primary Employment**
        - In most instances, the borrower should have at least a two-year history of primary employment documented on Form 65, Uniform Residential Loan Application and verified in accordance with the requirements outlined in this document.
        - For borrowers who are active-duty members of the United States Armed Forces, a history of military employment is not required for the employment to be considered stable.

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Primary and Secondary Employment and Income**, continued
    - **Employment History Requirements – Primary and Secondary Employment**, continued
      - **Primary Employment**, continued
        - The tenure of the borrower's employment with the same employer or in the same or similar industry lends support to the analysis of employment stability.
        - When a borrower has less than a two-year history of primary employment, the lender must provide its justification for determining that the employment is stable. When making this determination, the lender must take into consideration factors such as income and/or employment characteristics and the overall layering of risk factors, including the borrower's demonstrated ability to repay obligations.
        - Examples that may support less than a two-year history of primary employment include, but are not limited to, the following:
          - For a borrower returning to the workforce after a period of extended absence, for any reason, documentation is provided to support a stable employment history that directly preceded the extended absence
          - For a borrower new to the workforce, documentation is provided that supports the borrower's recent attendance at school or in a training program prior to their current employment
        - When the borrower's employed income is derived from fluctuating hourly employment earnings, the borrower must have at least a 12 month history of employment. The required minimum 12-month history must be derived from either:
          - The borrower's current fluctuating hourly employment, or
          - A combination of current and prior fluctuating hourly employment, or
          - A combination of current fluctuating hourly employment and prior salaried employment in a similar industry or job type that had an income level consistent with the current income level based on the income trend analysis. See "Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis" subsequently presented in this subtopic for guidance.

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Primary and Secondary Employment and Income**, continued
    - **Employment History Requirements – Primary and Secondary Employment**, continued
      - **Secondary Employment**
        - In most instances, the borrower should have a least a two-year history of secondary employment for the employment to be considered stable. Under certain circumstances, when a borrower has less than a two-year secondary employment history but has at least a 12-month history, the lender may be able to justify and determine the employment is stable. Examples that may support less than a two-year history of secondary employment include, but are not limited to, the following:
          - The borrower previously held a job with base non-fluctuating earnings working 40 hours per week for multiple years; however, due to reasons such as position elimination, work force reduction, or illness, the borrower is no longer employed at this job and is now working at multiple part-time jobs that are similar in hours and pay, when combined, to the previous full-time job. Since the borrower's full-time employment ended 18 months ago, the length of employment at each part-time job is in the range of 13 to 15 months. In this scenario, the lender may be able to justify an employment history of less than two years for the secondary and additional jobs provided the earnings are consistent and the borrower has exhibited the ability to repay obligations.
          - The borrower is employed in the educational system as a teacher. During the previous summer the borrower taught summer school within the same educational system and is now starting summer school teaching for the current year. Although the two-year history is not yet fully developed, given the job type and current employment situation, the lender may be able to justify including the summer school income provided an accurate qualifying amount can be established and documented based on the previous and current earnings. Additional documentation to determine the stable monthly income may be appropriate (e.g., how many classes, how much, is it similar to prior year).

Note: The requirements and guidance in this section are to be used in conjunction with all “Employed Income” requirements and guidance and the requirements and guidance outlined in the “General Requirements for all Stable Monthly Income” section previously outlined in this document.

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Primary and Secondary Employment and Income**, continued
    - **Employment History Requirements – Primary and Secondary Employment**, continued
      - **Determining Earnings Types – Requirements and Guidance**
        - The following requirements and guidance for determining earnings types apply to all primary and secondary employed income and all applicable employment characteristics including, but not limited to, full-time, part-time and seasonal employment. Refer to the "Employed Income Calculation Guidance and Requirements" section subsequently presented in this subtopic for information about income calculation requirements and guidance.

Earnings Type	Requirements and Guidance for Determining Earnings Types
Base non-fluctuating employment earnings	Base non-fluctuating employment earnings are considered to be earnings with a pre-determined and agreed upon rate of pay and number of hours worked each pay period. • The pay rate and number of hours worked must be reflected on an ongoing consistent basis for each pay period and be fully supported by the year-to-date income. In addition, if the annual salary is reported on the income verification documentation, that may be considered additional confirmation of base non-fluctuating earnings. • Base non-fluctuating earnings may include both exempt (salaried) and non-exempt (hourly) earnings; however, the pay rate and number of hours worked must not fluctuate between pay periods • Example: The borrower is a non-exempt (hourly) employee and receives overtime income. The written VOE includes a breakdown of base pay and overtime pay over the prior year and YTD, which supports consistent base hours of 37.5 per pay period. • Base non-fluctuating earnings may include military base (basic) pay. For members of the United States Armed Forces, active-duty pay is considered base non-fluctuating earnings. • Base non-fluctuating earnings may include part-time earnings, provided the number of hours worked each pay period are pre-determined and the same, as outlined above Base non-fluctuating earnings do not include additional employed income (e.g., commission, bonus, overtime, tips). Refer to the "Additional Employed Income" section subsequently presented in this subtopic for requirements and guidance pertaining to additional employed income.

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Primary and Secondary Employment and Income**, continued
    - **Determining Earnings Types – Requirements and Guidance**, continued

Earnings Type	Requirements and Guidance for Determining Earnings Types
Fluctuating hourly employment earnings	Fluctuating hourly employment earnings are considered to be earnings that are based on a pre-determined and agreed upon hourly rate of pay. The hours worked are not pre-determined and may fluctuate each pay period. Fluctuating hourly employment earnings are typically representative of non-exempt earnings. The determination of whether the hours fluctuate is based on the review of the YTD and prior year income documentation, including the reported number of hours worked and YTD earnings in relation to base hours worked. • Example 1: The pay frequency is bi-weekly. The current YTD paystub shows 77 hours worked. The prior pay period YTD paystub shows 74 hours worked. The earnings are fluctuating hourly. • Example 2: The pay frequency is weekly. The paystub reflects six months of YTD income showing 37 hours worked at a pay rate of $30.00 per hour. If the Borrower worked 37 hours every week, the YTD earnings are approximately $28,860. However, the YTD base earnings on the paystub are $20,240. This income documentation shows fluctuating hourly earnings and additional documentation is necessary to determine otherwise. Fluctuating hourly earnings do not include additional employed income (e.g., commission, bonus, overtime, tips). Refer to the “Additional Employed Income” section subsequently presented in this subtopic for requirements and guidance pertaining to additional employed income.

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Income, Continued

General Income Information, continued

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Primary and Secondary Employment and Income**, continued
    - **Employment/Income characteristics**
      - For all employment and/or income characteristics below, the lender must determine whether the employment and/or income represents primary or secondary employment and/or income and use the applicable requirements for history, continuance, earnings type, documentation and calculation outlined in this section and in conjunction with the "General Requirements for All Stable Monthly Income" and "General Documentation Requirements" sections outlined in this document, unless specifically stated otherwise. For certain employment and/or income characteristics, additional documentation and/or analysis may be needed, as described below.

Employment/Income Characteristics		Additional Requirements
Full-time and part-time employment	Full-time and part-time employment may be either primary or secondary employment, and may be comprised of base non-fluctuating earnings, fluctuating hourly earnings and/or additional employed income.	None
Seasonal employment	See the "Seasonal Income/Seasonal Unemployment Income" subtopic subsequently presented in this topic for guidance.	See the "Seasonal Income/Seasonal Unemployment Income" subtopic subsequently presented in this topic for guidance.
Union members	Certain union members may work in industries where they may switch employers frequently and the union facilitates the next position. In that case, the borrower may have multiple YTD paystubs and W-2s, all of which can be used for the verification and calculation of stable monthly income. The borrower's earnings may be comprised of base non-fluctuating earnings, fluctuating hourly earnings and/or additional employed income. A borrower may exhibit a stable and consistent employment and income history, regardless of the number of employers. The borrower may or may not be in between employers at the time of closing. If the lender determines that the borrower's employment and income history is stable and it is documented that the borrower has multiple jobs as described above, it may be acceptable to obtain the 10-day PCV through the union. The lender must make this determination based on a review of all employment and income characteristics.	

Continued on next page

Income, Continued

General Income Information, continued

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Primary and Secondary Employment and Income**, continued
    - **Employment/Income characteristics**, continued

Employment Characteristics		Additional Requirements
Borrower employed by a family member or by the property seller, real estate broker or other interested party to the transaction	See the "Borrower Employed by a Family Member or Interested Party to the Transaction" subtopic subsequently presented in this topic for guidance.	See the "Borrower Employed by a Family Member or Interested Party to the Transaction" subtopic subsequently presented in this topic for guidance.
Employed income from a foreign source	See the "Foreign Income" subtopic subsequently presented in this topic for guidance.	See the "Foreign Income" subtopic subsequently presented in this topic for guidance.
Employment contracts	See the "Employment Contracts" subtopic subsequently presented in this topic for guidance.	See the "Employment Contracts" subtopic subsequently presented in this topic for guidance.
Temporary help services employment	Some contract firms and temporary staffing firms contract out the services of their employees to other employers. When making the determination of employment history, income stability and the monthly income amount, the lender must take into consideration factors such as whether the borrower has demonstrated the ability to maintain steady and continuous employment and income with this employment structure over the most recent two-year period.	W-2 forms from the contract and/or temporary staffing firm for the most recent two-year period

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Primary and Secondary Employment and Income**, continued
    - **Employment/Income characteristics**, continued

Employment Characteristics		Additional Requirements

Income reported on Internal Revenue Service (IRS) Form 1099 for services performed	At times, borrowers receive IRS Form 1099(s) for services performed; this pay structure is often referred to in terms such as contractor or contingent worker.
	
	Income received on IRS Form 1099 for services performed may be reported on Schedule C and may represent a sole proprietorship. The lender must treat this income either as:
	• Self-employed income in accordance with the requirements in the section “Self-Employed Income” within this document,
	OR
	• Non-self-employed income in accordance with the requirements in this section if the IRS Schedule C from the most recent calendar year tax return evidences that:
	  • Gross receipts or sales are equal to the total amount(s) reported on the IRS Form 1099(s).
	  • Total expenses are < 5% of gross receipts or sales, after deducting non-cash expenses (e.g., depreciation)
	  • Cost of goods sold = $0, and
	  • 12-month history of 1099 income and reported expenses is present
	If the above expense factor is not met but expenses are within a close range (e.g., 6%), the Seller may perform additional analysis to determine whether income reported on Schedule C remains characteristic of non-self-employed income.
		Minimum documentation
		• All 1099s for the most recent two-year period, and
		• YTD paystubs and/or other equivalent and reasonably reliable third party documentation (e.g., YTD earnings statements or evidence of payments for services performed) documenting YTD income received by the borrower, and
		• Pages 1 and 2 of the Borrower’s federal individual income tax returns and the applicable schedules (i.e., Schedule C, Schedule 1) covering the most recent one-year period.
		
		History of receipt: Most recent two years; however, in certain instances, a shorter history of income with this pay structure may still be considered stable if the Seller provides a written analysis and sufficient supporting documentation justifying the determination of stability (e.g., a prior history of employment earnings at a similar level). In no event may the history of receipt for this pay structure documented on the tax returns by less than 12 months.
		Continuance: Must be likely to continue for at least the next three years.

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Primary and Secondary Employment and Income**, continued
    - **Employment/Income characteristics**, continued

Employment Characteristics		Additional Requirements
Income reported on Internal Revenue Service (IRS) Form 1099 for services performed (continued)	Factors the lender may consider when making this determination include, but are not limited to, the principal business or profession, gross receipts or sales, cost of goods sold and the type and level of expenses reported. If the lender determines that the Borrower is a sole proprietor, refer to the requirements and guidance in the section "Self-Employed Income" within this document.	**Calculation:** Average must be based on the required and documented history of receipt and support a consistent level of income in accordance with the requirements of the section "General Requirements for All Stable Monthly Income" within this document. The 1099 income must be reduced by the expenses (excluding non-cash items) reported on Schedule C. Apply an average of the verified expenses to the 1099 income without verified expenses.

Calculation Example	
Scenario: Borrower has an 18-month history of documented 1099 income, with 12 months of income and expenses reflected on the most recent Schedule C and reasonably reliable verification of YTD income for the most recent 6 months. Prior employment (W-2) for 5 years with similar income level and employment field.	
1099(s) reported as gross receipts/sales:	(+) $100,000
Less: Schedule C Expenses (less non-cash expenses)	(-) $ 4,000 (4%)
Subtotal (most recent year Schedule C)	$96,000
Verified YTD 1099 income (6 months):	(+) 50,000
Less: 4% expense rate (based on most recent year Schedule C)	(-) $2,000 (4%)
Subtotal (Current YTD)	$48,000
Income calculation: $144,000 (combined subtotals) / 18 months	$8,000/mo

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Primary and Secondary Employment and Income**, continued
    - **Employment/Income characteristics**, continued

Employment Characteristics		Additional Requirements
Income reported on Internal Revenue Service (IRS) Form 1099 for services performed (continued)		**Calculation Example** (continued) The lender must determine if more information and/or documentation is needed to support and justify the stable monthly income based on the individual circumstances. Lenders are encouraged to complete a pre-closing verification confirming that the Borrower continues to perform services for the provider(s) of the 1099 income as close to the Note Date as possible.

- **Employment and Income Commencing after the Note Date**
  See the "Employment Offers or Contracts" subtopic subsequently presented in this topic for guidance.

Continued on next page

General Income Information, (continued)

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Additional Employed Income**
    - This section contains general stable monthly income history, continuance, and calculation requirements for the following income types:
      - Commission income less than 25%
      - Commission income greater than or equal to 25%
      - Bonus income
      - Overtime income
      - Restricted stock (RS) and restricted stock units (RSU) subject to performance-based vesting provisions
      - RS and RSU subject to time-based vesting provisions
      - Tip income – Reported by the employer
      - Tip income – Cash and charge tips reported on Internal Revenue Service (IRS) Form 4137
      - Automobile allowance
      - Mortgage differential
      - Military entitlements
      - Military Reserves and National Guard
      - Unemployment compensation associated with seasonal employment
    - **General Overview**
      - A borrower may receive additional income from employment such as commission, bonus and overtime pay. Generally, additional employed income is received in connection with the primary or secondary employment; however, there are instances where the income is received through separate sources, such as the military Reserve or National Guard. If the lender includes additional employed income to qualify the borrower, the lender must determine that the amount of income used to qualify the borrower is stable and complies with the requirements for each income type. All income must be either expected to continue or have documented continuance for at least three years as defined in the specific income requirements within this topic.
      - The following requirements and guidance are to be used in conjunction with the requirements and guidance outlined in the “General Requirements for all Employed Income” section previously outlined in this subtopic.

Continued on next page

General Income Information, (continued)

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Additional Employed Income,** continued
    - **Income History and Stability – Requirements and Guidance**
      - Many additional employed income types are fluctuating income. The stability of fluctuating income is determined based primarily upon historical earnings so it is imperative that a sufficient income history has been established. For this reason, most income types that fluctuate have a history requirement of two years. In certain instances, a shorter history may still be considered stable if the lender provides a written analysis and sufficient supporting documentation justifying the determination of stability. When making this determination, the lender must take into consideration factors such as income and/or employment characteristics and the overall layering of risk factors, including the borrower's demonstrated ability to repay obligations. The income history must be at least 12 months.
      - See the "Employed Income Calculation Guidance and Requirements" section subsequently presented in this subtopic for information with respect to employed income calculation requirements and guidance.

    - **Earnings Types for Additional Employed Income**
      - **Fixed Earnings**
        - For the purposes of determining stable monthly income, fixed additional employed income earnings are considered to be earnings that are based on a pre-determined and agreed upon fixed amount of pay that is fully documented, such as an automobile allowance, mortgage differential or military entitlement(s).

      - **Fluctuating Earnings**
        - For the purposes of determining stable monthly income, fluctuating additional employed income earnings are considered to be earnings that fluctuate on a regular basis, often based on factors such as hours worked, job type and performance. Fluctuating earnings may include, but are not limited to, income types such as commissions, overtime, bonus, tips, Reserve and National Guard, and unemployment compensation associated with seasonal employment

    Reference: See the "Employed Income Calculation Guidance and Requirements" section subsequently presented in this subtopic for information with respect to employed income calculation requirements and guidance.

Continued on next page

General Income Information, (continued)

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **Employed Income Calculation Guidance and Requirements**
    - **Overview of General Employment and Income Requirements**
      - The income calculation used to qualify the borrower depends on multiple loan level factors, the primary of which are the employment and income history, earnings type, employment characteristics and income documentation. The following table provides an overview of general employment and income requirements.

Topic	Overview of General Employment Requirements
Written Income Analysis	A written analysis of the income used to qualify the borrower must be retained in the mortgage file.
Income Documentation	All documentation in the mortgage file must support the lender's income analysis and calculation.
Employment History Requirements	In most instances the borrower should have at least a two-year history of primary employment.
Income Stability and History Requirements	The lender must consider the length of income history and whether the earnings have been consistent. When evaluating stability of income based upon historical receipt, additional layering of risk may be present depending upon the degree of income fluctuation. As a result, the lender must determine when additional documentation (e.g., an additional year of earnings history) is necessary to support income stability.

    - **General Underwriting for Income Calculation – Requirements and Guidance**
      - The following table includes general factors when determining the income calculation.

Topic	General Underwriting for Income Calculation – Requirements and Guidance
Pay Frequency	For all income used to qualify the borrower, the lender must determine the frequency of payment (weekly, bi-weekly, semi-monthly, monthly, quarterly, annually) to accurately analyze and calculate the stable monthly income. Example: The borrower received an annual bonus in February of the prior year and current year as evidenced by the written VOE dated in March of the current year. The bonus amounts are consistent based on the income trend analysis, as described in "Fluctuating Hourly Employment Earnings Example: The borrower received an annual bonus in February of the prior year and current year as evidenced by the written VOE dated in March of the current year. The bonus amounts are consistent based on the

Continued on next page

Income, Continued

General Income Information, (continued)

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **General Underwriting for Income Calculation – Requirements and Guidance,** continued

Topic	General Underwriting for Income Calculation – Requirements and Guidance
	income trend analysis, as described in "Fluctuating Hourly Employment Earnings prior year must be averaged over a 2-year period. It is inaccurate to average the prior year and year-to-date (YTD) number of months on the income documentation (e.g., 15-month average).
Documented Income Breakdown (e.g., bonus, overtime, commissions, etc.)	A documented breakdown between the base non-fluctuating earnings or fluctuating hourly earnings and the additional employed income (e.g., bonus, overtime, commission, tips) ensures the most accurate analysis and calculation of stable monthly income. While a documented breakdown is not required in all instances, one may be used to support a higher amount of qualifying income, verify bonus pay frequency, and/or support fluctuating income when the degree of fluctuation exceeds 10%. **Verification method**: Employed income documentation such as written VOEs and/or year-end and current YTD paystubs that show the breakdown between the earnings type and additional employed earnings (e.g., overtime, bonus, commissions).
Verification of Pay Raises and Using Pay Increase on Calculation of Income	Merit, promotional or other types of increases in pay may justify using different averaging methods for fluctuating hourly earnings based on the application of the new pay rate to the average hours worked for the prior year and YTD. While documentation to verify pay raises is not required in all instances, it may be used to support a higher amount of qualifying income and/or support fluctuating hourly earnings when the degree of fluctuation exceeds 10%. **Verification method:** A pay raise, or raises, may be verified using employed income documentation, such as written VOEs and paystubs. Paystubs from the current or prior year that show the new and old rates of pay when the raise occurred and/or year-end paystubs will likely be necessary to complete this verification.

Continued on next page

General Income Information, (continued)

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **General Underwriting for Income Calculation – Requirements and Guidance,** continued

Topic	General Underwriting for Income Calculation – Requirements and Guidance
	Calculation method For consistent and increasing income trends, use one of the options below: • **Option 1:** Average the most recent year and YTD income over the applicable number of months of required history and documentation, as described in "Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis" subsequently presented in this subtopic. • **Option 2:** Apply the current pay rate to the average number of hours worked during the prior year and the current year, provided the hours worked during the prior year and the current year are consistent or increasing, and documented.

- **Base Non-Fluctuating Employment Earnings – Calculation Methods and Analysis**
  - Base non-fluctuating earnings may include both exempt (salaried) and non-exempt (hourly) earnings; however, the pay rate and number of hours worked must not fluctuate between pay periods. All income documentation must support base non-fluctuating earnings. See the "Determining Earnings Types – Requirements and Guidance" section previously presented in this subtopic for additional information on determining whether the earnings types are based on non-fluctuating earnings.

Continued on next page

General Income Information, (continued)

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **General Underwriting for Income Calculation – Requirements and Guidance,** continued
    - **Base Non-Fluctuating Employment Earnings – Calculation Methods and Analysis**
      - The following table describes the calculation methods for base non-fluctuating employment earnings taking into consideration the typical pay periods of weekly, bi-weekly, semi-monthly and monthly.

Calculation of Base Non-Fluctuating Employment Earnings	
Pay Period Type	**Calculation**
Weekly	Multiply the base non-fluctuating weekly gross pay by 52 pay periods and divide by 12 months
Bi-Weekly (Every two weeks)	Multiply the base non-fluctuating biweekly gross pay by 26 pay periods and divide by 12 months
Semi-Monthly (Twice per month)	Multiply the base non-fluctuating semi-monthly gross pay by 24 pay periods and divide by 12 months
Monthly	Use the base non-fluctuating monthly gross pay
Annual base non-fluctuating salary paid out over less than 12 months per year	For some borrowers, such as certain employees in the educational field, the annual base non-fluctuating salary may be paid over a time period of less than 12 months. For example, if the annual base non-fluctuating salary is paid out over 10 months of the year, multiply the monthly base salary amount by 10 months and divide by 12.

    - **Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis**
      - Fluctuating hourly employment earnings are considered to be earnings that are based on a pre-determined and agreed-upon hourly rate of pay. The number of hours worked are not pre-determined and may fluctuate each pay period.
      - See the “Determining Earnings Types – Requirements and Guidance” section previously presented in this subtopic for information on determining whether earnings are fluctuating hourly earnings and the “Additional Employed Income” section previously presented in this subtopic for information about fluctuating additional employed income earnings (e.g., bonus, overtime, commission, and tip income).
      - The following table describes the calculation methods and income trend analysis required for fluctuating hourly employment earnings and additional fluctuating employment earnings (e.g., bonus, overtime, commission, and tip income), taking into consideration the degree of fluctuation.

Continued on next page

General Income Information, (continued)

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **General Underwriting for Income Calculation – Requirements and Guidance,** continued
    - **Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis**, continued

Topic	Requirements and Guidance

Income Calculation Method and Trend Analysis	The degree of fluctuation and the length of receipt of the income must be considered when calculating income used to qualify for the mortgage. The lender must evaluate the income trend and use the amount that is most likely to continue for the next three years.
	
	Reference: See "Overview of General Employment and Income Requirements" and "General Underwriting for Income Calculation – Requirements and Guidance" previously presented in this subtopic for requirements and guidance to be used when determining the income calculation.
	
	Consistent and Increasing Income Trends Calculation Method
	The lender must average the most recent year(s) and YTD income over the applicable number of months of required history and documentation.
	
	In certain instances, the calculation may be based off a shorter number of months if the lender provides a written justification and/or documentation to support the applicable months used in the calculation. The total number of months used in the calculation must be at least 12 months. Additionally, the calculated income must be reasonably expected to continue for at least the next three years.
	
	Pay frequency must be considered as it may impact the income calculation (e.g., bonuses) as noted above. If the increasing income is due to a pay raise, the lender may use the calculation method for pay raises described in "General Underwriting for Income Calculation – Requirements and Guidance" previously presented in this subtopic.
	
	Income Trend Analysis
	• **Degree of Fluctuation ≤ 10%**
	  ◦ The income trend is considered consistent when the increase between YTD and prior year(s)[1] is less than or equal to 10%. No additional analysis or documentation is required when calculating the qualifying income.
	• **Degree of Fluctuation > 10% - ≤ 30%**
	  ◦ If the increase between the YTD and prior year(s)[1] earnings is greater than 10%, but less than or equal to 30%, no additional analysis or documentation is required when the increase is supported by the documented income breakdown and/or verification of pay raise in accordance with "General Underwriting for Income Calculation – Requirements and Guidance" previously presented in this subtopic.
	  ◦ Otherwise, additional analysis is required, and additional documentation may be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the borrower.

Continued on next page

General Income Information, (continued)

Freddie Mac LPA, continued

- **Employed Income**, continued
  - **General Underwriting for Income Calculation – Requirements and Guidance,** continued
    - **Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis**, continued

Topic	Requirements and Guidance
Income Calculation Method and Trend Analysis	• **Degree of Fluctuation > 30%** • If the increase between the YTD and prior year(s)[1] earnings is greater than 30%, additional analysis is required and additional documentation will likely be necessary to determine income stability and develop an accurate calculation of qualifying income. The analysis and documentation must support the amount of income used to qualify the borrower. **Declining Trend** The lender must use the year-to-date income and must not include the previous higher level unless there is documentation of a one-time occurrence (e.g., injury) that prevented the borrower from working or earning full income for a period of time and evidence that the borrower is back to the income amount that was previously earned. If the decline between the prior year(s) and/or YTD earnings exceeds 10%, the lender must conduct further analysis and additional documentation may be necessary to determine whether the income is currently stable. This analysis must include the reason for the declining trend, and support that the current income has stabilized. If a borrower is currently on temporary leave, follow the guidance subsequently outlined in the “Temporary Leave and Short-Term Disability Income” subtopic. See the “Determining Earnings Types – Requirements and Guidance” section previously presented in this subtopic for additional information about fluctuating hourly employment earnings.
[1] For fluctuating hourly earnings, the degree of fluctuation is based on the increase between the YTD and the prior year. For additional employed earnings, the degree of fluctuation is based on the increase between the YTD and the prior two years. See “Primary and Secondary Employment and Income” and “Additional Employment Income” previously presented in this subtopic for history and documentation requirements.	

- **Restricted Stock (RS) and Restricted Stock Units (RSUs)**
  - See the “Restricted Stock (RS) and Restricted Stock Units (RSU)” subtopic subsequently presented in this topic for guidance.

Continued on next page

General Income Information, continued

Freddie Mac LPA, continued

- **Self-Employed Income**
  - See the "Self-Employment Income" subtopic subsequently presented in this topic for guidance.

- **Other Income (Non-Employment/Non-Self-Employment)**
  - This section contains stable monthly income requirements for the following income types:
    - Notes receivable
    - Dividend and interest
    - Capital gains
    - Royalty payments
    - Trust income
    - Retirement income
    - Retirement account distributions as income
    - Survivor and dependent benefit income
    - Long-term disability income
    - Social Security Supplemental Security Income
    - Public assistance income
    - Homeownership Voucher Program
    - Foster-care income
    - Alimony, child support or separate maintenance payments
    - Housing or parsonage allowance
    - Income from a foreign source
    - Mortgage Credit Certificates
    - Tax-exempt income
  - For income types that require evidence of sufficient remaining assets to establish likely continuance, those assets may not be in the form of cryptocurrency.

  - **General Requirements for all Other Income (Non-Employment/Non-Self-Employment)**
    - The lender must evaluate the stability and consistency of receipt of all other non-employment/non self-employment income in accordance with the requirements outlined in this document.
    - Factors that must be considered in determining the likelihood of continued consistent receipt of all other non-employment/non-self-employment income include, but are not limited to, the following:
      - Whether the payments are received pursuant to a written agreement, court decree, government program, law and/or regulation
      - The length of time the payments have been received
      - The regularity of receipt of the income
      - The consistency of the amount of income
      - The availability of procedures to compel payment
      - Whether full or partial payments have been made
      - The age of each child for which support and/or benefit payments are made (if applicable)
      - Applicable eligibility criteria governing the continued receipt of the income
    - For general requirements with respect to income history, stability and continuance, see the "General Requirements for all Stable Monthly Income" section previously presented in this subtopic.

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General Income Documentation Requirements

Non-AUS

- **Allowable Age of Credit Documents and Federal Income Tax Returns**
  - **Allowable Age of Credit Documents**
    - For all mortgage loans (existing and new construction), employment and income documents must be no more than four months old on the note date.
    - When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. If the credit documents are older than allowed, the lender must update them.

    Reference: See the "Properties Affected by a Disaster" subtopic subsequently presented in the "Appraisal Requirements" topic for exceptions to the allowable age of credit documents for loans impacted by a natural disaster.

  - **Allowable Age of Federal Income Tax Returns**
    - For some types of sources of income, Fannie Mae requires lenders to obtain copies of federal income tax returns (personal returns and, if applicable, business returns). The "most recent year's" tax return is defined as the last return scheduled to have been filed with the IRS. For example,

If Today's Date is....	Then the Most Recent Year's Tax Return would be...
February 15, 2023	2021
April 16, 2023	2022
December 15, 2023	2022

    - The following table describes the requirements for documenting the most recent year's tax return based on the application date and disbursement date of the loan. The loan file must always include the last tax return filed by the borrower and the minimum number of years of tax returns required by the applicable income type subtopic outlined in this document.

Application Date	Disbursement Date	Documentation Required
October 15[1], [current year minus one] to April 14[2], current year	October 15[1], [current year minus one] to April 14[2], current year	The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.
	April 15[1], current year to June 30, current year	The most recent year's tax return is recommended; however, the previous year(s) is also acceptable. In the event the most recent year's tax return is not obtained, the loan file must include a completed and signed IRS Form 4506-C for transcripts of tax returns provided by the borrower to the lender.

Continued on next page

General Income Documentation Requirements, continued

Non-AUS, continued

- **Allowable Age of Federal Income Tax Returns**, continued

<table>
<tr><th>Application Date</th><th>Disbursement Date</th><th>Documentation Required</th></tr>
<tr><td>October 15[1], [current year minus one] to April 14[2], current year</td><td>July 1, current year to October 14[2], current year</td><td rowspan="2">The most recent year’s tax return is recommended; however, the previous year(s) is also acceptable.

In the event the most recent year’s tax return is not obtained, the lender must perform all of the following:
Obtain one of the following documents from the borrower:
copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS,
proof of the e-filing of Form 4868, or
confirmation of electronic payment(s), including the confirmation number, of all or part of the estimated income taxes.
Review the total tax liability either reported on IRS Form 4868 or paid by the borrower and compare it with the borrower’s tax liability from the most recent year obtained as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the lender to require the current returns in order to proceed.
Obtain IRS response from the filing of IRS Form 4506–C confirming that no transcripts are available for the applicable tax year. (Alternatively, lenders may, at their own discretion, rely on borrower-provided evidence that no transcripts are available for applicable tax years when that evidence is obtained directly from the IRS website).
Note: Any documents provided by the borrower must clearly identify the source of information including identifying information in the Internet banner on the document.</td></tr>
<tr><td rowspan="2">April 15[1], current year to October 14[2], current year</td><td>April 15[1], current year to December 31, current year</td></tr>
<tr><td>January 1, [current year plus one] to April 14[2], [current year plus one]</td><td>The most recent year’s tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.</td></tr>
<tr><td colspan="3">[1]Or the actual April/October filing dates for the year in question as published or extended by the IRS.
[2]Or the day prior to the April/October filing dates for the year in question as published or extended by the IRS.</td></tr>
</table>

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General Income Documentation Requirements, continued

Non-AUS, continued

- **Allowable Age of Federal Income Tax Returns**, continued

Exception: For business tax returns, if the borrower's business uses a fiscal year (a year ending on the last day of any month except December), the lender may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new mortgage loan.		

- **Determining the Need for Federal Income Tax Returns**
  - The lender must obtain copies of the borrower's signed federal income tax returns filed with the IRS for the past one or two years (depending on the income type) for the following sources of income or employment. Tax returns are required if the borrower:
    - is employed by family members (two years' returns);
    - is employed by interested parties to the property sale or purchase (two years' returns);
    - 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 years' returns);
    - uses foreign income to qualify;
    - uses interest and dividend income to qualify;
    - uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify; or
    - receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure in which the borrower has a 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed. The lender must document and underwrite the loan application using the requirements for self-employed borrowers, as described in the "Self-Employment Income" subtopic.
  - See the "Requirements and Uses of *IRS IVES Request for Transcript of Tax Return* Form 4506-C" section subsequently presented in this subtopic for information about obtaining tax return transcripts.
  - See the "Allowable Age of Federal Income Tax Returns" section previously presented in this topic for information about the age of tax returns.

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General Income Documentation Requirements, continued

Non-AUS, continued

- **Standards for Employment Documentation**
  - **General Documentation Requirements**
    - The lender must verify employment income for all borrowers whose income is used to qualify for the mortgage loan. This verification can be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.
    - Any available technology may be used to reproduce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.
  - **Employment Documentation Provided by the Borrower**
    - The following table provides requirements for documentation provided by the borrower.

Requirements – Paystubs and W-2s
• The paystub must be dated no earlier than 30 days prior to the initial loan application date and it must include all year-to-date earnings. Additionally, the paystub must include sufficient information to appropriately calculate income; otherwise, additional documentation must be obtained. • Paystubs must comply with "Allowable Age of Credit Documents and Federal Income Tax Returns" guidance.
• IRS W-2 forms must cover the most recent one- or two-year period, based on the documentation requirements for the particular income type. The W-2 forms must clearly identify the borrower as the employee. • "Most recent" W-2 is defined as the W-2 for the calendar year prior to the current calendar year. Alternative documentation, such as an IRS Wage and Income (W-2) Transcript, a written *Request for Verification of Employment* (Form 1005 or Form 1005(S)) (see below) or the final year-to-date paystub, may be used as long as adequate information is provided.
• Documents must be computer-generated or typed by the borrower's employer(s), although paystubs that the borrower downloads from the internet are also acceptable. Documents must clearly identify the employer's name and source of information.
• The documents must clearly identify the borrower as the employee.
• The information must be complete and legible.
• 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.

Continued on next page

General Income Documentation Requirements, continued

Non-AUS, continued

- **Standards for Employment Documentation**, continued
  - **Employment Documentation Provided by the Borrower**, continued

Requirements – Tax Returns
• When required, personal federal income tax returns must be copies of the original returns that were filed with the IRS. All supporting schedules must be included. • Alternatively, the lender may obtain applicable transcripts of federal income tax returns. See "Requirements and Uses of IRS Form 4506-C" for guidance. • "Most recent" tax return is defined as the last return scheduled to have been filed with the IRS. See "Allowable Age of Credit Documents and Federal Income Tax Returns" for guidance.
• The information must be complete and legible.

• Each tax return must be signed by the borrower unless the lender has obtained one of the following signature alternatives:
  • documentation confirming that the tax returns were filed electronically,
  • a completed IRS Form 4506-C (signed by the borrower) for the year in question, or
  • IRS transcripts that validate the tax return.

Continued on next page

General Income Documentation Requirements, continued

Non-AUS, continued

- **Standards for Employment Documentation**, continued
  - **Employment Documentation Provided by the Borrower's Employer**
    - The lender may use the *Request for Verification of Employment* (Form 1005 or Form 1005(S)) to document income for a salaried or commissioned borrower. The date of the completed form must comply with "Allowable Age of Credit Documents and Federal Income Tax Returns" guidance.
    - The information on the Form 1005 or Form 1005(S)) must be legible. The following fields on the form are optional:

Field #	Title of Optional Field
11	Probability of continued employment
14	If overtime or bonus is applicable, is its continuance likely?
16	Date of applicant's next pay increase
17	Projected amount of next pay increase
18	Date of applicant's last pay increase
19	Amount of last pay increase
24	Reason for leaving (Part III – Verification of Previous Employment)

    - The remaining fields on the form must be completed as applicable to the borrower. For example, overtime may not be completed if the borrower is in a position that does not pay overtime.
    - When the borrower authorizes the lender to obtain verifications of employment and income directly from the employer, the lender must have the borrower sign Form 1005 or Form 1005(S)
    - Alternatively, the lender may have the applicant sign a signature authorization form, which gives the lender blanket authorization to request the information it needs to evaluate the applicant's creditworthiness.
      - **Blanket Authorization Form**
        The lender obtains the borrower's signature on the following Blanket Authorization form to obtain the documentation needed to evaluate the borrower's creditworthiness.

        This borrower-signed document gives the lender blanket authorization to request the information needed to document the borrower's creditworthiness. I hereby authorize ____________________________ (the "lender") to verify my past and present employment earnings records, bank accounts, stock holdings, and any other asset balances that are needed to process my mortgage loan application. I further authorize ____________________________ (the "lender") to order a consumer credit report and verify other credit information, including past and present mortgage and landlord references. It is understood that a photocopy of this form also will serve as authorization. The information the lender obtains is only to be used in the processing of my application for a mortgage loan.
        The lender attaches a copy of the Blanket Authorization form to each Form 1005 / Form 1005(S)) or Form 1006 / Form 1006(S) sent to a verifying institution. The information must be requested directly from the institution. The completed form(s) must be signed and dated, and must be sent directly from the verifying institution.

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General Income Documentation Requirements, continued

Non-AUS, continued

- **Standards for Employment Documentation**, continued
  - **Employment Documentation Provided by a Third-Party Employment Verification Vendor**
    - The lender may receive employment and income verification directly from a third-party employment verification vendor. These verifications are acceptable as long as
    - the borrower provided proper authorization for the lender to use this verification method,
    - the date of the completed verification is in compliance with "Allowable Age of Credit Documents and Federal Income Tax Returns" guidance,
    - the lender has determined that the vendor has made provisions to comply with reasonable quality control requests from both the lender and any subsequent mortgagee, and
    - the lender understands it will be held accountable for the integrity of the information obtained from this source.
  - If necessary, the lender must supplement these verifications by obtaining any missing information from the borrower or his or her employer.

- **Requirements and Uses of *IRS IVES Request for Transcript of Tax Return* Form 4506-C**
  - **Use of IRS Form 4506-C to Validate Borrower Income Documentation**
    - The IRS Form 4506-C is a form that can be utilized by authorized IRS Income Verification Express Service (IVES) participants to order tax transcripts electronically with the consent of the taxpayer.
    - Fannie Mae requires lenders to have each borrower whose income (regardless of income source) is used to qualify for the loan to complete and sign a separate IRS Form 4506-C at or before closing. An alternate form is also acceptable if it authorizes the release of comparable tax information for the IRS. As noted below, it may be necessary to have the borrower complete and sign multiple IRS Form 4506-Cs depending on the transcripts required to validate the income.

      Note: Borrowers with income from Puerto Rico must use Modelo SC 2907 (Solicitud De Copia De Planilla, Relevo De Herencia Y De Donacion) rather than IRS Form 4506-C. Applicable forms or processes for eligible borrowers filing tax returns in other U.S. territories must be adhered to and obtained when required.

    - If the lender submits the IRS Form 4506–C to the IRS prior to closing, the transcript(s) must be used to validate the income documentation provided by the borrower and used in the underwriting process. In this case, because the lender has already received the tax transcript(s), an additional signed IRS Form 4506-C is not required to be signed by the borrower. See the topic below on how to address "Rejected IRS Form 1040 Transcripts."

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General Income Documentation Requirements, continued

Non-AUS, continued

- **Use of IRS Forms to Obtain Federal Income Tax Information**
  - When federal income tax information is used to document income for qualifying purposes, the lender may obtain transcripts of the applicable federal income tax documents. For example, the lender may obtain Tax Return Transcripts for Form 1040, 1040A, or 1040EZ, or Wage and Income Transcripts for W-2s, 1098s, and 1099s. However, in certain instances, copies of the actual returns, schedules, or forms are needed because the tax return transcripts will not provide the detail required to qualify the borrower. For example, the lender must obtain copies of Schedules B through F, Schedule K-1, or business returns. These schedules or forms are not required if:
    - the income reflected on the applicable schedule transcripts is positive, and
    - the income supported by that schedule or form is not being used for qualifying.

  - **Completing and Submitting the IRS Authorization Form**
    - IRS Form 4506–C can be used to obtain transcripts for up to four years or tax periods but only one tax form number can be requested per each IRS Form 4506–C. For example, it is necessary to complete two IRS Form 4506–Cs for a self-employed borrower whose income documentation includes both two years of personal tax returns and two years of business tax returns. One IRS Form 4506–C will be required to obtain a transcript of the personal 1040 returns and another will be required for the business returns (Form 1065, Form 1120, Form 1120A, etc.).
    - Lenders must:
      - fill in as the recipient of the tax documents — either its name or the name of the servicer, if servicing will be transferred within 120 days of the taxpayer signing the form;
      - indicate that the request is for documentation concerning the year or years for which the borrower's income was or will be used in underwriting the loan; and
      - date the form(s) with the date on which the borrower signs the form (or ascertain that the borrower dates the form when he or she signs it).
    - IRS Forms 4506-C is valid for 120 days after completion (including signature) by the borrower.

      Note: The borrower should not be required to sign an IRS authorization form before all items on the form, including the transcript being requested, the years/tax periods, and the date, have been completed.

  - **Retaining the Tax Documents**
    - All tax documents, including either the IRS Form 4506-C or the tax transcript(s) received from the IRS, and any subsequent explanation or documentation of discrepancies must be retained in the loan file for QC review.

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General Income Documentation Requirements, continued

Non-AUS, continued

- **Use of IRS Forms to Obtain Federal Income Tax Information**, continued
  - **Rejected IRS Form 1040 Transcripts –Truist Guidance**
    - When the IRS rejects the borrower's request for 1040 tax transcripts due to identity theft or other reasons, Truist will accept alternative documentation. Do not use these requirements when a "no record found" or "data does not match" response is received from the IRS.
    - Lenders should use discretion when validating the borrower's income. This could include items such as the prior year tax transcripts, a police report, institutional written VOEs, bank statements supporting payroll deposits, or any other documentation deemed supportive, based upon the specific situation.
    - Follow the requirements outlined in the table below when the IRS rejects an IRS Form 4506-C request for identity theft or other reasons.

When the Reason for the IRS Rejection is…	Then provide…
• Unable to Process, or • Limitation	• Evidence the IRS rejected the IRS Form 4506-C request, • A borrower-obtained *Record of Account Transcript,* in pdf format, for all applicable years missing from the www.irs.gov website, and • A signed IRS Form 4506-C for the year(s) impacted by the IRS rejection. • This transcript must validate that the documents provided by the borrower are accurate and may not be used in lieu of the tax returns provided by the borrower.

Identity Theft	• 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
	• Validation of the reported income on the tax returns by providing the following documentation:
	  • Borrower obtained *Record of Account Transcript,* in pdf format, for all applicable years missing from www.irs.gov, or all of the following:
	    • W-2 or 1099 transcripts which match the W-2 or 1099 income reflected on the transcripts,
	    • Validation of prior tax year(s) income (income for the current year must be comparable to prior to year(s),
	    • 1099 Mortgage interest should match reported interest on Schedule A or Schedule E (if applicable),
	    • 1099G Unemployment should match reported unemployment (if applicable),
	    • 1099 Dividend and Interest should match reported dividend and interest income (if applicable)

Continued on next page

General Income Documentation Requirements, continued

Non-AUS, continued

- **Verbal Verification of Employment**
    - See the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic for guidance.

- **Other Sources of Income - Documentation Requirements for Current Receipt of Income**
    - The documentation required for each income source is subsequently described within this document in the applicable specific income subtopic. The documentation must support the history of receipt, if applicable, and the amount, frequency, and duration of the income. In addition, evidence of current receipt of the income must be obtained in compliance with the "Allowable Age of Credit Documents" requirements, unless specifically excluded in the applicable income subtopic. See the "Allowable Age of Credit Documents and Federal Income Tax Returns" section above for additional information.
    - Current receipt may be documented by various means, depending on the income type. Examples include but are not limited to:
        - current paystubs,
        - bank statements confirming direct deposit,
        - canceled checks from the payer's account to the borrower,
        - court records, or
        - copies of the borrower's bank statements showing the regular deposit of these funds.

    Note: Any income received by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan. For income types that require sufficient remaining assets to establish continuance, those assets cannot be in the form of virtual currency.

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General Income Documentation Requirements, continued

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- DU indicates the minimum income verification documentation required to process a loan application. This level of documentation may not be adequate for every borrower and every situation. The lender must determine whether additional documentation is warranted.
- If the lender is unable to determine the stability of the borrower's income on the basis of the available documentation, the income must be removed and the loan resubmitted to DU.

- **Alternative Documentation Requirements for Income Validated by the DU Validation Service**
  - When a component of the loan file is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation requirement may differ from those subsequently outlined in this topic.
  - For loans with income validated by DU, lenders may rely on the age of tax transcript methodology provided by the service.
  - When DU validates income, the lender is not required to determine if the borrower is employed by a family member or interested party to the property sale or purchase.
  - When all of a borrower's income is validated by the DU validation service, the lender is not required to obtain a signed IRS Form 4506–C for that borrower.
  - If a borrower's self-employment income from a sole proprietorship (as reported on IRS Form 1040, Schedule C or C-EZ) is validated by the DU validation service, lenders are not required to obtain the tax returns. Documentation in accordance with the DU message is acceptable. The DU message may allow a tax transcript rather than the tax returns.
  - When employment is validated by DU, DU includes in its assessment the age of the information in the vendor's database. The DU message will include a date by which the loan must close. This may differ from the age of data and 10 business day requirements outlined in the verbal verification of employment requirements. Compliance with the DU message satisfies the requirement for completing the verification of employment.
  - When employment is validated through the DU validation service using an asset verification report, the lender is not required to obtain the employment documentation described in "Standards for Employment Documentation" in the non-AUS section above. DU will provide messaging indicating the documentation required. Lenders must comply with all requirements pertaining to the DU validation service. See "DU Validation Service" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.
  - Loans that are submitted through the DU validation service must comply with all requirements pertaining to the DU validation service.

Reference: See "DU Validation Service" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.

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General Income Documentation Requirements, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **General Documentation Requirements**
  - **Introduction to Documentation Requirements**
    - For all income qualification sources used to qualify the borrower, the lender must obtain the required documentation and verifications, as listed in the respective income sections outlined in this document. Additional documentation may be necessary to evaluate, justify and explain the qualification of the borrower. This includes scenarios in which the lender has knowledge that the documentation originally provided by the borrower may not be reflective of the borrower's current level of income, even though it meets the age of documentation requirements. For example, a more recent paystub may be necessary if the borrower's industry was impacted by economic conditions or wide-spread business closures after the original paystub was provided, potentially affecting hours worked and income received. All documentation must be maintained in the mortgage file.
    - For information about general requirements for verifying documents and age of documentation, refer to the "General Requirements for Verifying Documents" and "Age of Documentation" sections subsequently outlined in this subtopic.

  - **General Requirements for Verifying Documents**
    - **Written Verifications**
      - Written verifications must meet all of the following requirements:
        - Standard verification forms, such as the original verification of employment (VOE), must be sent directly from the originator to the borrower's employer and, upon completion, returned directly from that entity to the originator
        - Facsimile verification forms are acceptable if it is clear from the document that the information was sent by facsimile transmission directly from the source to the originator and are considered to be originals
        - The original documents must not contain any alterations, erasures, correction fluid or correction tape
        - The lender's mortgage file contains legible copies of the originals
        - The copies must have been made by the originator or the applicant directly from the originals. Copies provided by any other source, such as the agent or builder, are not acceptable.
      - An electronic verification is a computer-generated document, accessed and printed from an intranet or internet, that may be used to verify information such as the borrower's employment or income. This includes employment and/or income statements. The borrower may provide the verification directly, or the originator may obtain it directly from the employer.
      - The borrower may provide verification of income and employment in the form of a photocopy (including a picture of a document), facsimile or electronic verification. If the borrower has provided electronic verifications, photocopies or facsimiles of other verifications, where the originator did not view and copy the original documents directly, the lender is strongly encouraged to reverify the information through the quality control process.

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General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **General Requirements for Verifying Documents**, continued
    - **Documents of Foreign Origin and Documents in a Foreign Language**
      - All documents in the mortgage file related to the origination of the mortgage must be in English or must be translated into English by the document originator or an unaffiliated third-party translation service. Such translations must be attached to each non-English document, and the lender represents and warrants to Freddie Mac that the translation is complete and accurate.
      - All foreign currency amounts must be converted to U.S. dollars. See "Source of Funds from Outside the United States and its Territories" outlined in the "Special Requirements for Borrower Personal Funds" section in the "General Asset Information" subtopic subsequently presented in this document for requirements when the source of funds needed for closing costs is, or otherwise originates from, asset(s) located outside the United States and its territories.

  - **Age of Documentation**
    - **Age of Verifications**
      - Verifications of information used to evaluate the borrower's creditworthiness must be dated no more than 120 calendar days before the note date. Verifications subject to this requirement include verification of:
        - Employment
        - Income, including current receipt of income
      - **For an employed borrower**, the lender must also confirm the borrower's employment by obtaining a 10-day pre-closing verification in accordance with the requirements outlined in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic.
      - **For a self-employed borrower**, the lender must also obtain a verification of the current existence of the borrower's business in accordance with the requirements outlined in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic.
      - For additional guidance related to verifications, refer to:
        - the "Employed Income Documentation and Verification Requirements" section subsequently presented in this subtopic for additional requirements for year-to-date paystubs, and
        - the "Age of Tax Return Requirements" section subsequently presented in this subtopic for age of tax return requirements.

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General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Age of Documentation**, continued
    - **Age of Documentation when Data Used for Loan Product Advisor Assessments**
      - For mortgages when data is used for the Loan Product Advisor assessment and a verification report is obtained, the expiration of the verification report reflected in feedback messaging on the Last Feedback Certificate complies with the "Age of Verifications" requirements above. Refer to the following section in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance related to the verification report requirements for mortgages using automated assessment:
        - "Automated Income Assessment Using Employed Income Data"

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General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Employed Income Documentation and Verification Requirements**
    - **YTD Paystub(s)**
      - The following chart contains requirements and guidance pertaining to YTD paystubs:

Subject	Requirements
YTD Paystubs	The YTD paystub(s) must enable the lender to determine and support the stable monthly income used for qualification. At a minimum, the paystub must: • Be dated no more than 30 days before the application received date in addition to complying with the age of documentation requirements in the "Age of Documentation" section previously presented in this topic. • Clearly identify the employer's name, the borrower as the employee and the date issued • Show the time period covered, the current pay period dates and earnings, and the complete YTD earnings **YTD paystubs with less than the required information** When the YTD paystub does not contain the required information (e.g., paystubs that are handwritten or typed by the employer and do not contain YTD earnings), the lender must verify the required information by obtaining additional documentation (e.g., written VOE, a review of payroll deposits on bank statements).

    - **W-2 Forms**
      - W-2 form(s) must be the complete Internal Revenue Service (IRS) Form W-2 distributed by the employer issued for the preceding tax year(s).
      - The following documentation may be used in lieu of the W-2 form:

Subject	Requirements
Year-end YTD paystub or military Leave and Earnings Statement	The year-end YTD paystub(s) or military Leave and Earnings Statement may be used in lieu of the W-2 form(s) provided the documentation reflects the complete income earned in the previous calendar year
W-2 transcript for all income and earnings types	The W-2 transcript(s) may be used in lieu of the W-2 form(s) provided the transcript reflects the complete income earned in the previous calendar year

    - **Written VOE**
      - All written VOEs must contain the following information:
        - Signature, printed name, title and contact information (e.g., phone number) of the authorized employer representative who verified the information and the date completed
        - Borrower's name and employer's name and address

Continued on next page

General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Employed Income Documentation and Verification Requirements,** continued
    - **Written VOE,** continued
      - If the employer provides additional information, such as the probability of continued employment and/or income, or comments, the lender must consider the information with the income and employment analysis.
      - Refer to the "General Requirements for Verifying Documents" section previously outlined in this subtopic for additional information about verifying documents.
      - The following chart contains additional requirements pertaining to written VOEs:

Subject	Requirements
Current employment and income	• Date employment began • Current position • Gross base non-fluctuating earnings per pay period (e.g., monthly, bi-weekly) • Fluctuating hourly earnings and rate of hourly pay • Year-to-date earnings with paid through date • Earnings from either the most recent one or two-year calendar period, in accordance with the requirements outlined in this topic • Earnings (e.g., base non-fluctuating, fluctuating hourly, bonus, overtime, tips, commissions) must be split into separate categories for both YTD and prior year(s) earnings
Current military active-duty employment base (basic) pay and entitlement income	• Date employment began • Current position • Base (basic) monthly pay • Current monthly entitlement income (e.g., rations, clothing, quarters) • Year-to-date earnings with paid through date • Earnings from most recent one-year calendar period
Current military Reserve or National Guard income	• Date employment began • Current position • Year-to-date earnings with paid through date • Earnings from most recent one-year calendar period

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General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Employed Income Documentation and Verification Requirements,** continued
    - **Written VOE, continued**

Subject	Requirements
Previous employment and income	• Date employment began • Date employment concluded • Position held • Gross earnings amount

    - **10-Day Pre-Closing Verification (10-day PCV)**
      - See the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic for guidance.

  - **Third-Party Verification Service Providers: Employment and Income Verifications**
    - Employment, income and 10-day pre-closing verifications obtained through third-party verification service providers are acceptable, provided that the following qualifications are met:
      - The verifications must be received by the originator directly from the third-party verification service provider
      - If any required information is missing, the lender must obtain additional documentation to supplement the third-party verification
      - The lender is responsible for ensuring the accuracy and integrity of the information provided by the third-party verification service providers
      - The lender must verify that all third-party verification service providers have procedures to comply with quality control requests for reverification from Freddie Mac, the lender, and/or Servicer

    - **Employment and Income Verifications**
      - A copy of the verification must be retained in the mortgage file and must meet the following requirements:
        - Employment and income verifications must contain sufficient information to determine stable monthly income in accordance with the requirements outlined in this document
        - If the verification is completed using employment and/or income information from an electronic database, the verification must evidence that the information in the database is no more than 35 days old
      - Refer to the "Age of Documentation" section previously outlined in this subtopic for more information about the age of documentation requirements.

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General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Third Party Verification Service Providers: Employment and Income Verifications,** continued
    - **Employment and Income Verifications**, continued
      - In lieu of the requirements of this section, for mortgages using automated income assessment using employed income data that receive a representation and warranty relief result of "Eligible" or "Partial" as described in the "Automated Income Assessment Using Employed Income Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic:
        - See "Underwriting Requirements" in the "Automated Income Assessment Using Employed Income Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for requirements pertaining to third-party verification service providers and income verifications from third-party verification service providers.
      - In lieu of the requirements of this section, for mortgages using automated income assessment with Loan Product Advisor using account data that receive a Risk Class of Accept and are underwritten using income types that are eligible for representation and warranty relief as described in the "Automated Income Assessment with Loan Product Advisor Using Account Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic:
        - See "Verification Reports" in the "Automated Income Assessment with Loan Product Advisor Using Account Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for requirements pertaining to third party service providers and the verification reports.

    - **10-Day Pre-Closing Verifications (10-Day PCV)**
      - Verification of the borrower's current employment (10-day PCV) must be obtained in accordance with the requirements of this section. Refer to the specific income type subtopics subsequently presented in this topic and the "Relocation Mortgages" subtopic previously presented in the "Eligible Transactions" topic within this document for additional information about when a 10-day PCV is or is not required
      - The 10-day PCV, when required, must either be obtained no more than 10 business days prior to the note date, or after the note date but prior to the delivery date (to Truist).

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General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Third Party Verification Service Providers: Employment and Income Verifications,** continued
    - **10-Day Pre-Closing Verifications (10-Day PCV)**, continued
      - 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 information:
        - 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)
        - Date verification was issued to the lender by third-party verification services provider
      - The form used by the third-party verification services provider must contain the name and contact information of the provider.
  - **Tax Returns and Tax Return Information: Documentation and Verification Requirements**

    Note: Under certain circumstances, the Taxpayer First Act requires that the taxpayer's consent be obtained prior to the use and disclosure of the taxpayer's tax return or tax return information to a third party. If taxpayer consent is required under the Act, lenders must ensure that the form of consent obtained from the taxpayer permits the use and sharing of the tax return or tax return information with and by any actual or potential owners of the mortgage, as well as their service providers, successors and assigns. The signed consent form must be obtained in a timely manner and placed in the mortgage file.

    - **Tax Return Requirements**
      - Tax returns must be:
        - The borrower's signed copy of the U.S. federal income tax return(s) that were most recently filed with the Internal Revenue Service (IRS)
        - A complete tax return, including all applicable schedules and forms (which includes all W-2s, K-1s and 1099s)
      - The following are acceptable alternatives for the borrower's signature on the tax return(s):
        - Evidence the tax returns were filed electronically (e.g., signed Form 8879, IRS e-file Signature Authorization or equivalent), or
        - Tax transcripts that validate the information on the unsigned tax returns, or
        - A completed IRS Form 4506-C signed by the borrower, or alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party

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Income, Continued

General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Tax Returns and Tax Return Information: Documentation and Verification Requirements,** continued
    - **Age of Tax Return Requirements**
      - The most recent federal income tax return is the last tax return, individual and/or business, that was filed with the IRS by the borrower and, if applicable, the borrower's business. Lenders are encouraged to always confirm with the borrower that the tax returns provided are the tax returns most recently filed with the IRS.
      - The lender must determine the stable monthly income which may require additional documentation and analysis. Refer to the "Additional Supporting Documentation for Business and Income Analysis" subsection in the "Self-Employment Income" subtopic, subsequently presented in this document, for additional guidance about self-employed income and supporting documentation when the tax returns for the most recent calendar year are not yet available.
      - At a minimum, the following date and documentation requirements must be met, based on the application received date and the note date for the mortgage:
        - **For Mortgages with Note Dates on or after November 1, 2024**

Application Received Date	Note Date	Age of Tax Return and Other Documentation Requirements
Before: April 15, 2025	**On or after:** November 1, 2024 **Before**: May 31, 2025	• Most recent federal income tax return(s) filed with the IRS • The most recent tax return(s) must be no older than 2023

On or after: April 15, 2025	**Before:** May 31, 2025	If the borrower has not filed the 2024 tax return(s) with the IRS:
		• The most recent tax returns must be no older than 2023
		• The lender must obtain:
		  • IRS confirmation verifying tax transcript(s) are not yet available for the tax return(s) (individual, and business, if applicable) from the 2024 tax year[1,2]; and
		  • Evidence of completed IRS tax filing extension(s) for the 2024 tax year (e.g., if using IRS tax extension forms to evidence tax filing extension, include IRS Form(s) 4868 and/or 7004, as applicable)[3]

All	**On or after:** May 31, 2025 **Before:** November 1, 2025	
All	**On or after:** November 1, 2025	• The most recent tax return(s) must be no older than 2024, regardless of other factors such as tax filing extension status or IRS tax filing deadline relief status.
[1] If the IRS extends the tax filing due date, the IRS confirmation is required for mortgages with application received dates on or after the IRS income tax filing due date, or May 31, 2025, whichever occurs first; and note dates on or after the last day of the month following the IRS income tax filing due date, or June 30, 2025, whichever occurs first.		

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General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Tax Returns and Tax Return Information: Documentation and Verification Requirements,** continued
    - **Age of Tax Return Requirements**, continued

[2] Alternative documentation is acceptable in lieu of the IRS confirmation that tax transcript(s) are not yet available for the business tax return(s), as follows:

- Confirmation business tax returns were filed after IRS filing due date for the prior year(s) (e.g., 2023 business tax return in file was signed later in the year (e.g., October)) or documentation from third-party tax return preparer confirming 2024 business return has not yet been filed; and
- Documented evidence of continued income stability using at least one of the examples listed in the "Self-Employment Income/Additional Supporting Documentation for Business and Income Analysis" requirements, subsequently presented in this document, in the row labeled "Business and/or individual tax return(s) – most recent calendar year not yet available."

[3] If the IRS extends the tax filing due date, evidence of the completed IRS tax filing extension is required for mortgages with application received dates on or after the IRS income tax filing due date and note dates on or after the last day of the month following the IRS income tax filing due date.

- **For Mortgages with Note Dates before November 1, 2024 and Settlement Dates (i.e., the date the loan is purchased by Freddie Mac) on or after February 5, 2025**
  - Apply the age of tax return and other documentation requirements as shown in the table above; however, the prior calendar year may replace the calendar year shown in the table.

Continued on next page

General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Tax Returns and Tax Return Information: Documentation and Verification Requirements,** continued
    - **IRS Tax Transcripts**
      - If a tax transcript is obtained and contains information sufficient to meet verification requirements, it may be used in lieu of other required documentation (e.g., IRS Form W-2); however, the information provided on the tax transcript often lacks certain information needed to fully evaluate the stable monthly income.
        - **Example:** Individual rental property data, partnership and S corporation information is not clearly delineated in the tax transcripts. Conversely, the sole proprietorship information for Schedule C that is contained in a tax transcript may be an effective documentation alternative when reviewing the impact of a business loss incurred by self-employment. See the "Self-Employment Income" subtopic subsequently presented in this topic for additional information.
      - IRS confirmation verifying transcripts are not yet available for the prior calendar year are always recommended, and in certain instances are required. Refer to the "Age of Tax Return Requirements" section previously presented in this subtopic for additional information about age of tax return requirements.
    - **When Tax Returns are Required**
      - The lender must obtain the borrower's most recent federal income tax return(s) for certain types of income and/or employment characteristics if using the income to qualify the borrower. Income types and/or employment characteristics include the following:
        - Tip income – Cash and charge tips reported on IRS Form 4137
        - Income from employment by a family member, property seller, broker or other interested party to the transaction
        - Employed income from a foreign source
        - Income reported on IRS Form 1099 for services performed
        - Self-employed income
        - Dividend and interest income
        - Capital gains income
        - Royalty payments
        - Trust income
        - Non-employment/non-self-employment income from a foreign source
        - Tax-exempt income (optional)
        - Rental income
      - See the applicable income subtopic subsequently presented in this topic for specific requirements.

Continued on next page

General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **Tax Returns and Tax Return Information: Documentation and Verification Requirements,** continued
    - **Unreimbursed Employee Expenses Reported on Tax Returns**
      - Unreimbursed employee expenses reported on the borrower's federal individual income tax returns are not required to be deducted from the borrower's income.
  - **IRS Form 4506-C Requirements for all Income and Asset Qualification Sources**
    - All borrowers, whose income is used to qualify or whose assets are used as a basis for repayment of obligations, are required to sign Internal Revenue Service (IRS) Form 4506-C or an alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party (e.g., IRS Form 8821). The Form 4506-C must be signed no later than the note date and must be retained in the mortgage file.

      Reference: See the “Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)” subtopic subsequently presented in this topic for additional guidance regarding assets used as a basis for repayment of obligations.
    - If submitting the Form 4506-C to the IRS, the lender must ensure that the IRS receives the form prior to the form's expiration date. The lender must retain the tax documentation received back from the IRS in the mortgage file.
    - For borrowers with income that is derived from sources in Puerto Rico, Guam or the U.S. Virgin Islands that are exempt from federal income taxation under the Internal Revenue Code, the above requirements apply, except as follows:
      - In lieu of a Form 4506-C, borrowers with income that is derived from sources in Puerto Rico must sign the most recent version of Commonwealth of Puerto Rico Form 2907 titled "Request For Copy of the Return, Estate or Gift Certificate of Release" (Modelo SC 2907 "Solicitud De Copia De Planilla, Relevo De Herencia Y De Donacion") for submission to the Puerto Rico Department of the Treasury, Internal Revenue Area.
      - Borrowers with income that is derived from sources in Guam or the U.S. Virgin Islands must sign the Form 4506-C (or an alternate form that authorizes the release of comparable tax information to a third party) for submission to the Guam Department of Taxation and Revenue or Virgin Islands Bureau of Internal Revenue, as applicable.

Continued on next page

General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **IRS Form 4506-C Requirements for all Income and Asset Qualification Sources**, continued
    - For mortgages using automated income assessment using employed income data that are eligible for representation and warranty relief as described in the "Automated Income Assessment Using Employed Income Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic:
      - See "IRS Form 4506-C Requirements" in the "Automated Income Assessment Using Employed Income Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for requirements pertaining to IRS Form 4506-C.
    - For mortgages using automated income assessment with Loan Product Advisor using account data that receive a Risk Class of Accept and are underwritten using income types that are eligible for representation and warranty relief as described in "Automated Income Assessment with Loan Product Advisor Using Account Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic:
      - See "Representation and Warranty Relief and Additional Requirements" in the "Automated Income Assessment with Loan Product Advisor Using Account Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for requirements pertaining to IRS Form 4506-C.
    - See the section below on how to address "Rejected IRS Form 1040 Transcripts."
    - **Rejected IRS Form 1040 Transcripts –Truist Guidance**
      - When the IRS rejects the borrower's request for 1040 tax transcripts due to identity theft or other reasons, Truist will accept alternative documentation. Do not use these requirements when a "no record found" or "data does not match" response is received from the IRS.
      - Lenders should use discretion when validating the borrower's income. This could include items such as the prior year tax transcripts, a police report, institutional written VOEs, bank statements supporting payroll deposits, or any other documentation deemed supportive, based upon the specific situation.
      - Follow the requirements outlined in the table below when the IRS rejects an IRS Form 4506-C request for identity theft or other reasons.

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General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Documentation Requirements**, continued
  - **IRS Form 4506-C Requirements for all Income Qualification Sources,** continued
    - **Rejected IRS Form 1040 Transcripts –Truist Guidance,** continued

When the Reason for the IRS Rejection is…	Then provide…
• Unable to Process, or • Limitation	• Evidence the IRS rejected the IRS Form 4506-C request, • A borrower-obtained *Record of Account Transcript,* in pdf format, for all applicable years missing from the www.irs.gov website, and • A signed IRS Form 4506-C for the year(s) impacted by the IRS rejection. • This transcript must validate that the documents provided by the borrower are accurate and may not be used in lieu of the tax returns provided by the borrower.

Identity Theft	• 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
	• Validation of the reported income on the tax returns by providing the following documentation:
	  • Borrower obtained *Record of Account Transcript,* in pdf format, for all applicable years missing from www.irs.gov, or all of the following:
	    • W-2 or 1099 transcripts which match the W-2 or 1099 income reflected on the transcripts,
	    • Validation of prior tax year(s) income (income for the current year must be comparable to prior to year(s),
	    • 1099 Mortgage interest should match reported interest on Schedule A or Schedule E (if applicable),
	    • 1099G Unemployment should match reported unemployment (if applicable),
	    • 1099 Dividend and Interest should match reported dividend and interest income (if applicable)

Continued on next page

General Income Documentation Requirements, continued

Freddie Mac LPA, continued

- **Employed Income**
  - **Documentation Requirements**
    - See the specific income subtopic subsequently presented in this topic for documentation requirements pertaining to earnings types for primary and secondary employment.

      References:
      - See the “Determining Earnings Types – Requirements and Guidance” section presented in the “General Income Information” subtopic previously presented in this topic for additional information about base non-fluctuating and fluctuating hourly earnings types.
      - See the “Employment Characteristic” section presented in the “General Income Information” subtopic previously presented in this topic for additional documentation that may be required based on employment characteristics.
      - See the “Employed Income Calculation Guidance and Requirements” section presented in the “General Income Information” subtopic previously presented in this topic for additional information about employed income calculation requirements and guidance. Additional documentation may be required to determine the stable monthly income amount.

- **Self-Employed Income**
  - See the “Self-Employment Income” subtopic subsequently presented in this topic for guidance.

- **Other Income (Non-Employment/Non-Self-Employment)**
  - See the specific income subtopic subsequently presented in this topic for guidance.

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Fannie Mae Income Calculator

- **Overview**
  - Fannie Mae offers use of the Income Calculator as an optional tool to assist lenders in calculating qualifying income. Income Calculator performs a complete analysis of a borrower's qualifying income (for eligible income types) and produces a Findings Report. This tool can be used for loans underwritten manually (i.e., non-AUS loans) or through DU.
  - Currently, Income Calculator evaluates the following types of income:
    - rental income reported on IRS Schedule E, Part I,
    - income from sole proprietors (Schedule C), S-corporations, partnerships, and C-corporations where borrowers are self-employed (have 25% or more ownership interest), and
    - income from S-corporations and partnerships (i.e., income reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1) where borrowers have less than 25% ownership interest.

- **Findings Report**
  - The Income Calculator Findings Report can be used to satisfy the requirement for the lender to prepare a written analysis of their evaluation regarding the calculation of qualifying income, such as Fannie Mae's *Cash Flow Analysis* (Form 1084), *Comparative Income Analysis* (Form 1088) or a similar form. A copy of the Findings Report must be maintained in the loan file.

- **Technology Service Provider**
  - The lender can choose to use a Fannie Mae-approved technology service provider to extract data from tax returns and auto populate the required fields within Income Calculator.

- **Representations and Warranties Enforcement Relief**
  - When the amount of qualifying income being used by the lender is not more than the amount of income calculated by Income Calculator, enforcement relief from representations and warranties on the accuracy of the income calculation may be provided but lenders remain responsible for the accuracy of the information submitted. See "Enforcement Relief of Representations and Warranties for Loans with Income Calculated by Income Calculator" below for additional details.

  - **Enforcement Relief of Representations and Warranties for Loans with Income Calculated by Income Calculator**
    - If lenders comply with the following requirements, they will receive representation and warranty enforcement relief for the accuracy of the income calculation, on an income-source basis, on loans with income calculated by Income Calculator.
      - All information submitted to Income Calculator must be accurate and complete.
      - A copy of the Findings Report must be kept in the loan file.
      - The amount of income used for qualifying cannot be more than the amount calculated by the tool.
    - Lenders must continue to comply with all other Agency requirements, including DU messages, as applicable.

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Fannie Mae Income Calculator, continued

- **Additional Requirements**
  - For loans that use the qualifying income amount calculated by Income Calculator, the lender must also comply with the requirements in the following table:

✓	Additional Lender Requirements
	Confirm that tax returns meet the allowable age of documents requirements.
	Ensure all information submitted to Income Calculator is accurate, complete, and reflects the information on the tax returns being used to document the qualifying income.
	Investigate and resolve any contradictory or conflicting information that may impact the accuracy of the income calculation.
	Comply with all other Agency requirements, including DU messages, when applicable.

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Freddie Mac Income Calculator

- The Freddie Mac Income Calculator is a web-based income assessment tool designed to assist lenders in determining the borrower's stable monthly income. Eligible income includes employed earnings (i.e., base, bonus, overtime, commission) using paystub(s) and W-2 data and self-employed income using tax returns or tax transcript data. Use of the Freddie Mac Income Calculator is optional.
- The Freddie Mac Income Calculator may provide relief from enforcement of certain income representations and warranties. Eligibility for income representation and warranty relief will be reflected on the Freddie Mac Income Calculator Certificate or the Feedback Certificate if submitted to Loan Product Advisor.

  Note: The Freddie Mac Income Calculator Certificate is the printed or printable document returned by the Freddie Mac Income Calculator that details the results of the Freddie Mac Income Calculator submission, including but not limited to calculated income and representation and warranty relief eligibility.

- See the following sections in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance related to the Freddie Mac Income Calculator, including, but not limited to, representation and warranty relief results on the Freddie Mac Income Calculator Certificate and documentation requirements based on the representation and warranty relief result on the Freddie Mac Income Calculator Certificate:
  - "Automated Income Assessment Using Employed Income Data"
  - "Automated Income Assessment Using Tax Data"

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Income, Continued

IRS Forms Reference

The following table lists the IRS forms referenced in this section and provides the full titles.

IRS Form Number	Title
Form 990	*Return of Organization Exempt From Income Tax Form*
Form 1040	*U. S. Individual Income Tax Return*
Form 1040, Schedule B	*Interest and Ordinary Dividends*
Form 1040, Schedule C	*Profit or Loss from Business (Sole Proprietorship)*
Form 1040, Schedule D	*Capital Gains and Losses*
Form 1040, Schedule E	*Supplemental Income and Loss*
Form 1040, Schedule F	*Profit or Loss From Farming*
Form 1065	*U. S Return of Partnership Income*
Form 1065, Schedule K-1	*Partner's Share of Income, Deductions, Credits, etc.*
Form 1099-A	*Acquisition or Abandonment of Secured Property*
Form 1099-C	*Cancellation of Debt*
Form 1099-DIV	*Dividends and Distributions*
Form 1099-MISC	*Miscellaneous Income*
Form 1120	*U.S. Corporation Income Tax Return*
Form 1120-S	*U,S. Income Tax Return for S Corporation*
Form 1120-S Schedule K-1	*Shareholder's Share of Income, Deductions, Credits, etc.*
Form 2106	*Employee Business Expenses*
Form 4506-C	*IRS IVES Request for Transcript of Tax Returns*
Form 4506	*Request for Copy of Tax Return*
Form 4797	*Sales of Business Property*
Form 6252	*Installment Sale Income*
Form 8821	*Tax Information Authorization*
Form 8825	*Rental Real Estate Income and Expenses of a Partnership or an S Corporation*
Form W-4	*Employee's Withholding Allowance Certificate*

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Alimony, Child Support and/or Separate Maintenance Payments

Non-AUS

- Alimony may be accepted as qualifying income if it meets the requirements described in this section.
- Any reported alimony received that is determined to be non-recurring must be deducted from the borrower's total income reported on IRS Form 1040.
- Verification requirements for alimony, child support, or separate maintenance are as follows:
    - Document that alimony, child support, or separate maintenance will continue to be paid for at least three years after the date of the mortgage application, as verified by one of the following:
        - A copy of a divorce decree or separation agreement (if the divorce is not final) that indicates the monthly payment and states the amount of the award and the period of time over which it will be received.

          Note: If a borrower who is separated does not have a separation agreement that specifies alimony or child support payments, the lender should not consider any proposed or voluntary payments as income.

        - Any other type of written legal agreement or court decree describing the payment terms.
        - Documentation that verifies any applicable state law that mandates alimony, child support, or separate maintenance payments, which must specify the conditions under which the payments must be made.
    - Check for limitations on the continuance of the payments, such as the age of the children for whom the support is being paid or the duration over which alimony is required to be paid.
    - Document no less than six months of the borrower's most recent regular receipt of the full payment.
    - Review the payment history to determine its suitability as stable qualifying income. To be considered stable income, full, regular, and timely payments must have been received for six months or longer. Income received for less than six months is considered unstable and may not be used to qualify the borrower for the mortgage. In addition, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for the purpose of qualifying the borrower.

Note: The lender may include alimony, child support, or separate maintenance as income only if the borrower discloses it on the Form 1003 and requests that it be considered in qualifying for the loan.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- If a borrower's alimony or child support income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described in the non-AUS section above for the verification of the borrower's regular receipt of the full payment and its use as stable qualifying income. See "DU Validation Service" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.

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Alimony and/or Child Support Income, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **History of receipt**: Most recent six months
  - The income must not be considered for qualifying if:
    - The payor has been obligated to make payments for less than six months, or
    - The payments are not for the full amount, or
    - The payments are not received on a consistent basis
- **Continuance**: Document and verify the payor is obligated to make payment to the borrower for at least the next three years
- **Calculation**: Use the documented fixed monthly payment amount
- **Streamlined Accept and Standard Documentation Requirements**:
  - Copy of legally binding documentation verifying the payor's obligation (i.e., signed court order, final divorce decree, legally binding separation agreement, legally binding child support agreement, or other legally binding documentation) for the previous six months, including the amount and the duration of the obligation
    - For child support income, evidence of the ages of the children for which child support is received
  - Documentation to evidence receipt of the alimony, child support and/or separate maintenance payment amount for the most recent six months:
    - Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution, or
    - Evidence that the payments were transferred into a third-party money transfer application account owned by the borrower, or
    - Statement from a government agency (i.e., child support agency) reflecting the borrower's name as the recipient and the amounts paid

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Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)

Non-AUS

- **Employment-Related Assets as Qualifying Income**
  - All of the following loan parameters must be met in order for employment-related assets to be used as qualifying income:

Parameter	Requirement
Maximum LTV/TLTV/HTLTV	• 70% • 80% if the owner of the asset(s) being used to qualify is at least 62 years old at the time of closing. If the asset(s) is jointly owned, all owners must be a borrower on the loan and the borrower using the income to qualify must be at least 62 years old at the time of closing.
Minimum Credit Score	Higher of 640 or minimum credit score required per the transaction type
Loan Purpose	Purchase and limited cash-out refinance only
Occupancy	Primary residence only
Number of Units	As permitted by occupancy type
Income Calculation/Payout Stream	Divide "Net Documented Assets" by the amortization term of the mortgage loan (in months)

  - The following table provides the requirements for employment-related assets that may be used as qualifying income:

✓	Asset Requirements
	Assets used for the calculation of the monthly income stream must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the mortgage loan. The documentation must be in compliance with the allowable age of asset documents requirements. See the "General Asset Documentation Requirements" subtopic in the "Cash Requirements" topic for additional information.
	Assets must be liquid and available to the borrower and must be sourced as one of the following: • A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) – these funds must be documented with a distribution letter from the employer (Form 1099-R) and deposited to a verified asset account. • For 401(k) or IRA, SEP, Keogh retirement accounts - the borrower must have unrestricted access to the funds in the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account and its asset composition must be documented with the most recent monthly, quarterly, or annual statement.
	If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.

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Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology), continued

Non-AUS, continued

- **Employment-Related Assets as Qualifying Income**, continued

✓	Asset Requirements	
	A borrower must only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the 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 such distribution).	
	"Net documented assets" are equal to the sum of eligible assets minus: a. the amount of the penalty that would apply if the account was completely distributed at the time of calculation; and b. the amount of funds used for down payment, closing costs, and required reserves.	
	Ineligible assets are non-employment related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds). Checking and savings accounts are 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 (for example, a severance package or lump sum retirement distribution). Virtual currency is not an eligible asset.	
	If eligible employment-related assets have been liquidated and placed into a trust within 12 months of the loan's application date, income must be calculated in accordance with the requirements in this table.	
	Example: Calculation of Net Documented Assets	
	IRA (made up of stocks and mutual funds)	$500,000
	Minus 10% of $500,000 ($500,000 x .10) (Assumes a 10% penalty applies for early distribution, which must be levied against any cash being withdrawn for closing the transaction as well as the remaining funds used to calculate the income stream.)	(-) $50,000
	Total eligible documented assets	(=) $450,000
	Minus funds required for closing (down payment, closing costs, reserves)	(-) $100,000
	Net Documented Assets	**(=) $350,000**
	Monthly income calculation ($350,000/360 (or applicable term of loan in months)) See Income Calculation/Payout Stream in table above.	$972.22/month

Note: If the mortgage loan does not meet the above parameters, employment-related assets may still be eligible under other standard income requirements, such as "Interest and Dividends Income," or "Retirement, Government Annuity, and Pension Income."

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Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology), continued

Fannie Mae DU

- **Employment-Related Assets as Qualifying Income**
  - Follow DU requirements, which are the same as non-AUS requirements, except as follows:
    - **Minimum Credit Score**: A minimum 640 representative credit score is required
    - **Occupancy**: Primary residence and second home only
    - **Special Feature Code Requirement**
      - Use SFC H31 to identify a loan using employment-related assets as qualifying income.

- **Non-Employment Related Assets Used for Qualifying Income**:
  - Follow the DU requirements below for loans underwritten using monthly income derived from the conversion of some or all of the borrower's non-employment related liquid assets ("Other Financial Assets") to qualify the borrower for the loan:
    - **Eligibility Requirements**

Parameter	Requirement
Maximum LTV/TLTV/HTLTV	• Purchase and Limited Cash-Out Refinance: 80% • Cash-Out Refinance: 60%
Minimum Representative Credit Score	• 680 for loans with LTVs less than or equal to 70% • 720 for loans with LTVs greater than 70%
Ineligible Property Types	Manufactured homes
Occupant/Number of Units	• 1- and 2-unit primary residences • 1-unit second homes

- **Underwriting/Documentation Requirements**

Parameter	Requirement
Required Underwriting Method	Desktop Underwriter (DU)
Required Recommendation Level	DU Approve/Eligible
Income Verification	• To determine whether the borrower qualifies for the loan, convert the borrower's Other Financial Assets into an income stream as described in the Monthly Income Stream Calculation section below. • The income derived from the monthly income stream calculation must be entered as "Other Income" on the Uniform Residential Loan Application. Other Financial Assets converted into a monthly income stream may not be considered assets available for closing costs or reserves. • Interest, dividends, and capital gains from Other Financial Assets (reported on the borrower's tax return) cannot be used as additional income.

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Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology), continued

Fannie Mae DU, continued

- **Non-Employment Related Assets Used for Qualifying Income,** continued:
  - **Underwriting/Documentation Requirements,** continued

Parameter	Requirement
Reserves	The borrower's minimum reserve requirements may not be satisfied using any of the Other Financial Assets.

Asset Requirements	• Other Financial Assets must be owned solely by the borrower or jointly with a co-borrower of the loan.
	• Other Financial Assets used in the calculation of the monthly income stream must be liquid and available to the borrower with no penalty.
	• If the Other Financial Assets are in the form of stock, bonds, mutual funds, or U.S. savings bonds, no more than 70% of the value (remaining after costs for the transaction) may be used to determine the income stream because of the volatile nature of these assets.
	• If Other Financial Assets are in the form of demand deposit account, savings account or certificate of deposit, 100% of the value may be used to determine the income stream.
	• "Net documented assets" are equal to:
	  • (a) the sum of eligible documented Other Financial Assets minus any funds that will be used for closing or required reserves,
	  • (b) minus 30% of the remaining value of any stocks, bonds, mutual funds, or U.S. savings bonds assets (after the calculation in (a)).
	
	Example:
	Amount held in checking and savings accounts = $40,000
	Amount held as stocks and mutual funds = $500,000
	Funds required for closing (sum of down payment, closing costs and reserves = $100,000
	
	Calculation of net documented assets:
	Eligible Documented Other Financial Assets: $540,000
	Amount used for Closing Cost: $40,000 cash and $60,000 stocks and mutual funds
	Amount of stocks and mutual funds remaining: $440,000
	30% of stocks and mutual funds remaining: $132,000
	Net documented assets = $440,000 - 132,000 = $308,000

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Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology), continued

Fannie Mae DU, continued

- **Non-Employment Related Assets Used for Qualifying Income,** continued:
  - **Underwriting/Documentation Requirements,** continued

Parameter	Requirement
Minimum Asset Amount	The minimum amount of the Other Financial Assets required is as follows: • Purchase and Limited Cash-Out Refinance: The lesser of one and one half times the original UPB and $500,000 • Cash-Out Refinance: $500,000

Minimum Age of Assets	The minimum age of the Other Financial Assets is as follows:
	• Purchase and Limited Cash-Out Refinance:
	  ◦ 12 months with minimum representative credit score of 720 or higher
	  ◦ 24 months with a representative credit score less than 720
	• Cash-Out Refinance: 24 months

Eligible Asset Types	• **Assets Eligible as Other Financial Assets:**
	  ◦ The same eligible liquid financial assets that may be used for the borrower's reserves are eligible as Other Financial Assets, as outlined in "Cash Reserve Requirements" in the "Cash Requirements" topic subsequently presented in this document, and
	  ◦ Funds from the sale of investment properties.
	• **Assets Ineligible as Other Financial Assets:**
	  ◦ Assets that are ineligible as borrower's reserves are ineligible as Other Financial Assets, as outlined in "Cash Reserve Requirements" ("Unacceptable Sources of Reserves" section) in the "Cash Requirements" topic subsequently presented in this document.
	  ◦ Virtual currency is not an eligible asset.

Monthly Income Stream Calculation	Divide the borrower's net documented assets by the amortization term of the loan (in months).

  - **Special Feature Code Requirement**
    - Use SFC 579 to identify a mortgage loan with non-employment related assets used for qualifying income.

Continued on next page

Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology), continued

Freddie Mac LPA *(Assets as a Basis for Repayment of Obligations – LPA Terminology)*

- Follow LPA requirements, which are as follows:
  - Assets that will be used by the borrower for the repayment of their monthly obligations may be used to qualify the borrower for the mortgage, provided that the requirements of this section are met. Form 65, *Uniform Residential Loan Application*, should include information pertaining to the borrower's employment and income, even if the borrower qualifies for the mortgage solely based on assets.
  - **Mortgage Eligibility Requirements**
    - The assets described in this section may only be used to qualify the borrower if the mortgage meets all of the following requirements:
      - The mortgage is secured by a 1- or 2-unit primary residence or a second home
      - The mortgage is either a purchase transaction mortgage or "no cash-out" refinance mortgage
      - The mortgage has a maximum loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio of 80%
  - **Asset Calculation for Establishing the Debt Payment-to-Income Ratio**
    - To determine the amount used to establish the debt payment-to-income ratio, the lender must use the net eligible assets (as described below), divided by 240.
    - The amount of net eligible assets is calculated by subtracting the following from the total eligible assets:
      - 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
  - **Asset Eligibility and Documentation Requirements**
    - The assets described below may be used to qualify the borrower for the mortgage, provided that the assets meet the following requirements:

Continued on next page

Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology), continued

Freddie Mac LPA, continued

- **Asset Eligibility and Documentation Requirements,** continued

Asset Type	Asset Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
Retirement Assets	• The retirement assets must be in a retirement account recognized by the Internal Revenue Service (IRS) (e.g., 401(k), IRA) • Borrower(s) must be the sole owner • The asset must not currently be used as a source of income by the borrower • 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 or an additional early distribution tax • The borrower's rights to the funds in the account must be fully vested • Cryptocurrency may not be considered in the calculation of net eligible assets for establishing the debt payment-to-income ratio described in the “Asset Calculation for Establishing the Debt Payment-to-Income Ratio” section above	• Most recent retirement asset account statement • Documentation evidencing asset eligibility requirements are met

Lump-sum distribution funds not deposited to an eligible retirement asset	If the lump-sum distribution funds have been deposited to an eligible retirement asset, follow the requirements for retirement assets described above.
	• Lump-sum distribution funds must be derived from a retirement account recognized by the IRS (e.g., 401(k), IRA) and must be deposited to a depository or non-retirement securities account
	• A borrower must have been the recipient of the lump-sum distribution funds
	• Parties not obligated on the mortgage 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
	• The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty or early distribution tax
		• Employer distribution letter(s) and/or check-stub(s) evidencing receipt and type of lump-sum distribution funds; IRS 1099-R (if it has been received)
		• Satisfactorily documented evidence of the following:
		  • Funds verified in the non-retirement account and used for qualification must have been derived from eligible retirement assets
		  • Lump-sum distribution funds must not have been or currently be subject to a penalty or early distribution tax

Continued on next page

Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology), continued

Freddie Mac LPA, continued

- **Asset Eligibility and Documentation Requirements,** continued

Asset Type	Asset Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements

Depository Accounts and Securities	• The borrower must solely own assets or, if asset is owned jointly, each asset owner must be a borrower on the mortgage and/or on the title to the subject property
	• At least one 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
	• Account funds must be located in a United States- or State-regulated financial institution and verified in U.S. dollars
	• Cryptocurrency may not be considered in the calculation of net eligible assets for establishing the debt payment-to-income ratio described in the "Asset Calculation for Establishing the Debt Payment-to-Income Ratio" section above
		• *Streamlined Accept:* Provide an account statement covering a one-month period or a direct account verification (i.e., VOD)
		• *Standard Documentation:* Provide account statement(s) covering a two-month period or a direct account verification (i.e., VOD)
		
		OR, regardless of the documentation level:
		• For securities only, if the borrower does not receive a stock/security account statement
		    • Provide evidence the security is owned by the borrower, and
		    • Verify value using stock prices from a financial publication or website
		• Documentation evidencing asset eligibility requirements are met
		• Sourcing deposits:
		    • The lender must document the source of funds for any deposit exceeding 10% of the borrower's total eligible assets in depository accounts and securities, and verify the deposit does not include gifts or borrowed funds, or reduce the eligible assets used to qualify the borrower by the amount of the deposit
		    • When the source of funds can be clearly identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset source in the mortgage file, the lender is not required to obtain additional documentation

Continued on next page

Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology), continued

Freddie Mac LPA, continued

- **Asset Eligibility and Documentation Requirements,** continued

Asset Type	Asset Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
Assets from the sale of the borrower's business	• 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 mortgage 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 • 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	• Most recent three months' depository or securities account statements • Fully executed closing documents evidencing final sale of business to include sales price and net proceeds • Contract for sale of business • Most recent business tax return prior to sale of business • Satisfactorily documented evidence of the following: ◦ Funds verified in the non-retirement account and used for qualification must have been derived from the sale of the borrower's business

- **Special Feature Code Requirement**
  - Use SFC H31 to identify the loan as using assets as a basis for repayment of obligations.

Notes:
- **Truist Clarification**: If the mortgage loan does not meet the above parameters, assets as a basis for repayment of obligations may still be eligible under other standard income requirements, such as “Interest and Dividends Income,” or “Retirement, Government Annuity, and Pension Income.”
- Freddie Mac LPA is not able to recognize assets as a basis for repayment of obligations or retirement account distributions as income; therefore, these requirements will need to be applied outside of LPA.

Continued on next page

Automobile Allowances and Expense Account Payments

Non-AUS

- For an automobile allowance or expense account payment to be considered as acceptable stable income, the borrower must have received payments for at least two years. The lender must add the full amount of the allowance to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **History of receipt**: Two-years, consecutive
- **Continuance**: Must be likely to continue for at least the next three years
- **Calculation**: The lender may add the full amount of the allowance to the borrower's qualifying income, and when calculating the borrower's debt payment-to-income ratio, the lender must include the full amount of the monthly automobile financing expense in the calculation of the borrower's monthly debt payment. The lender may not subtract the automobile allowance from the monthly automobile financing expense.
- **Streamlined Accept and Standard Documentation Requirements**:
  - **All of the following**:
    - YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years and a 10-day PCV
  - **Or all of the following**:
    - Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years and a 10-day PCV

Reference: See the "Additional Employed Income/Income History and Stability – Requirements and Guidance" subtopic subsequently presented within the "General Income Information" topic for guidance when a history of less than two years, but not less than one year, may be acceptable.

Continued on next page

Boarder Income

Non-AUS

- Generally, rental income from the borrower's primary residence (a one-unit primary residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower. However, Fannie Mae does allow certain exceptions to this requirement for boarder income.
- Income from boarders in the borrower's primary residence or second home is not considered acceptable stable income with the exception of the following:
  - When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an amount up to 30% of the total gross income that is used to qualify the borrower for the mortgage loan. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower.
- Verification requirements for income from boarders are as follows:
  - Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the borrower's address.
  - Obtain documentation of the boarder's rental payments for the most recent 12 months.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

See "Rental Income from Live-in Aide Residing in a 1-unit Primary Residence" and "Rental Income from an ADU on a Subject 1-Unit Primary Residence" in the "Rental Income" subtopic subsequently outlined in this document for guidance.

Continued on next page

Bonus and Overtime Income

Non-AUS

Verification requirements for bonus and overtime income are as follows:

- A minimum history of two years of employment income is recommended. However, income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history. Borrowers relying on overtime or bonus income for qualifying purposes must have a history of no less than 12 months to be considered stable.
- Obtain the following documents:
  - a completed Form 1005 or Form 1005(S), ***or***
  - the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
- 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 future.
- If a borrower who has historically been employed on a part-time basis indicates that he or she will now be working full-time, obtain written confirmation from the borrower's employer.
- A verbal VOE is required from each employer. See the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic for specific requirements.

References:

- See "Variable Income" in the "General Income Information" subtopic previously presented in this topic for additional information on calculating variable income.
- See "Standards of Employment Documentation" in the "General Income Documentation Requirements" subtopic previously presented in this topic for additional information about verifying employment income.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **History of receipt**: Two-years, consecutive
- **Continuance**: Must be likely to continue for at least the next three years
- **Calculation**: See "Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis" within the "Employed Income Calculation Guidance and Requirements" section of the "General Income Information" subtopic, previously presented in this topic, for calculation guidance and requirements.
- **Streamlined Accept and Standard Documentation Requirements:**
  - **All of the following:**
    - YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years and a 10-day PCV
  - **OR, all of the following:**
    - Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years and a 10-day PCV

Reference: See the "Additional Employed Income/Income History and Stability – Requirements and Guidance" subtopic subsequently presented within the "General Income Information" topic for guidance when a history of less than two years, but not less than one year, may be acceptable.

Continued on next page

Income, Continued

Borrowers Employed by a Family Member or Interested Party to the Transaction

Non-AUS
If the borrower is employed by family members or is employed by interested parties to the property sale or purchase, the lender must obtain copies of the borrower's signed federal income tax returns filed with the IRS for the past two years.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- When a borrower is employed by a family member or by an interested party to the transaction, the employment and income is not arm's length. Due to the increased layering of risk inherent in non-arm's length employment, additional third-party validation supporting the current income level is necessary.
- The lender must determine whether the employment represents primary or secondary employment and use the applicable requirements for history, continuance, earnings type, documentation and calculation, as outlined in this document. The following **additional** documentation requirement applies (for Streamlined Accept and Standard Documentation levels):
  - Complete signed federal individual income tax return or IRS wage and income transcripts for the most recent year. This documentation must validate the prior year earnings from current employment and support the current income level. If the current income level is not supported, the lender may use the validated income amount from the prior year as qualifying income.

Borrowers Re-Entering the Workforce

Non-AUS
Truist clarifies the following:
- Borrowers who are re-entering the workforce after an extended absence may be considered under the following requirements.
  - Previous work history in similar occupation/industry or job re-training/education in a new field is documented to demonstrate stability of income used for qualifying.
  - Standard income underwriting requirements apply based on income source.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- Under certain instances, when a borrower has less than a two-year history of primary employment, the lender may be able to justify and determine that the employment is stable. An example that may support less than a two-year history of primary employment includes, but is not limited to, the following:
  - For a borrower returning to the workforce after a period of extended absence, for any reason, documentation is provided to support a stable employment history that directly preceded the extended absence.
- All other standard income requirements apply based on the income source.

Continued on next page

Capital Gains Income

Non-AUS

- Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements.
  - Document a two-year history of capital gains income by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D.
  - Develop an average income from the last two years (according to the "Variable Income" section outlined in the "General Income Information" subtopic) and use the averaged amount as part of the borrower's qualifying income as long as the borrower provides current evidence that he or she owns additional property or assets that can be sold if extra income is needed to make future mortgage loan payments.

    Note: 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.

  - Due to the nature of this income, current receipt of the income is not required to comply with the Allowable Age of Credit Documents requirements. However, documentation of the asset ownership must be in compliance with the Allowable Age of Credit Documents requirements.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **History of receipt**: Most recent two-years of realized capital gains
- **Continuance**: Document that sufficient assets remain after closing to support continuance of the capital gain income, at the level used for qualifying, for at least the next three years
- **Calculation**: 24-month average
- **Streamlined Accept and Standard Documentation Requirements:**
  - Copy of complete federal individual income tax returns for the most recent two-year period reflecting capital gain income; and,
  - Evidence of sufficient assets to support the qualifying income.

Continued on next page

Commission Income

Non-AUS

Verification requirements for commission income are as follows:

- A minimum history of two years of commission income is recommended; however, commission income that has been received for 12 to 24 months may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
- One of the following must be obtained to document commission income:
  - a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)), or
  - the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.
- A verbal VOE is required from each employer. See the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic for specific requirements.

References:

- See "Variable Income" in the "General Income Information" subtopic previously presented in this topic for information on calculating variable income.
- See "Standards for Employment Documentation" in the "General Income Documentation Requirements" subtopic previously presented in this topic for additional information about verifying employment income.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Commission Income, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Commission Income	• **History of receipt**: Two-years, consecutive • **Continuance**: Must be likely to continue for at least the next three years • **Calculation**: See “Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis” within the “Employed Income Calculation Guidance and Requirements” section of the “General Income Information” subtopic, previously presented in this topic, for calculation guidance and requirements.	**All of the following:** • YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years and a 10-day PCV **OR, all of the following:** • Written verification of employment (VOE) documenting all YTD earnings and the earnings for the most recent two calendar years and a 10-day PCV

Reference: See the “Additional Employed Income/Income History and Stability – Requirements and Guidance” subtopic subsequently presented within the “General Income Information” topic for guidance when a history of less than two years, but not less than one year, may be acceptable.

Employment Offers or Contracts

Non-AUS

- If the borrower is scheduled to begin employment under the terms of an employment offer or contract, the lender may deliver the loan, provided all requirements below are met.
  - **Paystub Not Obtained Before Loan Delivery**
    - This option is limited to loans that meet the following criteria:
      - purchase transaction,
      - primary residence,
      - one-unit property,
      - the borrower is not employed by a family member or by an interested party to the transaction, and
      - the borrower is qualified using only fixed based income.
    - The lender must obtain and review the borrower’s offer or contract for future employment. The employment offer or contract must:
      - clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower;
      - clearly identify the terms of employment, including position, type and rate of pay, and start date; and
      - be non-contingent.

Continued on next page

Employment Offers or Contracts, continued

Non-AUS, continued

- **Paystub Not Obtained Before Loan Delivery,** continued

  Note: If conditions of employment exist, the lender must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.

  Also, note that for a union member who 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 may provide the executed employment offer or contract for future employment.

  - 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.
  - Prior to delivery, the lender must obtain the following documentation depending on the borrower's employment start date:

If the borrower's start date is...	Documentation Required
The note date or no more than 30 days prior to the note date	• Employment offer or contract; and • Verbal verification of employment that confirms active employment status
No more than 90 days after the note date	Employment offer or contract

  - The lender must document, in addition to the amount of reserves required for the transaction, one of the following:
    - Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or
    - Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month. Financial resources 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 lender may use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used or is not eligible to be used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, but a verification of employment is not required.

Continued on next page

Employment Offers or Contracts, continued

Non-AUS, continued

- **Paystub Not Obtained Before Loan Delivery,** continued
  - **Special Feature Code Requirement**
    - Use SFC 707 to identify loans where the borrower's offer or contract for employment and income is used to underwrite and close the loan.

Truist Note: Truist does not offer Fannie Mae's "Option #1 - "**Paystub Obtained Before Loan Delivery**" requirements for employment offers or contracts.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- If the loan is delivered prior to the borrower starting employment, the lender must document, in addition to the amount of reserves required by DU, one of the following:
  - Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months; or
  - Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one. For calculation purposes, consider any portion of a month as a full month. Financial resources 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 lender may use the amount of income the borrower is expected to receive between the note date and the employment start date. If the current income is not being used or is not eligible to be used for qualifying purposes, it can be documented by the lender using income documentation, such as a paystub, but a verification of employment is not required.

Note: DU will issue a verification message related to employment offers and contracts if the borrower's current employment start date is blank or after the date the loan casefile was created.

Continued on next page

Income, Continued

Employment Offers or Contracts, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Employment Contracts in the Educational 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 continuance of receipt, provided the lender does not have knowledge or documentation to the contrary.

- **Employment Contracts in Other Industries**
  - If an employment contract is provided, it may also be considered for the purposes of determining stable monthly income.
  - When making the determination of employment history, income stability and the monthly income amount, the lender must take into consideration factors such as whether or not employment contracts are reasonably common to the particular employment field and/or region, the pay structure outlined within the terms of the contract and whether the borrower has demonstrated the ability to maintain consistent employment and income with this form or a similar form of pay structure over the most recent two years.
  - Obtain a documented two-year history of income and employment in the same or a similar employment field or industry when the terms of the employment contract do not include a base non-fluctuating pay structure.

Continued on next page

Income, Continued

Employment Offers or Contracts, continued

Freddie Mac LPA, continued

- **Income Commencing after the Note Date**
  - For borrowers starting new employment or receiving a future salary increase from their current employer, income commencing after the note date may be considered a stable source of qualifying income, provided all requirements in the following table are met.

Subject	Requirements
Eligible Employment and Income	Employment and income must meet the following requirements: • Income must be from new primary employment or a future salary increase with the current primary employer • Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and • The borrower's employer must not be a family member or an interested party to the real estate or mortgage transaction
Start Date of the New Employment or Future Salary Increase, as applicable	• Must be no later than 90 days after the note date • May be before or after the delivery date
Eligible Loan Purpose	The mortgage must be originated for one of the following purposes: • Purchase transaction • "No cash-out" refinance
Eligible Mortgaged Premises	The mortgaged premises must be a 1-unit primary residence
Verification of Additional Funds	In addition to funds required to be paid by the borrower and borrower reserves, the lender must verify additional funds in the borrower's depository and/or securities account(s) that equal no less than the sum of the monthly housing expense and other monthly liabilities, multiplied by the number of months between the note date and the start date of the new employment/future salary increase, plus one additional month. A partial month is counted as one month for the purpose of this calculation. The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any borrower on the mortgage is expected to receive between the note date and the start date of the new employment, whether or not this income is used to qualify for the mortgage or is expected to continue after the start date of the new employment/future salary increase.

Continued on next page

Income, Continued

Employment Offers or Contracts, continued

Freddie Mac LPA, continued

- **Income Commencing after the Note Date**, continued

<table>
<tr><th>Subject</th><th>Requirements</th></tr>
<tr><td>Verification of Additional Funds, continued</td><td>Calculation for Verification of Additional Funds Worksheet

Lenders may use the following worksheet to assist with the additional funds calculation:

<table>
<tr><th colspan="3">Calculation for Verification of Additional Funds Worksheet</th></tr>
<tr><td>1</td><td>Total monthly housing expense</td><td>$ ________</td></tr>
<tr><td>2</td><td>Monthly debt payment</td><td>$ ________</td></tr>
<tr><td>3</td><td>Line 1 + Line 2</td><td>$ ________</td></tr>
<tr><td>4</td><td>Number of months between note date and start date of new employment/future salary increase (a partial month = 1 month) + 1 month</td><td>________</td></tr>
<tr><td>5</td><td>(Line 3) x (Line 4)</td><td>$ ________</td></tr>
<tr><td>6</td><td>Borrower's verified gross income expected between note date and start date of new employment</td><td>$ ________</td></tr>
<tr><td>7</td><td>Line 5 – Line 6</td><td>$ ________
(This is the amount of additional funds the lender must verify)</td></tr>
</table>
</td></tr>
<tr><td>Required Documentation</td><td>The following documentation is required:
Copy of the employment offer letter, employment contract or other evidence of the future salary increase from the current employer that:
Is fully executed and accepted by the borrower
Is non-contingent or provide documentation, such as a letter or e-mails from the employer verifying all contingencies have been cleared, and
Includes the terms of employment, including employment start date and annual income based on 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 to the borrower
A 10-day pre-closing verification (PCV) verifying the terms of the employment offer letter, contract or future salary increase have not changed

Reference: See the “Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)” subtopic subsequently presented in this topic for additional information.
Documentation of additional funds, as required above</td></tr>
</table>

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Employment Offers or Contracts, continued

Freddie Mac LPA, continued

Truist Notes:

- The above requirements reflect Freddie Mac's "Option #1" requirements for income commencing after the note date.
- Truist does not offer Freddie Mac's Option #2 requirements for income commencing after the note date *(where Freddie Mac indicates the commencement of income from new primary employment **must** be before the delivery date and where Freddie Mac also permits cash-out refinance, 2-4 unit primary residence, second home, and 1-4 unit investment property transactions)*.

- **Special Feature Code Requirement**
  - Use SFC 707 to identify a mortgage where the borrower qualifies with income commencing after the note date.

Farmland Income

Non-AUS

- Income received from farming is calculated on IRS Form 1040, Schedule F, and transferred to IRS Form 1040.

  Note: Other income on Schedule F may represent income that is not obtained from the borrower's farming operations.

- The lender may need to make certain adjustments to the net income amount that was transferred to IRS Form 1040. For example, certain federal agricultural program payments, co-op distributions, and insurance or loan proceeds are not fully taxable, so they would not be reported on IRS Form 1040. These income sources may or may not be stable or continuous and could be a one-time occurrence.
- If the lender verifies that the net income amounts that were transferred to IRS Form 1040 are stable, consistent, and continuing, the borrower's cash flow must be adjusted by the nontaxable portion of any recurring income from these sources. Otherwise, the income must be deducted from the borrower's cash flow.
- The lender can adjust the borrower's cash flow by adding the amount of any deductions the borrower claimed on Schedule F for depreciation, amortization, casualty loss, depletion, or business use of his or her home.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Standard LPA income history, stability, and continuance requirements apply. See the "General Requirements for all Other Income (non-employment/non-self-employment)" and "General Requirements for all Stable Monthly Income" sections in the "General Income Information" subtopic previously presented in this topic for additional guidance.

Continued on next page

Foreign Income

Non-AUS

- Foreign income is income that is earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met.
  - The lender must obtain copies of the borrower's signed federal income tax returns for the most recent two years that include foreign income.
  - The lender must satisfy the standard documentation requirements based on the source and type of income as outlined in this document.
  - All documents of a foreign origin must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.

  Note: All income must be translated to U.S. dollars.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Employed Income from a Foreign Source	When a borrower receives employed income from a foreign source, the income may be considered for qualifying income provided the income is reported on the borrower's U.S. federal individual income tax return for the most recent year, in addition to meeting the requirements applicable to the income type received from the foreign source (e.g., history of receipt, continuance, calculation, documentation).	• Complete signed U.S. federal individual income tax return for the most recent year, and • Documentation for the applicable income type in accordance with the requirements outlined in this document
Non-Employment/Non-Self-Employment Income from a Foreign Source	The income must be reported on the borrower's most recent U.S. federal individual income tax return. Refer to the income type(s) listed in this document for the requirements applicable to the income type received from the foreign source (e.g., history of receipt, continuance, calculation, documentation).	• Copy of the borrower's most recent complete signed U.S. federal individual income tax return, and • Documentation for the applicable income type in accordance with the requirements outlined in this document

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Foster Care Income

Non-AUS

- Income received from a state- or county-sponsored organization for providing temporary care for one or more children may be considered acceptable stable income if the following requirements are met.
    - Verify the foster-care income with letters of verification from the organizations providing the income
    - Document that the borrower has a two-year history of providing foster-care services. If the borrower has not been receiving this type of income for two full years, the income may still be counted as stable income if:
        - the borrower has at least a 12-month history of providing foster-care services, and
        - the income does not represent more than 30% of the total gross income that is used to qualify for the mortgage loan.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows for foster care income received from a state- or county-sponsored organization:

- **History of receipt**: Most recent two-years
- **Continuance**: Must be likely to continue for at least the next three years
- **Calculation**: 24-month average
- **Streamlined Accept and Standard Documentation Requirements:**
    - Documentation to evidence receipt of foster-care income for the most recent two-year period

Gaps in Employment

Non-AUS
Truist Note: Prudent underwriting judgment must be applied when analyzing gaps in employment.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- The lender must determine that the borrower's income is stable and likely to continue at the level used to qualify for at least the next three years. The lender must analyze all income documentation while taking into consideration the characteristics of the employed income (e.g., employment and income source, type, and stability of the employment history, including any gaps in employment).

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Housing or Parsonage Income

Non-AUS

- Housing or parsonage income may be considered qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but may not be used to offset the monthly housing payment.

  Note: This requirement does not apply to military quarters' allowance. For information on military housing, see the "Military Income" subtopic for guidance.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **History of receipt**: Most recent 12 months
- **Continuance**: Must be likely to continue for at least the next three years
- **Calculation**: Use the documented monthly payment amount
- The housing allowance may not be used to offset the monthly housing payment.
- **Streamlined Accept and Standard Documentation Requirements:**
  - Written verification of employment (VOE), a letter from the employer or paystubs documenting the amount of the housing or parsonage allowance and the terms under which it is paid, and
  - Documented evidence of the most recent 12 months' receipt of the housing or parsonage allowance

Note: These requirements do not apply to military housing entitlements or housing allowance received pursuant to an employee relocation program.

- For information on military housing entitlements, see the "Military Income" subtopic for guidance.
- For housing allowance received pursuant to an employee relocation program, see the "Relocation Mortgages" subtopic previously presented in the "Eligible Transactions" topic within this document for guidance.

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Interest and Dividend Income

Non-AUS

- The **taxable** interest and dividend income that is reported on IRS Form 1040, Schedule B, may be counted as stable income only if it has been received for the past two years. However, the income cannot be counted if the borrower is using the interest-bearing or dividend-producing asset as the source of the down payment or closing costs.
  - Documentation that the income will continue for three years after loan application is not required unless there is evidence that the asset will be depleted
- Any **taxable** interest or dividend income that is not recurring must be deducted from the borrower's cash flow.
- **Tax-exempt** interest income may be counted as stable income only if it has been received for the past two years and is expected to continue. If so, this income can be added to the borrower's cash flow.
- Verification requirements for interest and dividends income are as follows:
  - Verify the borrower's ownership of the assets on which the interest or dividend income was earned. Documentation of asset ownership must be in compliance with the Allowable Age of Credit Documents requirements.
  - Document a two-year history of the income, as verified by
    - copies of the borrower's signed federal income tax returns, or
    - copies of account statements.
  - Develop an average of the income received for the most recent two years. See "Variable Income" in the "General Income Information" subtopic previously presented in this topic for additional information.
  - Subtract any assets used for down payment or closing costs from the borrower's total assets before calculating expected future interest or dividend income.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **History of receipt**: Most recent two-years
- **Continuance**: Document that sufficient assets remain after closing to support continuance of the dividend and interest income, at the level used for qualifying, for at least the next three years
- **Calculation:** 24-month average
- **Streamlined Accept and Standard Documentation Requirements:**
  - Copy of either:
    - Complete federal individual income tax returns for the most recent two-year period, or
    - Year-end asset account statements for the most recent two years evidencing all dividend and interest income for each year for the income producing asset(s),

    AND
    - Evidence of sufficient assets to support the qualifying income

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Long-Term Disability Income

Non-AUS

- 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.
- If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower. For additional information on short-term disability, see the "Temporary Leave and Short-Term Disability Income" subtopic subsequently presented in this topic.
- Verification requirements for long-term disability income are as follows:
  - Obtain a copy of the borrower's disability policy or benefits statement from the benefits payer (insurance company, employer, or other qualified disinterested party) to determine:
    - the borrower's current eligibility for the disability benefits,
    - the amount and frequency of the disability payments, and
    - if there is a contractually established termination or modification date.

Note: The above requirements do not apply to disability income that is received from the Social Security Administration. See the "Social Security Income" subtopic subsequently presented in this topic for information on social security income.

Truist Note: Truist further clarifies that inquiries into or requests for additional documentation concerning the nature or severity of the disability or medical conditions of the borrower are not allowed.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- If a borrower's disability income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described in the non-AUS section above. See "DU Validation Service" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.

Continued on next page

Income, Continued

Long-Term Disability Income, continued

Freddie Mac LPA *(e.g., Social Security disability benefits, VA disability compensation, worker's compensation, private disability insurance)*
Follow LPA requirements, which are as follows:

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements

For all long-term disability income	• **History of receipt**: A history of receipt is not required for the income to be considered stable.
	• **Continuance**:
	  ◦ Long-term disability income may be considered to have a reasonable expectation of continuance without obtaining any additional documentation unless there is a pre-determined insurance and/or benefit expiration date that is less than three years (e.g., stated termination of a private disability insurance policy).
	  ◦ Pending or current re-evaluation of medical eligibility for insurance and/or benefit payments is not considered an indication that the insurance and/or benefit payment will not continue.
	• **Calculation**: Use the documented fixed monthly payment amount
		• Document income type, source, payment frequency, pre-determined payment amount and current receipt with one or more of the following documents, as needed: a copy of the benefit verification letter, award letter, pay statement, 1099, W-2, bank statement(s) or other equivalent documentation.
		• Age of documentation requirements as described in the "General Income Documentation Requirements" subtopic do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount.
		• For social security long-term disability benefits, the lender must obtain one of the following:
		  ◦ A copy of the Social Security Administration benefit verification letter,
		  ◦ Form 1099-SSA for the most recent calendar year,
		  ◦ Pages 1 and 2 of the borrower's most recent federal individual income tax returns (or pages 1–3 if filing 1040-SR). If the tax returns were filed jointly with an individual who is not a borrower on the transaction, the lender must obtain additional documentation supporting the amount of social security income used for qualifying.
		  ◦ Documentation evidencing current receipt
		• 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.

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Long-Term Disability Income, continued

Freddie Mac LPA, continued

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Newly established long-term disability income	• Verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first mortgage payment due date. • The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date. • The documentation must be dated no more than 120 days prior to the note date.	• Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms. • The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. Verification of current receipt is not required. • If the disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers, private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term.
Future long-term disability income	Long-term disability income that will commence after the first mortgage payment due date is acceptable for qualifying the borrower only if the borrower is currently receiving short-term disability benefits that will subsequently convert to long-term benefits. The borrower must be qualified on the lesser amount of either the long-term or short-term disability payments.	For borrowers who are currently receiving short-term disability income that will be converted to long-term disability income after the first mortgage payment due date: • Document the source, type, amount, and payment frequency of both the short-term and long-term payments • Obtain verification of current receipt of the short-term disability payments and verification that the borrower will continue to receive the payments until the date of conversion to long-term disability • The documentation must be dated no more than 120 days prior to the note date. • If the long-term disability policy has a pre-determined expiration date (e.g., certain disability policies provided by employers, private insurers), obtain a copy of the certificate of coverage, or other equivalent documentation evidencing the policy term.

Truist Note: Truist further clarifies that inquiries into or requests for additional documentation concerning the nature or severity of the disability or medical conditions of the borrower are not allowed.

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Military Income

Non-AUS

- Military personnel may be entitled to different types of pay in addition to their base pay.
- Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of stable income, as long as the lender can establish that the particular source of income will continue to be received in the future. To verify military base pay and entitlements, the lender must obtain the borrower's most recent Leave and Earnings Statement (LES).
- Income paid to military reservists while they are satisfying their reserve obligations also is acceptable if it satisfies the same stability and continuity tests applied to secondary employment.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Military base (basic) pay	**Primary employment earnings - Military base (basic) pay:** • **History of receipt**: For borrowers who are active-duty members of the United States Armed Forces, a history of military employment is not required for the employment to be considered stable.	**All of the following:** • YTD Military Leave and Earnings Statement and W-2 form(s) for the most recent calendar year **OR, all of the following:** • Written VOE documenting all YTD earnings and the earnings for the most recent calendar year, and a 10-day PCV
Military Entitlements (e.g., as flight or hazard duty, rations, clothing or quarters allowance)	**Additional Employed Income - Military entitlements:** • **History of receipt**: A history of receipt is not required for the income to be considered stable • **Continuance**: Must be likely to continue for at least the next three years • **Calculation**: Current fixed monthly amount	**All of the following:** • YTD Leave and Earnings Statement and W-2 form for the most recent calendar year **OR, all of the following:** • Written VOE documenting the current monthly fixed entitlement amount(s) and type(s) and the earnings for the most recent calendar year, and a 10-day PCV

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Income, Continued

Military Income, (continued)

Freddie Mac LPA, continued

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Military Reserve and National Guard income	**Additional Employed Income - Military Reserve and National Guard income** • **History of receipt**: One year • **Continuance**: Must be likely to continue for at least the next three years • **Calculation**: 12-month average	**All of the following:** • YTD Military Leave and Earnings Statement, W-2 form for the most recent calendar year and a 10-day PCV **OR, all of the following:** • Written VOE documenting all YTD earnings and the earnings for the most recent calendar year, and a 10-day PCV

Mortgage Credit Certificates

Non-AUS

- States and municipalities can issue mortgage credit certificates (MCCs) in place of, or as part of, their authority to issue mortgage revenue bonds. MCCs enable an eligible first-time home buyer to obtain a mortgage secured by his or her primary residence and to claim a federal tax credit for a specified percentage (usually 20% to 25%) of the mortgage interest payments.
- When calculating the borrower's DTI ratio, treat the maximum possible MCC income as an addition to the borrower's income, rather than as a reduction to the amount of the borrower's mortgage payment. Use the following calculation when determining the available income:
  - [(Mortgage Amount) x (Note Rate) x (MCC %)] ÷ 12 = Amount added to borrower's monthly income.
    - For example, if a borrower obtains a $100,000 mortgage that has a note rate of 7.5% and he or she is eligible for a 20% credit under the MCC program, the amount that should be added to his or her monthly income would be $125 ($100,000 x 7.5% x 20% = $1500 ÷ 12 = $125).
- The lender must obtain a copy of the MCC and the lender's documented calculation of the adjustment to the borrower's income and include them in the mortgage loan file.
- For refinance transactions, the lender may allow the MCC to remain in place as long as it obtains confirmation prior to loan closing from the MCC provider that the MCC remains in effect for the new mortgage loan. Copies of the MCC documents, including the reissue certification, must be maintained in the new mortgage loan file.

Note: Because the MCC is transaction specific, it does not have to comply with the allowable age of income documents requirements.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Mortgage Credit Certificates, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- A mortgage credit certificate (MCC) is a certificate issued by an authorized State or local housing finance agency that documents a federal income tax credit awarded to a qualified First-Time Homebuyer and/or low or moderate income homebuyer.
- **History of receipt**: A history of receipt is not required
- **Calculation**:
  - The amount used as qualifying income must be calculated as follows: (Mortgage amount) x (Note Rate) x (Mortgage Credit Certificate rate %) divided by 12
  - The amount used as qualifying income cannot exceed the maximum mortgage interest credit permitted by the IRS
- **Streamlined Accept and Standard Documentation Requirements:**
  - Copy of the MCC

Mortgage Differential Payments Income

Non-AUS

- An employer may subsidize an employee's mortgage payments by paying all or part of the interest differential between the employee's present and proposed mortgage payments.
- When calculating the qualifying ratio, the differential payments should be added to the borrower's gross income.
- The payments may not be used to directly offset the mortgage payment, even if the employer pays them to the mortgage lender rather than to the borrower.
- Verification requirements for mortgage differential payment income are as follows:
  - Obtain written verification from the borrower's employer confirming the subsidy and stating the amount and duration of the payments.
  - Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.
  - If this income is used on a purchase transaction, current receipt is not required to be documented except as verified in the employer letter.
  - For refinance transactions where the income is continuing with the new loan, the recent receipt must be in compliance with the allowable age of credit documents requirements.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Income, Continued

Mortgage Differential Payments Income, continued

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **History of receipt**: A history of receipt is not required for the income to be considered stable
- **Continuance**: Must continue for at least the next three years
- **Calculation**: Payments from the borrower's employer for all or part of the housing payment differential between the borrower's present and proposed mortgage payment. The lender may add the mortgage differential payments to the borrower's income. The payments may not be used to offset the monthly housing payment amount used for qualification.
- **Streamlined Accept and Standard Documentation Requirements:**
  - Agreement from the employer stating the terms including, but not limited to, the scheduled amount and duration of the payments.
  - The documentation must show that the payments are pursuant to an established, ongoing and documented employer program. The employer must not be an interested party to the transaction.

Non-Occupant Borrower Income

Non-AUS

- For manually underwritten loans the income from a non-occupant borrower may be considered as acceptable qualifying income. This income can offset certain weaknesses that may be in the occupant borrower's loan application, such as limited income, 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. The occupant borrower must still reasonably demonstrate a willingness to make the mortgage payments and maintain homeownership.
- If the income from a non-occupant borrower is used for qualifying, the LTV ratios are limited. See the "Non-Occupant Borrowers" subtopic in the "Eligible Borrowers" topic previously presented in this document for information about the maximum LTV, TLTV, and HTLTV ratios that apply when non-occupant borrower income is used for qualifying purposes.

Fannie Mae DU
Follow DU requirements, which are as follows:

- DU will consider a non-occupant borrower's income as qualifying income for a primary residence with certain LTV ratio limitations. See the "Non-Occupant Borrowers" subtopic in the "Eligible Borrowers" topic previously presented in this document for information about the maximum LTV, TLTV, and HTLTV ratios that apply when non-occupant borrower income is used for qualifying purposes.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Standard Agency LP Income requirements (for the applicable income type) apply.

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Notes Receivable

Non-AUS
Verification requirements for notes receivable income are as follows:
- Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.
- Obtain a copy of the note to establish the amount and length of payment.
- Document regular receipt of income for the most recent 12 months.
- Payments on a note executed within the past 12 months, regardless of the duration, may not be used as stable income.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- **History of receipt**: Receipt of payments for the most recent 12 months on a regular monthly basis
- **Continuance**: Note must have a remaining term of at least three years
- **Calculation**: Use the full scheduled payment amount documented on the note
- **Streamlined Accept and Standard Documentation Requirements:**
  - Copy of the note evidencing the terms including, but not limited to, the scheduled amount and duration of payments, and proof of receipt of payments for the most recent 12 months

Part-Time Income

Non-AUS
Truist Note: Part-time employment may be either primary or secondary employment. Determine whether the employment represents primary or secondary employment and use the applicable requirements for the earnings type (i.e., history, continuance, documentation, etc.) as outlined in this document.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- Part-time employment may be either primary or secondary employment, and may be comprised of base non-fluctuating earnings, fluctuating hourly earnings and/or additional employed income.
- The lender must determine whether the employment represents primary or secondary employment and use the applicable requirements for history, continuance, earnings type, documentation and calculation, as outlined in this document.

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Public Assistance Income

Non-AUS

- Verification requirements for public assistance income are as follows:
  - Document the borrower's receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.
  - Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application.
  - If the income is nontaxable, the lender can develop an adjusted gross income for the borrower.

    Reference: See the "Tax Exempt Income" subtopic subsequently presented in this topic for additional information.

- **Income from Unemployment Benefits**
  - Income from unemployment benefits and any income from an employer-initiated action (such as furlough or layoff) are typically short-term in nature and can be considered when qualifying the borrower in the following scenarios:
    - The income has been consistently received for at least two years as verified by copies of the signed federal income tax returns that reflect the unemployment income is associated with seasonal employment. See the "Seasonal Income / Seasonal Unemployment Income" subtopic subsequently presented in this topic for additional information.
    - The income from unemployment benefits can be used in the calculation of financial resources that are required under the "**Paystub Not Obtained Before Loan Delivery**" option outlined in the "Employment Offers or Contracts" subtopic, previously presented in this topic.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Public Assistance Income, continued

Freddie Mac LPA *[e.g., Temporary Assistance for Needy Families (TANF)]*
Follow LPA requirements, which are as follows:

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Existing and established public assistance income	Evidence of the source, benefit type, payment frequency, amount, duration of benefit eligibility and current receipt must be obtained • **History of receipt**: A history of receipt is not required for the income to be considered stable • **Continuance**: All public assistance income must be likely to continue for the next three years • **Calculation**: Use the documented public assistance benefit amount	• Document income source, benefit type, payment frequency, pre-determined payment amount and duration of benefit eligibility with a copy of the benefit verification letter or other equivalent documentation from applicable agency. Age of documentation requirements as described in the "General Documentation Requirements" subtopic do not have to be met. • Document current receipt with a copy of the bank statement, benefit verification letter from applicable agency or other equivalent documentation. Age of documentation requirements as described in the "General Documentation Requirements" subtopic must be met.

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Public Assistance Income, continued

Freddie Mac LPA *[e.g., Temporary Assistance for Needy Families (TANF)]***,** continued

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Newly established public assistance income	• Verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first mortgage payment due date. • The terms that must be verified include, but are not limited to, the source, benefit type, duration of benefit eligibility, effective date of income commencement, payment frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date.	• Document the finalized terms of the newly established income including, but not limited to, the source, benefit type, duration of benefit eligibility, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter or other equivalent documentation from the applicable agency that provides and establishes these terms. • The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. Verification of current receipt is not required.

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Rental Income

Non-AUS

- **Eligible Properties**
  - Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be a two- to four-unit primary residence property in which the borrower occupies one of the units.
  - If the income is derived from a property that is not the subject property, there are no restrictions on the property type. For example, rental income from a commercial property owned by the borrower is acceptable if the income otherwise meets all other requirements (it can be documented in accordance with the requirements below).

- **Ineligible Properties**
  - Generally, rental income from the borrower's primary residence (a one-unit primary residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower. However, Fannie Mae does allow certain exceptions to this requirement for boarder income.

    Reference: See the "Boarder Income" subtopic previously presented in this topic for boarder income requirements.

- **General Requirements for Documenting Rental Income (Subject and Non-Subject Property)**
  - If a borrower has a history of renting the subject or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return.
  - If the borrower does not have a history of renting the property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the lender may be justified in using a fully executed current lease agreement. Examples of scenarios that justify the use of a lease agreement are:
    - purchase transactions where there is an existing lease on the property that will transfer to the borrower,
    - refinance transactions where the borrower purchased the rental property during or subsequent to the last tax return filing,
    - refinance transactions for a property that experienced significant rental interruptions causing income to not be reported on the most recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income), and
    - transactions where rental income is being used to qualify for any property placed in service in the current calendar year, for example, when converting a primary residence to an investment property.

    Note: The rental payment on the lease must be reflected in U.S. dollars (cannot be in virtual currency).

  - When the subject property will generate rental income and it is used for qualifying purposes, the following Fannie Mae form must be used to support the income-earning potential of the property:
    - For two- to four-unit properties: *Small Residential Income Property Appraisal Report* (Form 1025).

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Rental Income, continued

Non-AUS, continued

- **Documenting Rental Income From Subject Property**
  - The lender must obtain documentation that is used to calculate the monthly rental income for qualifying purposes. The documentation may vary depending on whether the borrower has a history of renting the property, and whether the prior year tax return includes the income.

Does the Borrower Have a History of Receiving Rental Income from the Subject Property?	Transaction Type	Documentation Requirements
Yes	Refinance	• Form 1025 and either: • the borrower's most recent year of signed federal income tax returns, including Schedule 1 and Schedule E, or • copies of the current lease agreement(s) if the borrower can document a qualifying exception (see "Reconciling Partial or No Rental History on Tax Returns" below)
No	Purchase	• Form 1025 and copies of the current lease agreement(s) if transferred to the borrower. • If the property is not currently rented or if the existing lease is not being transferred to the borrower, then lease agreements are not required and Form 1025 may be used. • If there is a lease on the property that is being transferred to the borrower, the lender must comply with standard title insurance requirements regarding title exceptions and impediments (as outlined in Section 1.16: Title Insurance Standard of the *Correspondent Seller Guide)*, and Fannie Mae's legal requirements regarding rental property leases, as outlined below: • **Rental Property Leases**: Leases that predate the mortgage could have a superior claim to the mortgage. Furthermore, state laws may differ on the relationship between an

Continued on next page

Rental Income, continued

Non-AUS, continued

- **Documenting Rental Income From Subject Property,** continued

Does the Borrower Have a History of Receiving Rental Income from the Subject Property?	Transaction Type	Documentation Requirements
No	Purchase	*(Continued from previous page)* unrecorded lease and a subsequent mortgage. The lender is responsible for ensuring clear title and first lien enforceability in accordance with Fannie Mae's Life-of-Loan Representations and Warranties.
No	Refinance	• Form 1025 and copies of the current lease agreement(s).

Notes:

- All references in the above table to lease agreements and Form 1025 must comply with the requirements in the *"Lease Agreements or Form 1025"* subsection subsequently presented in "Method for Calculating the Income" below.
- If the borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented for lender reporting purposes. See the "Primary Residences" subtopic in the "Occupancy/Property Types" topic previously outlined in this document for guidance.

- **Documenting Rental Income From Property Other Than the Subject Property**
  - When the borrower owns property – other than the subject property – that is rented, the lender must document the monthly gross (and net) rental income with the borrower's most recent signed federal income tax return that includes Schedule 1 and Schedule E. Copies of the current lease agreement(s) may be substituted if the borrower can document a qualifying exception. See "Reconciling Partial or No Rental History on Tax Returns" and "Calculating Monthly Qualifying Rental Income (or Loss)" below.

Continued on next page

Rental Income, continued

Non-AUS, continued

- **Reconciling Partial or No Rental History on Tax Returns**
  - In order for the lender to determine qualifying rental income, the lender must determine whether or not the rental property was in service for the entire tax year or only a portion of the year. In some situations, the lender's analysis may determine that using alternative rental income calculations or using lease agreements to calculate income are more appropriate methods for calculating the qualifying income from rental properties. This guidance may be applied to refinances of a subject rental property or to other rental properties owned by the borrower.
  - If the borrower is able to document (per the table below) that the rental property was not in service the previous tax year, or was in service for only a portion of the previous tax year, the lender may determine qualifying rental income by using:
    - Schedule E income and expenses, and annualizing the income (or loss) calculation, or
    - Fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

If…	Then…
the property was acquired or placed into service during the most recent tax filing year,	• the lender must confirm the purchase date using the Settlement/Closing Disclosure Statement or other documentation, and • Fair Rental Days on Schedule E of the most recently filed tax return must confirm partial year rental income.
the property was acquired or placed into service subsequent to the most recent tax filing year,	• the lender must confirm the purchase date using the Settlement/Closing Disclosure Statement or other documentation, if applicable, and • Schedule E or the most recently filed tax return must confirm no rental income or expenses for this property.
the rental property was out of service for an extended period,	• repair expenses on Schedule E of the most recently filed tax return must reflect the costs for renovation or rehabilitation. 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. • Fair Rental Days on Schedule E of the most recently filed tax return must confirm the number of days that the rental unit was in service, which must support the unit being out of service for all or a portion of the year.
the lender determines that some other situation warrants an exception to use a lease agreement,	the lender must provide an explanation and justification in the loan file.

Continued on next page

**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Income, Continued

Rental Income, continued

Non-AUS, continued

- **Calculating Monthly Qualifying Rental Income (or Loss)**
  - Rental income must be calculated for each rental property. To determine the amount of monthly rental income from each property that can be used for qualifying purposes, the lender must consider the following:

<table>
<tr><th>If the borrower...</th><th>And rental income is from the…</th><th>Then for qualifying purposes...</th></tr>
<tr><td>currently owns a primary residence (or has a current housing expense), and
has at least a one-year history of receiving rental income or at least one year of documented property management experience</td><td>subject property or non-subject property</td><td rowspan="2">there are no restrictions on the amount of rental income that can be used.</td></tr>
<tr><td>does not currently have a housing expense, and
has at least one-year of receiving rental income from the property</td><td>non-subject property (in service for at least a year)</td></tr>
<tr><td rowspan="2">currently owns a primary residence (or has a current housing expense), and
has less than one-year history of receiving rental income from the related property or documented property management experience</td><td>subject property</td><td>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.</td></tr>
<tr><td>non-subject property (new or newly placed in service less than a year)</td><td>for a primary residence, rental income added to the borrower’s gross monthly income is restricted to an amount not exceeding PITIA of the related property.
for an investment property, rental income can only be used to offset the PITIA of the related property (in other words, is limited to zero positive cash flow).</td></tr>
<tr><td rowspan="2">does not own a primary residence, and
does not have a current housing expense</td><td>subject property</td><td>rental income from the subject property cannot be used.</td></tr>
<tr><td>non-subject property (new or newly placed in service less than a year)</td><td>rental income from the property cannot be used.</td></tr>
</table>

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Rental Income, continued

Non-AUS, continued

- **Calculating Monthly Qualifying Rental Income (or Loss)**, continued

  Note: The requirements outlined in the table above do not apply to HomeReady loans with rental income from an accessory unit.

  - The lender must establish a history of property management experience by obtaining one of the following:
    - The borrower's most recent signed federal 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 year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or
    - A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1025 must support the income reflected on the lease.

  Note: The above requirements related to the establishment of a history of property management experience do not apply to HomeReady loans with rental income from an accessory unit.

  - **Method for Calculating the Income**
    - The method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.
    - ***Federal Income Tax Returns, Schedule E***
      - When Schedule E is used to calculate qualifying rental income, the lender must add back any listed depreciation, interest, homeowners' association dues, taxes, or insurance expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.
        - If the property was in service for the entire tax year, the rental income must be averaged over 12 months.
        - If the property was in service 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.

    Reference: See "Treatment of the Income (or Loss)" below for further instructions.

Continued on next page

Rental Income, continued

Non-AUS, continued

- **Calculating Monthly Qualifying Rental Income (or Loss),** continued
  - **Method for Calculating the Income,** continued
    - ***Lease Agreements or Form 1025***
      - When current lease agreements or market rents reported on Form 1025 are used, the lender must calculate the rental income by multiplying the gross monthly rent(s) by 75%. The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.
      - When using a lease agreement, the lease agreement amount must be supported by:
        - Form 1025, or
        - evidence the terms of the lease have gone into effect. Evidence may include:
          - two months consecutive bank statements or electronic transfers of rental payments for existing lease agreements, or
          - copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements.

      Reference: See "Treatment of the Income (or Loss)" below for further instructions.

- **Treatment of the Income (or Loss)**
  - The treatment and amount of monthly qualifying rental income (described above in "Calculating Monthly Qualifying Rental Income (or Loss)") used in the calculation of the borrower's total debt-to-income ratio — varies depending on whether the borrower occupies the rental property as their primary residence.
  - If the rental income relates to the borrower's primary residence:
    - The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property.)
    - The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.
  - If the rental income (or loss) relates to a property other than the borrower's primary residence:
    - If the monthly qualifying rental income minus the full PITIA is positive, it must be added to the borrower's total monthly income (subject to the limits in "Calculating Monthly Qualifying Rental Income (or Loss)").
    - If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations.

Continued on next page

Rental Income, continued

Non-AUS, continued

- **Treatment of the Income (or Loss),** continued
    - 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 (full PITIA or monthly rent) must be counted as a monthly obligation.

  Note: When a borrower owns multiple rental properties, the rental income for all non-subject properties is first calculated for each property, then aggregated. The aggregate total of the income (or loss) is then added to the borrower's total monthly income or included in their monthly obligations, as applicable.

- **Offsetting Monthly Obligations for Rental Property Reported through a Partnership or an S Corporation**
    - If the borrower is personally obligated on the mortgage debt (as evidenced by inclusion of the related mortgage(s) on the credit report) 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. The steps described below should be followed:
        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, as shown below:
            - From total gross rents, subtract total expenses. Then add back insurance, mortgage interest, taxes, homeowners' association dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly).
            - 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 lender may exclude the property PITIA from the borrower's monthly obligations when calculating the debt-to-income ratio.
        4. If the resulting net cash flow is **negative** (that is, 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 debt-to-income ratio.
    - In order to include a positive net rental income received through a partnership or an S corporation in the borrower's monthly qualifying income, the lender must evaluate it according to the requirements for income received from a partnership or an S corporation. Click here for additional guidance.

- **Use of Fannie Mae's Income Calculator Tool**
    - The Income Calculator may be used to calculate certain rental income. Use of Income Calculator is optional. See the "Fannie Mae Income Calculator" subtopic previously presented in this document for additional information.

Continued on next page

Rental Income, continued

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Eligible Properties**
  - Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. If the rental income is derived from the subject property, the property must be one of the following:
    - a two- to four-unit primary residence property in which the borrower occupies one of the units, or
    - a one- to four-unit investment property.
  - If the income is derived from a property that is not the subject property, there are no restrictions on the property type. For example, rental income from a commercial property owned by the borrower is acceptable if the income otherwise meets all other requirements (it can be documented in accordance with the requirements outlined in this subtopic).

- **General Requirements for Documenting Rental Income (Subject and Non-Subject Property)**
  - If a borrower has a history of renting the subject or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return.
  - If the borrower does not have a history of renting the property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the lender may be justified in using a fully executed current lease agreement. Examples of scenarios that justify the use of a lease agreement are:
    - purchase transactions where there is an existing lease on the property that will transfer to the borrower,
    - refinance transactions where the borrower purchased the rental property during or subsequent to the last tax return filing,
    - refinance transactions for a property that experienced significant rental interruptions causing income to not be reported on the most recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income), and
    - transactions where rental income is being used to qualify for any property placed in service in the current calendar year, for example, when converting a primary residence to an investment property.

    Note: The rental payment on the lease must be reflected in U.S. dollars (cannot be in virtual currency).

  - When the subject property will generate rental income and it is used for qualifying purposes, one of the following Fannie Mae forms must be used to support the income-earning potential of the property:
    - For one-unit properties: *Single-Family Comparable Rent Schedule* (Form 1007) (provided in conjunction with the applicable appraisal report), or
    - For two- to four-unit properties: *Small Residential Income Property Appraisal Report* (Form 1025).

Continued on next page

Rental Income, continued

Fannie Mae DU, continued

- **Documenting Rental Income From Subject Property**
  - The lender must obtain documentation that is used to calculate the monthly rental income for qualifying purposes. The documentation may vary depending on whether the borrower has a history of renting the property, and whether the prior year tax return includes the income.

Does the Borrower Have a History of Receiving Rental Income from the Subject Property?	Transaction Type	Documentation Requirements
Yes	Refinance	Form 1007 or Form 1025, as applicable, and either: • the borrower's most recent year of signed federal income tax returns, including Schedule 1 and Schedule E, or • copies of the current lease agreement(s) if the borrower can document a qualifying exception (see "Reconciling Partial or No Rental History on Tax Returns" in the non-AUS requirements presented above).
No	Purchase	• Form 1007 or Form 1025, as applicable, and copies of the current lease agreement(s) if transferred to the borrower. • If the property is not currently rented or if the existing lease is not being transferred to the borrower, then lease agreements are not required and Form 1007 or Form 1025 may be used. • If there is a lease on the property that is being transferred to the borrower, the lender must comply with standard title insurance requirements regarding title exceptions and impediments (as outlined in Section 1.16: Title Insurance Standard of the *Correspondent Seller Guide)*, and Fannie Mae's legal requirements regarding rental property leases, as outlined below: • **Rental Property Leases**: Leases that predate the mortgage could have a superior claim to the mortgage. Furthermore, state laws may differ on the relationship between an unrecorded lease and a subsequent mortgage. The lender is responsible for ensuring clear title and first lien enforceability in accordance with Fannie Mae's Life-of-Loan Representations and Warranties.

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Rental Income, continued

Fannie Mae DU, continued

- **Documenting Rental Income From Subject Property**, continued

Does the Borrower Have a History of Receiving Rental Income from the Subject Property?	Transaction Type	Documentation Requirements
No	Refinance	Form 1007 or Form 1025, as applicable, and copies of the current lease agreement(s).

Notes:
- All references in the above table to lease agreements and Form 1007 or Form 1025 must comply with the requirements in the *"Lease Agreements, Form 1007, or Form 1025"* subsection subsequently presented in "Method for Calculating the Income" below.
- If the borrower is not using any rental income from the subject property to qualify, the gross monthly rent must still be documented for lender reporting purposes. See the "Primary Residences" and "Investment Properties" subtopics in the "Occupancy/Property Types" topic previously outlined in this document for guidance.

- **Calculating Monthly Qualifying Rental Income (or Loss)**
  - Rental income must be calculated for each rental property. To determine the amount of monthly rental income from each property that can be used for qualifying purposes, the lender must consider the following:

If the borrower...	And rental income is from the…	Then for qualifying purposes...
• currently owns a primary residence (or has a current housing expense), and • has at least a one-year history of receiving rental income or at least one year of documented property management experience	subject property or non-subject property	there are no restrictions on the amount of rental income that can be used.
• does not currently have a housing expense, and • has at least one-year of receiving rental income from the property	non-subject property (in service for at least a year)	

Continued on next page

Rental Income, continued

Fannie Mae DU, continued

- **Calculating Monthly Qualifying Rental Income (or Loss),** continued

If the borrower…	And rental income is from the…	Then for qualifying purposes…
• currently owns a primary residence (or has a current housing expense), and • has less than one-year history of receiving rental income from the related property or documented property management experience	subject property	• 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 only be used to offset the PITIA of the subject property (in other words, it is limited to zero positive cash flow).
	non-subject property (new or newly placed in service less than a year)	• for a primary residence, rental income added to the borrower's gross monthly income is restricted to an amount not exceeding PITIA of the related property. • for an investment property, rental income can only be used to offset the PITIA of the related property (in other words, is limited to zero positive cash flow).
• does not own a primary residence, and • does not have a current housing expense	subject property	rental income from the subject property cannot be used.
	non-subject property (new or newly placed in service less than a year)	rental income from the property cannot be used.

Note: The requirements outlined in the table above do not apply to HomeReady loans with rental income from an accessory unit.

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Rental Income, continued

Fannie Mae DU, continued

- **Calculating Monthly Qualifying Rental Income (or Loss),** continued
  - The lender must establish a history of property management experience by obtaining one of the following:
    - The borrower's most recent signed federal 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 year, but there are less than 365 Fair Rental Days on Schedule E, a current signed lease agreement may be used to supplement the federal income tax return; or
    - A current signed lease may be used to supplement a federal income tax return if the property was out of service for any time period in the prior year. Schedule E must support this by reflecting a reduced number of days in use and related repair costs. Form 1007 or Form 1025 must support the income reflected on the lease.

    Note: The above requirements related to the establishment of a history of property management experience do not apply to HomeReady loans with rental income from an accessory unit.

  - **Method for Calculating the Income**
    - The method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.
    - ***Federal Income Tax Returns, Schedule E***
      - When Schedule E is used to calculate qualifying rental income, the lender must add back any listed depreciation, interest, homeowners' association dues, taxes, or insurance expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.
        - If the property was in service for the entire tax year, the rental income must be averaged over 12 months.
        - If the property was in service 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.

      Reference: See "Treatment of the Income (or Loss)" in the non-AUS requirements presented above for further instructions.

    - ***Lease Agreements, Form 1007, or Form 1025***
      - When current lease agreements or market rents reported on Form 1007 or Form 1025 are used, the lender must calculate the rental income by multiplying the gross monthly rent(s) by 75%. (This is referred to as "Monthly Market Rent" on the Form 1007.) The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.
      - When using a lease agreement, the lease agreement amount must be supported by:
        - Form 1007 or Form 1025, as applicable, or
        - evidence the terms of the lease have gone into effect.

Continued on next page

Rental Income, continued

Fannie Mae DU, continued

- **Calculating Monthly Qualifying Rental Income (or Loss),** continued
    - Evidence may include:
        - two months consecutive bank statements or electronic transfers of rental payments for existing lease agreements, or
        - copies of the security deposit and first month's rent check with proof of deposit for newly executed agreements.

  Reference: See "Treatment of the Income (or Loss)" in the non-AUS requirements presented above for further instructions.

- **Entering Rental Income in DU for Properties that Are Not the Subject Property**
    - Properties already owned by the borrower must be entered in Section 3 along with the related existing mortgage loan(s). The following rental income requirements apply to properties that are not the subject property. For rental income requirements on the subject property, see "Entering Rental Income in DU for the Subject Property" below.

    - **Investment Property**
        - When submitting rental income to DU for an investment property:
            - The lender should calculate the net rental income amount for each property and enter the amount (either positive or negative) in the Net Monthly Rental Income in Section 3.
            - If the Net Monthly Rental Income is a "breakeven" amount, the user must enter either $0.01 or $-0.01.
            - If Net Monthly Rental Income is not entered or is $0.00, DU will calculate it using this formula:

              (Gross rental income multiplied by 75%) minus property PITIA expense

            - The lender can override DU's calculation by entering the Net Monthly Rental Income amount in Section 3.

    - **Two- to four-unit Primary Residence**
        - When submitting rental income to DU for the borrower's primary residence that is a two- to four-unit property:
            - The lender should calculate the net rental income amount for the property and enter the amount in Net Monthly Rental Income in Section 3.
            - The net rental income calculation is not reduced by the mortgage payment, which is always treated as a liability and included in the debt-to-income ratio.
            - If Net Monthly Rental Income is not entered or is $0.00, DU will calculate it using this formula:

              Gross rental income multiplied by 75%

            - The lender can override DU's calculation by entering the Net Monthly Rental Income amount in Section 3.

    - If the combined total Net Monthly Rental Income for all properties is positive, DU adds the net rental income to the qualifying income. If the total is negative, DU treats the loss as a liability and includes it in the debt-to-income ratio.

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Rental Income, continued

Fannie Mae DU, continued

- **Conversion of Primary Residence to Investment Property**
  - If the borrower is purchasing a primary residence and is retaining their current residence as a rental property, the current primary residence must be identified in Section 3 by entering Retained (Status field) and Investment (Intended Occupancy field).
  - Net rental income to be earned on the property may also be entered and used to qualify in accordance with the above requirements.

- **Entering Rental Income in DU for the Subject Property**
  - The following rental income requirements apply to properties that are the subject property. See the requirements outlined in this subtopic to determine the maximum amount of rental income that can be used for qualifying purposes for the subject property.
  - **Investment property**: Calculate the net rental income using the PITIA. If it is positive, it will be added to qualifying income. If it is negative, enter a negative value. DU treats the loss as a liability and includes it in the debt-to-income ratio. If income from the subject property is not used for qualifying purposes, the lender should enter the entire proposed PITIA as a negative amount.
  - **Two- to four-unit primary residence**: Calculate the net rental income without subtracting the proposed PITIA. Net rental income will be added to qualifying income. The PITIA will be included in the debt-to-income ratio.
  - **Entry in the Loan Application**
    - Rental income for the subject property must be entered as follows:
      - **For a property already owned by the borrower**: The borrower enters the property in Section 3 and the lender must calculate and enter the Net Monthly Rental Income.
      - **For a property the borrower is purchasing**: The borrower enters Expected Monthly Rental Income in Section 4c and the lender must calculate and enter the net rental income in Expected Net Monthly Rental Income.
    - If income from an investment property is not included in the qualifying ratios, the lender must enter the entire proposed PITIA as a negative amount in Section 3 or 4c as applicable.

- **Documentation of Rental Income**
  - If the debt-to-income ratio includes the entire rental property payment and income from the property is not used in qualifying, rental income documentation is not required. However, documentation of gross monthly rent for the subject property is required for lender reporting purposes. See the "Primary Residences" and "Investment Properties" subtopics in the "Occupancy/Property Types" topic previously outlined in this document for additional information.

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Rental Income, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **General Eligibility Requirements**
  - 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, the lender must determine that both the source and the amount of the income are stable. See the "General Requirements for all Stable Monthly Income Qualification Sources" section outlined in the "General Income Information" subtopic previously presented in this document for additional information about income stability and continuance.

  - **Rental Income Eligibility**
    - Rental income generated from the following property and occupancy types may be considered when determining the stable monthly income:
      - 1-unit primary residence:
        - Rental income from a live-in aide, regardless of the type of housing provided, or
        - Rental income from an accessory dwelling unit (ADU)
      - 2- to 4-unit primary residence (rental income is eligible from units that are not occupied by the borrower)
      - Subject 1- to 4-unit investment property
      - Non-subject investment property owned by the borrower (not restricted to residential property [e.g., commercial permitted])
    - Rental income generated from the borrower's second home may not be used as stable monthly income.

  - **Rental Income Generated from ADUs**
    - When determining stable monthly income, rental income generated from an ADU may be considered for:
      - Subject 1-unit primary residence
      - Subject 1-unit investment property
    - In addition, rental income generated from one or more ADUs on a non-subject investment property may be considered when determining stable monthly income.

    References:
    - See the "Rental Income from an ADU on a Subject 1-Unit Primary Residence" section outlined below for requirements related to rental income eligibility for a 1-unit primary residence with an ADU.
    - See "Eligibility of a Property with an ADU" in the "Improvements Section of the Appraisal Report" subtopic, outlined in the "Appraisal Analysis: Agency Loan Programs" topic, within Section 1.07: Appraisal Standard for the property eligibility and appraisal requirements related to the subject property with an ADU.

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Rental Income, continued

Freddie Mac LPA, continued

- **Rental Income from Subject 1- to 4-Unit Investment Property**
  - **Eligibility**
    - Rental income generated from a subject 1- to 4-unit investment property is eligible for use in qualifying the borrower provided it meets the requirements of this subsection.
  - **Rental Income Documentation and Calculation Requirements**
    - The following tables contain requirements for establishing net rental income from the subject 1- to 4-unit investment property.

Rental Income from Subject 1- to 4-Unit Investment Property Purchase Transaction Mortgage	
Topic	**Requirements**

Income Documentation	• The existing lease, when available
	  ◦ The lender must make reasonable efforts to determine lease availability, including review of the appraisal report, comparable rent data, purchase contract, a discussion with the borrower and/or any other applicable and reasonable method
	  ◦ The existing lease(s) must be current and fully executed in the property seller's name as the landlord
	
	Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	• Form 72, *Small Residential Income Appraisal Report* or Form 1000, *Single Family Comparable Rent Schedule*, as applicable

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• When using the lease, whether the current market rents reasonably support the gross monthly lease income.
	  ◦ If the current market rents do not reasonably support the gross monthly lease income, the lender must:
	    ▪ Determine if additional documentation is necessary to support income stability, and
	    ▪ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

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Income, Continued

Rental Income, continued

Freddie Mac LPA, continued

- **Rental Income from Subject 1- to 4-Unit Investment Property**, continued

Rental Income from Subject 1- to 4-Unit Investment Property Purchase Transaction Mortgage	
Topic	**Requirements**
Calculation	Use 75% of: • Gross monthly rent from the lease when the lease is available, or • Gross monthly market rent from Form 72 or Form 1000, as applicable, when the lease is not available **Note**: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Limitations on Use of Rental Income	To use rental income to qualify: • Each borrower must currently own a primary residence or have a current rental housing payment documented in accordance with the requirements outlined in the "Qualifying Ratios" and "Rental Housing Payment" subtopics subsequently presented in this document. **Exception**: For borrowers currently residing in the same property, at least one borrower must own a primary residence or have a current rental housing payment to use rental income to qualify. • The **full amount** of the net rental income can be used only when documentation in the mortgage file demonstrates that at least one borrower has a minimum of one year of investment property management experience • If no borrower has at least one year of investment property management experience, net rental income is limited to the **amount that offsets** the principal, interest, taxes and insurance (PITI) and, when applicable, mortgage insurance premiums, leasehold payments, homeowners' association (HOA) dues (excluding unit utility charges) and payments on secondary financing on the subject investment property.
Use of Net Rental Income in the Debt Payment-to-Income (DTI) Calculation	Subtract the monthly payment amount (as described in the "Qualifying Ratios/Liabilities Included in the Monthly DTI Ratio/Monthly Payment Amounts for Other Properties" subtopic/subsections subsequently outlined in this document) from the net rental income: • If the result is positive, add it to the stable monthly income • If the result is negative, add it to the monthly liabilities

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Subject 1- to 4-Unit Investment Property Purchased or Placed in Service in the Current Calendar Year Refinance Mortgage	
Topic	**Requirements**

Income Documentation	• Purchase date or conversion date, as applicable, must be documented
	• Form 72 or Form 1000, as applicable
	• Lease
	  ◦ The lease must be current and fully executed
	  ◦ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	• Income reflected on the lease must be supported by one of the following:
	  ◦ Form 72 or Form 1000, as applicable
	  ◦ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.
	    ▪ Documentation must include one of the following:
	      ▪ Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)
	      ▪ Evidence that the payments were transferred into a third-party money transfer application account that is owned by the borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the borrower's name, a screenshot that evidences transfer of the payments and ties the account to the borrowers bank account)
	      ▪ For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the borrower's personal depository account at a financial institution

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• When using the lease, whether the current market rents reasonably support the gross monthly lease income.
	  ◦ If the current market rents do not reasonably support the gross monthly lease income, the lender must:
	    ▪ Determine if additional documentation is necessary to support income stability, and
	    ▪ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Subject 1- to 4-Unit Investment Property Purchased or Placed in Service in the Current Calendar Year Refinance Mortgage (continued)	
Topic	**Requirements**
Calculation	Use 75% of the gross monthly rent from the lease. **Note**: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Use of Net Rental Income in the DTI Calculation	Subtract the monthly payment amount (as described in the "Qualifying Ratios/Liabilities Included in the Monthly DTI Ratio/Monthly Payment Amounts for Other Properties" subtopic/subsections subsequently outlined in this document) from the net rental income: • If the result is positive, add it to the stable monthly income • If the result is negative, add it to the monthly liabilities

Rental Income from Subject 1- to 4-Unit Investment Property Owned in the Prior Calendar Year Refinance Mortgage	
Topic	**Requirements**

Income Documentation	• The borrower's complete federal income tax returns (Internal Revenue Service (IRS) Form 1040), including Schedule E for the most recent year.
	• Form 72 or Form 1000, as applicable
	• If the property was purchased or converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented.
	• When the requirements are met for using **a lease in lieu of Schedule E** to calculate net rental income as described in the row labeled "Calculation of Net Rental Income Using Lease", the following **additional documentation** is required:
	  • Lease
	    • The lease must be current and fully executed
	    • For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	  Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	  • Income reflected on the lease must be supported by one of the following:
	    • Form 72 or Form 1000, as applicable
	    • Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.
	      • Documentation must include one of the following:
	        • Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)

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Income, Continued

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Subject 1- to 4-Unit Investment Property Owned in the Prior Calendar Year Refinance Mortgage (continued)	
Topic	**Requirements**
Income Documentation (continued)	• Evidence that the payments were transferred into a third-party money transfer application account that is owned by the borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the borrower's name, a screenshot that evidences transfer of the payments and ties the account to the borrowers bank account) • For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the borrower's personal depository account at a financial institution

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable.
	  • If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the lender must:
	    • Determine if additional documentation is necessary to support income stability, and
	    • Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

Calculation of Net Rental Income Using Schedule E	Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of Net Rental Income Using Lease" are met.
	• **Step 1**: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:
	  • Insurance
	  • Mortgage interest paid to banks, etc.
	  • Real estate taxes
	  • HOA dues
	  • Depreciation and/or depletion
	  • One-time losses (e.g., casualty loss) if documented
	  • Non-cash deduction (e.g., amortization)
	
	Use Form 92, *Net Rental Income Calculations – Schedule E*, or similar alternative form.

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Subject 1- to 4-Unit Investment Property Owned in the Prior Calendar Year Refinance Mortgage (continued)	
Topic	**Requirements**
Calculation of Net Rental Income Using Schedule E (continued)	• **Step 2**: Determine the applicable number of months for averaging as follows: ◦ If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12. **Exception**: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time in the prior year, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E. ◦ If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date, as applicable. **Exception**: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E. • **Step 3**: Calculate the qualifying monthly net rental income as follows: ◦ Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.
Calculation of Net Rental Income Using Lease	• Lease may be used to calculate the net rental income only when either of the following applies: ◦ The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension) ◦ The property was out of service for a period of time during the prior year, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E • Use 75% of the gross monthly rent from the lease. **Note**: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Use of Net Rental Income in the DTI Calculation	Subtract the monthly payment amount (as described in the "Qualifying Ratios/Liabilities Included in the Monthly DTI Ratio/Monthly Payment Amounts for Other Properties" subtopic/subsections subsequently outlined in this document) from the net rental income: • If the result is positive, add it to the stable monthly income • If the result is negative, add it to the monthly liabilities

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Rental Income, continued

Freddie Mac LPA, continued

- **Rental Income from Non-Subject Investment Property**
  - **Eligibility**
    - Rental income generated from non-subject investment property is eligible provided it meets the requirements of this subsection.
  - **Rental Income Documentation and Calculation Requirements**
    - The following tables contain requirements for establishing net rental income from a non-subject investment property.

Rental Income from Non-Subject Investment Property Purchased or Placed in Service in the Current Calendar Year	
Topic	**Requirements**

Income Documentation	• Purchase date or conversion date, as applicable, must be documented
	• Lease
	  ◦ The lease must be current and fully executed
	  ◦ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	• Income reflected on the lease must be supported by one of the following:
	  ◦ Form 72 or Form 1000, as applicable
	  ◦ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.
	    ▪ Documentation must include one of the following:
	      – Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)
	      – Evidence that the payments were transferred into a third-party money transfer application account that is owned by the borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the borrower's name, a screenshot that evidences transfer of the payments and ties the account to the borrowers bank account)
	      – For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the borrower's personal depository account at a financial institution
	
	Exception: For a property purchased on or up to 45 days before the note date of the subject transaction, when the property is not yet rented, a lease is not required and market rent may be documented using Form 72 or Form 1000, as applicable.

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Non-Subject Investment Property Purchased or Placed in Service in the Current Calendar Year (continued)	
Topic	**Requirements**

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• Whether the current market rents reasonably support the gross monthly lease income.
	  • If the current market rents do not reasonably support the gross monthly lease income, the lender must:
	    • Determine if additional documentation is necessary to support income stability, and
	    • Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

Calculation	Use 75% of the gross monthly rent from the lease. **Exception**: When the property was purchased on or up to 45 days before the note date of the subject transaction and is not yet rented, use 75% of the gross monthly market rent from Form 72 or Form 1000, as applicable. **Note**: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Limitations on Use of Rental Income	When the property was purchased on or up to 45 days before the note date of the subject transaction and is not yet rented: • To use rental income to qualify, each borrower must currently own a primary residence or have a current rental housing payment documented in accordance with the requirements outlined in the "Qualifying Ratios" and "Rental Housing Payment" subtopics subsequently presented in this document. **Exception**: For borrowers currently residing in the same property, at least one borrower must own a primary residence or have a current rental housing payment to use rental income to qualify. • The **full amount** of the net rental income can be used only when documentation in the mortgage file demonstrates that at least one borrower has a minimum of one year of investment property management experience • If no borrower has at least one year of investment property management experience, net rental income is limited to the **amount that offsets** the PITI and, when applicable, mortgage insurance premiums, leasehold payments, HOA dues (excluding unit utility charges) and payments on secondary financing on the non-subject investment property

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Non-Subject Investment Property Purchased or Placed in Service in the Current Calendar Year (continued)	
Topic	**Requirements**

Use of Net Rental Income in the DTI Calculation	• Subtract the monthly payment amount (as described in the "Qualifying Ratios/Liabilities Included in the Monthly DTI Ratio/Monthly Payment Amounts for Other Properties" subtopic/subsections subsequently outlined in this document) from the net rental income:
	  • If the result is positive, add it to the stable monthly income
	  • If the result is negative, add it to the monthly liabilities
	• For multiple non-subject investment properties, apply the calculation above to each property, and:
	  • If the combined result is positive, add it to the stable monthly income
	  • If the combined result is negative, add it to the monthly liabilities

Rental Income from Non-Subject Investment Property Owned in the Prior Calendar Year	
Topic	**Requirements**

Income Documentation	• The borrower's complete federal income tax returns (IRS Form 1040), including Schedule E for the most recent year.
	• If the property was purchased or converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented.
	• When the requirements are met for using a **lease in lieu of Schedule E** to calculate net rental income as described in the row labeled "Calculation of Net Rental Income Using Lease", the following **additional documentation** is required:
	  • Lease
	    • The lease must be current and fully executed
	    • For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	  Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	  • Income reflected on the lease must be supported by one of the following:
	    • Form 72 or Form 1000
	    • Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.
	      • Documentation must include one of the following:
	        • Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Non-Subject Investment Property Owned in the Prior Calendar Year (continued)	
Topic	**Requirements**
Income Documentation (continued)	• Evidence that the payments were transferred into a third-party money transfer application account that is owned by the borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the borrower's name, a screenshot that evidences transfer of the payments and ties the account to the borrowers bank account) • For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the borrower's personal depository account at a financial institution

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable.
	  • If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the lender must:
	    • Determine if additional documentation is necessary to support income stability, and
	    • Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

Calculation of Net Rental Income Using Schedule E	Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of Net Rental Income Using Lease" are met.
	• **Step 1**: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:
	  • Insurance*
	  • Mortgage interest paid to banks, etc.*
	  • Real estate taxes*
	  • HOA dues*
	  • Depreciation and/or depletion
	  • One-time losses (e.g., casualty loss) if documented
	  • Non-cash deduction (e.g., amortization)
	
	Use Form 92 or similar alternative form.
	
	** These expenses may be added back if they are included in the monthly payment amount used to establish the DTI ratio.*

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Non-Subject Investment Property Owned in the Prior Calendar Year (continued)	
Topic	**Requirements**

Calculation of Net Rental Income Using Schedule E (continued)	• **Step 2**: Determine the applicable number of months for averaging as follows:
	  • If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12.
	
	  Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time in the prior year, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E.
	
	  • If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date.
	
	  Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E.
	
	• **Step 3**: Calculate the qualifying monthly net rental income as follows:
	  • Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.

Calculation of Net Rental Income Using Lease	• Lease may be used to calculate the net rental income only when either of the following applies:
	  • The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension)
	  • The property was out of service for a period of time during the prior year, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E
	• Use 75% of the gross monthly rent from the lease.
	
	Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.

Use of Net Rental Income in the DTI Calculation	• Subtract the monthly payment amount (as described in the “Qualifying Ratios/Liabilities Included in the Monthly DTI Ratio/Monthly Payment Amounts for Other Properties” subtopic/subsections subsequently outlined in this document) from the net rental income:
	  • If the result is positive, add it to the stable monthly income
	  • If the result is negative, add it to the monthly liabilities

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Non-Subject Investment Property Owned in the Prior Calendar Year (continued)	
Topic	**Requirements**

Use of Net Rental Income in the DTI Calculation (continued)	• For multiple non-subject investment properties, apply the calculation above to each property, and:
	  • If the combined result is positive, add it to the stable monthly income
	  • If the combined result is negative, add it to the monthly liabilities

- **Rental Income from Conversion of a Primary Residence to an Investment Property**
  - **Eligibility**
    - Rental income generated from the conversion of a primary residence to an investment property is eligible provided it meets the requirements of this subsection.

  - **Rental Income Documentation and Calculation Requirements**
    - The following table contains requirements for establishing net rental income from the conversion of a primary residence to an investment property.

Rental Income from Conversion of a Primary Residence to an Investment Property	
Topic	**Requirements**

Income Documentation	• Lease
	  • The lease must be current and fully executed
	  • For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	• Income reflected on the lease must be supported by one of the following:
	  • Form 72 or Form 1000
	  • Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.
	    • Documentation must include one of the following:
	      • Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)
	      • Evidence that the payments were transferred into a third-party money transfer application account that is owned by the borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the borrower's name, a screenshot that evidences transfer of the payments and ties the account to the borrowers bank account)
	      • For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the borrower's personal depository account at a financial institution

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Conversion of a Primary Residence to an Investment Property (continued)	
Topic	**Requirements**

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, if applicable.
	  ◦ If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the lender must:
	    ▪ Determine if additional documentation is necessary to support income stability, and
	    ▪ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

Calculation	Use 75% of the gross monthly rent from the lease. **Note**: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Limitations on Use of Rental Income	When using net rental income to qualify: • The **full amount** of the net rental income can be used only when documentation in the mortgage file demonstrates that at least one borrower has a minimum of one year of investment property management experience • If no borrower has at least one year of investment property management experience, net rental income is limited to the **amount that offsets** the PITI and, when applicable, mortgage insurance premiums, leasehold payments, HOA dues (excluding unit utility charges) and payments on secondary financing on the converted primary residence

Use of Net Rental Income in the DTI Calculation	• Subtract the monthly payment amount (as described in the "Qualifying Ratios/Liabilities Included in the Monthly DTI Ratio/Monthly Payment Amounts for Other Properties" subtopic/subsections subsequently outlined in this document) from the net rental income:
	  ◦ If the result is positive, add it to the stable monthly income
	  ◦ If the result is negative, add it to the monthly liabilities
	• For multiple non-subject investment properties, apply the calculation above to each property, and:
	  ◦ If the combined result is positive, add it to the stable monthly income
	  ◦ If the combined result is negative, add it to the monthly liabilities

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Rental Income, continued

Freddie Mac LPA, continued

- **Rental Income from Subject 2- to 4-Unit Primary Residence**
  - **Eligibility**
    - Rental income generated from units not occupied by the borrower for a subject 2- to 4-unit primary residence is eligible provided it meets the requirements of this subsection.
  - **Rental Income Documentation and Calculation Requirements**
    - The following tables contain requirements for establishing net rental income from a subject 2- to 4-unit primary residence.

Rental Income from Subject 2- to 4-Unit Primary Residence Purchase Transaction Mortgage	
Topic	**Requirements**

Income Documentation	• The existing lease, when available
	  • The lender must make reasonable efforts to determine lease availability, including review of the appraisal report, comparable rent data, purchase contract, a discussion with the borrower and/or any other applicable and reasonable method
	  • The existing lease must be current and fully executed in the property seller's name as the landlord
	
	Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	• Form 72

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• When using the lease, whether the current market rents reasonably support the gross monthly lease income.
	  • If the current market rents do not reasonably support the gross monthly lease income, the lender must:
	    • Determine if additional documentation is necessary to support income stability, and
	    • Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

Calculation	Use 75% of: • Gross monthly rent from the lease when the lease is available, or • Gross monthly market rent from Form 72 when the lease is not available **Note**: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Use of Net Rental Income in the DTI Calculation	• The monthly housing expense (as described in the "Qualifying Ratios" subtopic subsequently outlined in this document) must be calculated without the use of rental income • The net rental income may be added to the stable monthly income

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Subject 2- to 4-Unit Primary Residence Purchased or Placed in Service in the Current Calendar Year Refinance Mortgage	
Topic	**Requirements**

Income Documentation	• Purchase date or conversion date, as applicable, must be documented
	• Form 72
	• Lease(s)
	  ◦ The lease(s) must be current and fully executed
	  ◦ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	• Income reflected on the lease must be supported by one of the following:
	  ◦ Form 72
	  ◦ Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.
	    ▪ Documentation must include one of the following:
	      – Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)
	      – Evidence that the payments were transferred into a third-party money transfer application account that is owned by the borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the borrower's name, a screenshot that evidences transfer of the payments and ties the account to the borrowers bank account)
	      – For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the borrower's personal depository account at a financial institution

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• Whether the current market rents reasonably support the gross monthly lease income, if applicable.
	  ◦ If the current market rents do not reasonably support the gross monthly lease income, the lender must:
	    ▪ Determine if additional documentation is necessary to support income stability, and
	    ▪ Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

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Income, Continued

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Subject 2- to 4-Unit Primary Residence Purchased or Placed in Service in the Current Calendar Year Refinance Mortgage (continued)	
Topic	**Requirements**
Calculation	Use 75% of the gross monthly rent from the lease. **Note**: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Use of Net Rental Income in the DTI Calculation	• The monthly housing expense (as described in the "Qualifying Ratios" subtopic subsequently outlined in this document) must be calculated without the use of rental income • The net rental income may be added to the stable monthly income

Rental Income from Subject 2- to 4-Unit Primary Residence Owned in the Prior Calendar Year Refinance Mortgage	
Topic	**Requirements**

Income Documentation	• The borrower's complete federal income tax returns (IRS Form 1040), including Schedule E for the most recent year.
	• Form 72
	• If the property was purchased or unit(s) not occupied by the borrower were converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented.
	• When the requirements are met for using a **lease in lieu of Schedule E** to calculate net rental income as described in the row labeled "Calculation of Net Rental Income Using Lease", the following **additional documentation** is required:
	  • Lease
	    • The lease must be current and fully executed
	    • For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	  Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	  • Income reflected on the lease must be supported by one of the following:
	    • Form 72
	    • Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.
	      • Documentation must include one of the following:
	        • Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)

Continued on next page

Income, Continued

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Subject 2- to 4-Unit Primary Residence Owned in the Prior Calendar Year Refinance Mortgage (continued)	
Topic	**Requirements**
Income Documentation	• Evidence that the payments were transferred into a third-party money transfer application account that is owned by the borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the borrower's name, a screenshot that evidences transfer of the payments and ties the account to the borrowers bank account) • For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the borrower's personal depository account at a financial institution

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable.
	  • If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the lender must:
	    • Determine if additional documentation is necessary to support income stability, and
	    • Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

Calculation of Net Rental Income Using Schedule E	Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of Net Rental Income Using Lease" are met.
	• **Step 1**: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:
	  • Insurance
	  • Mortgage interest paid to banks, etc.
	  • Real estate taxes
	  • HOA dues
	  • Depreciation and/or depletion
	  • One-time losses (e.g., casualty loss) if documented
	  • Non-cash deduction (e.g., amortization)
	
	Use Form 92 or similar alternative form.

Continued on next page

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Subject 2- to 4-Unit Primary Residence Owned in the Prior Calendar Year Refinance Mortgage (continued)	
Topic	**Requirements**

Calculation of Net Rental Income Using Schedule E (continued)	• **Step 2**: Determine the applicable number of months for averaging as follows:
	  • If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12.
	
	  Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time in the prior year, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E.
	
	  • If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date, as applicable.
	
	  Exception: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E.
	
	• **Step 3**: Calculate the qualifying monthly net rental income as follows:
	  • Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.

Calculation of Net Rental Income Using Lease	• Lease may be used to calculate the net rental income only when either of the following applies:
	  • The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension)
	  • The property was out of service for a period of time during the prior year, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E
	• Use 75% of the gross monthly rent from the lease.
	
	Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.

Continued on next page

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Subject 2- to 4-Unit Primary Residence Owned in the Prior Calendar Year Refinance Mortgage (continued)	
Topic	**Requirements**
Use of Net Rental Income in the DTI Calculation	• The monthly housing expense (as described in the "Qualifying Ratios" subtopic subsequently outlined in this document) must be calculated without the use of rental income • The net rental income may be added to the stable monthly income

- **Rental Income from Non-Subject 2- to 4-Unit Primary Residence**
  - **Eligibility**
    - Rental income generated from units not occupied by the borrower for a non-subject 2- to 4-unit primary residence is eligible provided it meets the requirements of this subsection.
  - **Rental Income Documentation and Calculation Requirements**
    - The following tables contain requirements for establishing net rental income from a non-subject 2- to 4-unit primary residence.

Rental Income from Non-Subject 2- to 4-Unit Primary Residence Purchased or Placed in Service in the Current Calendar Year	
Topic	**Requirements**

Income Documentation	• Purchase date or conversion date, as applicable, must be documented
	• Lease
	  • The lease must be current and fully executed
	  • For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	• Income reflected on the lease must be supported by one of the following:
	  • Form 72
	  • Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.
	    • Documentation must include one of the following:
	      • Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)
	      • Evidence that the payments were transferred into a third-party money transfer application account that is owned by the borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the borrower's name, a screenshot that evidences transfer of the payments and ties the account to the borrowers bank account)

Continued on next page

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Non-Subject 2- to 4-Unit Primary Residence Purchased or Placed in Service in the Current Calendar Year (continued)	
Topic	**Requirements**
Income Documentation (continued)	• For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the borrower's personal depository account at a financial institution **Exception**: For a property purchased on or up to 45 days before the note date for the subject transaction, market rent may be documented using Form 72 if the property is not yet rented.

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• When using the lease, whether the current market rents reasonably support the gross monthly lease income.
	  • If the current market rents do not reasonably support the gross monthly lease income, the lender must:
	    • Determine if additional documentation is necessary to support income stability, and
	    • Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

Calculation	Use 75% of the gross monthly rent from the lease. **Exception:** Use 75% of the gross monthly market rent from Form 72 when the property was purchased on or up to 45 days before the note date for the subject transaction and is not yet rented. **Note**: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Use of Net Rental Income in the DTI Calculation	• The monthly housing expense (as described in the "Qualifying Ratios" subtopic subsequently outlined in this document) must be calculated without the use of rental income • The net rental income may be added to the stable monthly income

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Income, Continued

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Non-Subject 2- to 4-Unit Primary Residence Owned in the Prior Calendar Year	
Topic	**Requirements**

Income Documentation	• The borrower's complete federal income tax returns (IRS Form 1040), including Schedule E for the most recent year.
	• If the property was purchased or unit(s) not occupied by the borrower were converted to a rental property in the prior calendar year, the purchase or conversion date, as applicable, must be documented.
	• When the requirements are met for using a **lease in lieu of Schedule E** to calculate net rental income as described in the row labeled "Calculation of Net Rental Income Using Lease", the following **additional documentation** is required:
	  • Lease
	    • The lease must be current and fully executed
	    • For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	  Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	  • Income reflected on the lease must be supported by one of the following:
	    • Form 72
	    • Documentation verifying receipt of two months of rental payments or receipt of the security deposit and the first month's rental payment.
	      • Documentation must include one of the following:
	        • Evidence that the payments were cashed or deposited into the borrower's depository account at a financial institution (e.g., bank statements evidencing deposit or canceled checks)
	        • Evidence that the payments were transferred into a third-party money transfer application account that is owned by the borrower (e.g., a screenshot or monthly account statement evidencing transfer of the payments and the borrower's name, a screenshot that evidences transfer of the payments and ties the account to the borrowers bank account)
	        • For security deposits, evidence of deposit into an escrow or business account established for this purpose, or evidence payment was cashed or deposited into the borrower's personal depository account at a financial institution

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Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Non-Subject 2- to 4-Unit Primary Residence Owned in the Prior Calendar Year (continued)	
Topic	**Requirements**

Comparable Rent Data Analysis	The lender's analysis of the rental information must include, at a minimum, the following factors:
	• Rental market viability and income producing potential for subject property
	• Whether the current market rents reasonably support the gross rents reported on Schedule E or the gross monthly lease income, as applicable.
	  • If the current market rents do not reasonably support the gross rents reported on Schedule E or the gross monthly lease income, the lender must:
	    • Determine if additional documentation is necessary to support income stability, and
	    • Provide a written analysis explaining the discrepancy and justifying the determination that the rental income used to qualify the borrower is stable and reasonably expected to continue

Calculation of Net Rental Income Using Schedule E	Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of Net Rental Income Using Lease" are met.
	• **Step 1**: Calculate the total net rental income from Schedule E by deducting expenses from rents received. The following expenses may be added back:
	  • Insurance*
	  • Mortgage interest paid to banks, etc.*
	  • Real estate taxes*
	  • HOA dues*
	  • Depreciation and/or depletion
	  • One-time losses (e.g., casualty loss) if documented
	  • Non-cash deduction (e.g., amortization)
	
	Use Form 92 or similar alternative form.
	
	* *These expenses may be added back if they are included in the monthly payment amount used to establish the DTI ratio.*
	
	• **Step 2**: Determine the applicable number of months for averaging as follows:
	  • If the property was owned as a rental property during the entire calendar year, the rental income used in qualifying must be annualized by dividing by 12.
	
	Exception: The qualifying income may be established based on the number of days in service on Schedule E provided that the property was out of service for a period of time in the prior year, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E.
	
	  • If the property was purchased or converted to a rental property later in the prior calendar year, the rental income used for qualifying must be based on the purchase or conversion date.

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Income, Continued

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from Non-Subject 2- to 4-Unit Primary Residence Owned in the Prior Calendar Year (continued)	
Topic	**Requirements**
Calculation of Net Rental Income Using Schedule E (continued)	**Exception**: The qualifying income may be established based on the number of days in service on Schedule E, provided that the property was out of service for a period of time after the purchase or conversion, as applicable, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E. • **Step 3**: Calculate the qualifying monthly net rental income as follows: • Divide the total net rental income calculated in Step 1 by the applicable number of months determined in Step 2.

Calculation of Net Rental Income Using Lease	• Lease may be used to calculate the net rental income only when either of the following applies:
	  • The most recent tax return filed with the IRS does not include the subject property on Schedule E (e.g., the tax return for the year during which the property was purchased or converted is on extension)
	  • The property was out of service for a period of time during the prior year, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E
	• Use 75% of the gross monthly rent from the lease.
	
	Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.

Use of Net Rental Income in the DTI Calculation	• The monthly housing expense (as described in the "Qualifying Ratios" subtopic subsequently outlined in this document) must be calculated without the use of rental income • The net rental income may be added to the stable monthly income

- **Rental Income from an ADU on a Subject 1-Unit Primary Residence**
  - **Eligibility**
    - Rental income generated from an ADU on a subject 1-unit primary residence that does not meet the "Rental Income from Live-in Aide Residing in a 1-Unit Primary Residence" requirements outlined below for live-in aides is eligible provided it meets the requirements of this subsection.
    - The mortgage must be a purchase transaction or "no cash-out" refinance mortgage.
  - **Rental Income Documentation and Calculation Requirements**
    - The following table contains requirements for establishing net rental income from an ADU on a subject 1-unit primary residence.

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Income, Continued

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from an ADU on a Subject 1-Unit Primary Residence Purchase Transaction Mortgage	
Topic	**Requirements**

Income Documentation	• The existing lease, when available
	  ◦ The lender must make reasonable efforts to determine lease availability, including review of the appraisal, comparable rent data, purchase contract, a discussion with the borrower and/or any other applicable and reasonable method
	  ◦ The lease must be current and fully executed
	  ◦ For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	• ADU rental analysis, which must support the income reflected on the lease
	  ◦ The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. The appraiser may provide this rental analysis data in narrative form within the appraisal report or by attaching a separate rent schedule to the appraisal report.
	
	Reference: See "Eligibility of a Property with an ADU" in the "Improvements Section of the Appraisal Report" subtopic, outlined in the "Appraisal Analysis: Agency Loan Programs" topic, within Section 1.07: Appraisal Standard for additional requirements for a property with an ADU.

Calculation	Use 75% of: • Gross monthly rent from the lease when the lease is available, or • Gross monthly market rent from the ADU rental analysis when the lease is not available **Note**: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.
Limitations on Use of Rental Income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the borrower for the mortgage.
Use of Net Rental Income in the DTI Ratio Calculation	• The monthly housing expense (as described in the "Qualifying Ratios" subtopic subsequently outlined in this document) must be calculated without the use of rental income • The net rental income may be added to the stable monthly income

Continued on next page

Income, Continued

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from an ADU on a Subject 1-Unit Primary Residence "No Cash-Out" Refinance Mortgage	
Topic	**Requirements**

Income Documentation	• The borrower's complete federal income tax returns (IRS Form 1040), including Schedule E, for the most recent year.
	• When the requirements are met for using a **lease in lieu of Schedule E** to calculate net rental income as described in the row labeled "Calculation of Net Rental Income Using Lease", the following **additional documentation** is required:
	  • Lease
	    • The lease must be current and fully executed
	    • For newly executed leases, the first rental payment due date must be no later than the first payment due date of the subject mortgage
	
	Truist Note: Truist clarifies that the rental payment on the lease must be reflected in U.S. dollars (cannot be in cryptocurrency).
	
	  • ADU rental analysis, which must support the income reflected on the lease.
	    • The ADU rental analysis must include a minimum of three comparable rentals to support the opinion of market rent applicable to the ADU. At least one of the comparable rentals must include a rented ADU to support the market rent for ADUs. The appraiser may provide this rental analysis data in narrative form within the appraisal report or by attaching a separate rent schedule to the appraisal report.
	
	Reference: See "Eligibility of a Property with an ADU" in the "Improvements Section of the Appraisal Report" subtopic, outlined in the "Appraisal Analysis: Agency Loan Programs" topic, within Section 1.07: Appraisal Standard for additional requirements for a property with an ADU.

Calculation of Net Rental Income Using Schedule E	• Net rental income must be calculated using Schedule E except when the requirements to use a lease as described in the row labeled "Calculation of Net Rental Income Using Lease" are met. • Calculate the net rental income from Schedule E using Form 92 or a similar alternative form.

Calculation of Net Rental Income Using Lease	• Lease may be used to calculate the net rental income only when one of the following applies:
	  • The property was out of service for a period of time during the prior year, and the mortgage file contains documentation of significant repairs or renovation, as supported by a reduced number of days in use **and** repair/renovation expenses on Schedule E
	  • The property was purchased later in the calendar year and Schedule E supports this by a reduced number of days in use
	  • The property was placed in service in the current calendar year as documented in the mortgage file
	• Use 75% of the gross monthly rent from the lease.
	
	Note: The 25% adjustment is made to compensate for vacancies, operating and maintenance costs and any other unexpected expenses.

Continued on next page

Rental Income, continued

Freddie Mac LPA, continued

Rental Income from an ADU on a Subject 1-Unit Primary Residence "No Cash-Out" Refinance Mortgage	
Topic	**Requirements**
Limitations on Use of Rental Income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the borrower for the mortgage.
Use of Net Rental Income in the DTI Ratio Calculation	• The monthly housing expense (as described in the "Qualifying Ratios" subtopic subsequently outlined in this document) must be calculated without the use of rental income • The net rental income may be added to the stable monthly income

- **Landlord Education**
  - For purchase transactions, at least one qualifying borrower must participate in a landlord education program prior to the note date.
  - Landlord education must not be provided by an interested party to the transaction, the originating lender, or the lender selling the mortgage to Freddie Mac. A copy of a certificate evidencing successful completion of the landlord education program must be retained in the mortgage file.

  Exception: Landlord education is not required if at least one borrower has a minimum of one-year investment property management experience or ADU rental management experience.

- **Special Feature Code Requirement**
  - Use SFC J66 to identify a mortgage where rental income from an ADU on a 1-unit primary residence is used to qualify the borrower.

- **Rental Income from Live-in Aide Residing in a 1-Unit Primary Residence**
  - **Eligibility**
    - Rental income generated from the borrower's 1-unit primary residence, including rental income from an ADU may be used to qualify a borrower with a disability provided the rental income is from a live-in aide and the requirements of this subsection are met. Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which rental payments are made to the borrower.

  - **Rental Income Documentation and Calculation Requirements**
    - The following table contains requirements for establishing net rental income from a live-in aide residing in a subject 1-unit primary residence.

Rental Income from a Live-in Aide Residing in a 1-Unit Primary Residence	
Topic	**Requirements**
Income Documentation	The lender must include in the mortgage file evidence that the borrower has received stable rental income from a live-in aide for the most recent 12 months.
Limitations on the Use of Rental Income	The amount of net rental income used for qualifying must not exceed 30% of the total stable monthly income used to qualify the borrower for the mortgage.

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Rental Income, continued

Freddie Mac LPA, continued

- **Other Provisions Related to Rental Income**
  - **IRS Form 8825, *Rental Real Estate Income and Expenses of a Partnership or an S Corporation***
    - See the "Self-Employed Income" subtopic subsequently outlined in this document for guidance related to the treatment of all rental real estate income or loss reported on the IRS Form 8825, which reflects all income and expenses for the rental property and the IRS Schedule K-1, which reflects the borrower's proportionate share of the net rental income or loss.
    - The requirements outlined in the "Self-Employed Income" subtopic are applicable regardless of the borrower's percentage of ownership interest in the partnership or S-corporation and regardless of whether the borrower is personally obligated on the note.

  - **Delivery Requirements for all Subject Investment Properties and 2- to 4-unit Primary Residences**
    - Regardless of whether rental income from the subject investment property or 2- to 4-unit primary residence is being used to qualify the borrower, the lender must deliver the ULDD Data Point *Property Dwelling Unit Eligible Rent Amount.*

      Reference: See "Investment Properties" and "Primary Residences" in the "Occupancy/Property Types" subtopic previously outlined in this document for additional information.

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Restricted Stock (RS) and Restricted Stock Units (RSU)

Non-AUS

- Restricted stock units and restricted stock (referred to collectively as “restricted stock”) are granted by an employer to its employees as a form of compensation based on either performance or time. They can be awarded as either stock or an equivalent cash value of the number of shares awarded and usually vest over a certain number of years. After they vest, the employee may sell the shares at the current price or hold the stock for future sale.
- The following table provides verification requirements for restricted stock income.

✓	Verification of Restricted Stock Income
	To be used as qualifying income, the restricted stock must have vested and been distributed to the borrower without restrictions. **For performance-based awards**: A minimum history of 24 months restricted stock income from the current employer is recommended. Restricted stock income received for 12 to 24 months from the current employer may be considered as acceptable income if there are positive factors to offset the shorter income history such as: • future vesting equal to or greater than previous vesting and that will continue for at least 24 months; or • restricted stock income received for the previous 5 years from any employer. **For time-based awards**: A minimum history of 12 months restricted stock income from the current employer is required. The lender must confirm continuance of income per the “Continuity of Income” requirements, previously outlined in the “General Income Information” subtopic. **Note**: Sign-on bonuses received in the form of restricted stock that vest over any length of time cannot be considered by the lender as qualifying income.
	The lender must document all of the following: • evidence stock is publicly traded; • current vesting schedule reflecting past and future vesting; • brokerage or bank statement showing receipt of previous year(s) distribution of restricted stock and, at a minimum, the number of vested shares or cash equivalent; • a completed *Request for Verification of Employment* (Form 1005) that shows restricted stock distributions, or the borrowers recent paystub showing receipt of restricted stock income; and • the borrower’s IRS W-2 forms covering the most recent two-year period.
	The calculation method for restricted stock income will vary depending on whether payment is made in shares or cash. **For income paid in shares**: • (200-Day Moving Average of share price x total number of distributed vested shares (pre-tax) in most recent 24 months) / 24 months **For income paid in cash**: • Total cash distributed (pre-tax) equal to the total value of vested shares in the most recent 24 months / 24 months **Note**: When the borrower has a history of income ranging from 12-24 months, the lender must use the actual number of months the borrower has received the income rather than 24 months. Reference: See “Variable Income” previously presented in the “General Income Information” subtopic, for additional information about calculating variable income.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Restricted Stock (RS) and Restricted Stock Units (RSU), (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **RS and RSU Subject to Performance-Based Vesting Provisions**
  - Performance-based RS and RSU are RS or RSU with a vesting schedule contingent on corporate and/or individual performance.

RS and RSU Subject to Performance-Based Vesting Provisions	
Topic	**Stable Monthly Income Requirements**
History of Receipt	• Two-years, consecutive. **Exception**: A history of less than two years, but not less than one year, may be acceptable. Refer to the "Additional Employed Income/Income History and Stability – Requirements and Guidance" previously outlined in the "General Income Information" subtopic for additional information. • To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction
Continuance	Must be likely to continue for at least the next three years
Documentation	**All of the following**: • YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU • W-2 forms for the most recent two calendar years • 10-day PCV **OR all of the following:** • Written (VOE) documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent two calendar years • 10-day PCV Employment and income verifications obtained through a third-party verification service provider as described in the "General Income Documentation Requirements" subtopic, are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU. **The mortgage file must also include the following additional documentation:** • 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 schedule(s) currently in effect detailing past and future vesting • Evidence of receipt of previous year(s) payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pretax) • Documentation of the 200-day simple moving average stock price

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Restricted Stock (RS) and Restricted Stock Units (RSU), (continued)

Freddie Mac LPA, continued

- **RS and RSU Subject to Performance-Based Vesting Provisions**, continued

RS and RSU Subject to Performance-Based Vesting Provisions	
Topic	**Stable Monthly Income Requirements**
Calculation	Based on the form in which vested RS or RSU are distributed to the borrower (i.e., as shares or its cash equivalent), the lender must use the applicable method(s) below to calculate the monthly income: • **RS or RSU Distributed as Shares** Multiply the documented 200-day simple moving average stock price by the total number of vested shares distributed (pre-tax) to the borrower in the past two years, then divide by 24. **Example**: If 200 vested shares were distributed (pre-tax) in the past two years and the documented 200-day simple moving average stock price is $10, multiply 200 x $10 then divide by 24= $83.33 monthly income. • **RS or RSU Distributed as Cash Equivalent** Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past two years and divide by 24. **Exception**: If the borrower has not received the RS or RSU income from their current employer for a full 24 months, the lender may calculate the monthly income using the actual number of months received if supported by a written analysis and documented compensating factors (e.g., a history of receipt of RS or RSU income for the previous five years from a prior employer). In all cases, the borrower must have a minimum history of receipt of 12 months with their current employer, as specified above, and the calculated monthly income used for qualifying may not be based on less than 12 months.

- **RS and RSU Subject to Time-Based Vesting Provisions**
  - Time-based RS and RSU are RS or RSU with a pre-determined vesting schedule contingent only on the borrower's continued employment.

RS and RSU Subject to Time-Based Vesting Provisions	
Topic	**Stable Monthly Income Requirements**
History of Receipt	• One year • To be considered for history of receipt, RS and RSU used for qualifying must have vested and been distributed to the borrower from their current employer, without restriction
Continuance	• Recurring awards must be likely to continue for at least the next three years. • Nonrecurring awards (e.g., a one-time award) must have at least three years' vesting and distribution remaining on the vesting schedule.

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Restricted Stock (RS) and Restricted Stock Units (RSU), (continued)

Freddie Mac LPA, continued

- **RS and RSU Subject to Time-Based Vesting Provisions**, continued

RS and RSU Subject to Time-Based Vesting Provisions	
Topic	**Stable Monthly Income Requirements**
Documentation	**All of the following**: • YTD paystub(s) documenting all YTD earnings, including payout(s) of RS or RSU • W-2 form for the most recent calendar year • 10-day PCV **OR all of the following:** • Written (VOE) documenting all YTD earnings (including payout(s) of RS or RSU) as well as earnings for the most recent calendar year • 10-day PCV Employment and income verifications obtained through a third-party verification service provider as described in the "General Income Documentation Requirements" subtopic, are permitted, provided that the documentation clearly identifies and distinguishes the payout(s) of RS/RSU. **The mortgage file must also include the following additional documentation:** • 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 schedule(s) currently in effect detailing past and future vesting • Evidence of receipt of previous year's payout(s) of RS/RSU (e.g., year-end paystub, employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds) that must, at a minimum, include the number of vested shares or its cash equivalent distributed to the borrower (pretax) • Documentation of the 200-day simple moving average stock price
Calculation	Based on the form in which vested RS or RSU are distributed to the borrower (i.e., as shares or its cash equivalent), the lender must use the applicable method(s) below to calculate the monthly income: • **RS or RSU distributed as shares** Multiply the documented 200-day simple moving average stock price by the number of vested shares distributed (pre-tax) to the borrower in the past year, then divide by 12. **Example**: If 50 vested shares were distributed (pre-tax) in the past year and the documented 200-day simple moving average stock price is \$10, multiply 50 x \$10 then divide by 12 =\$41.67 monthly income. • **RS or RSU distributed as cash equivalent** Use the total dollar amount distributed (pre-tax) from the cash equivalent of vested shares in the past year and divide by 12.

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Retirement, Government Annuity, and Pension Income

Non-AUS

Verification requirements for retirement, government annuity, and pension income are as follows:

- Document current receipt of the income, as verified by:
  - a statement from the organization providing the income,
  - a copy of retirement award letter or benefit statement,
  - a copy of financial or bank account statement,
  - a copy of signed federal income tax return,
  - an IRS W-2 form, or
  - an IRS 1099 form.
- If income from a government annuity or a pension account will begin on or before the first payment date, document the income with a benefit statement from the organization providing the income. The statement must specify the income type, amount and frequency of the payment, and include confirmation of the initial start date.
- If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. Eligible retirement account balances (from a 401 (k), IRA, or Keogh) may be combined for the purpose of determining whether the three-year continuance requirement is met.

  Note: the borrower must have unrestricted access without penalty.

- The nontaxable portion of such recurring income must be added to the borrower's cash flow. The tax-exempt portion of income from these sources may be increased to reflect the tax savings, as described in the "General Income Information" subtopic previously presented in this topic. If the income from these sources is determined to be nonrecurring, the income must be deducted from the borrower's cash flow.

References:

- See the "Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)" subtopic previously presented in this topic for additional information.
- See the "Social Security Income" subtopic subsequently presented in this topic for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- If a borrower's retirement, annuity, or pension income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described above. See "DU Validation Service" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.

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Income, Continued

Retirement, Government Annuity, and Pension Income, (continued)

Freddie Mac LPA
Follow LPA requirements, which are as follows:

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements

Retirement income (e.g., Social Security, pension, annuity, other similar benefits; not including retirement account distributions as income)	**Existing and established retirement income**:
	Evidence of the type, source, pre-determined payment amount, payment frequency and current receipt must be obtained
	• **History of receipt**: A history of receipt is not required for the income to be considered stable
	• **Continuance**: Must be likely to continue for at least the next three years
	• **Calculation**: Use the documented fixed monthly payment amount
		For existing and established sources of retirement income:
		• Document income type, source, payment frequency, pre-determined payment amount and current receipt with one or more of the following documents, as needed: a copy of a benefit verification letter, award letter, pay statement, 1099, bank statement(s) or other equivalent documentation.
		• Age of documentation requirements as described in the “General Income Documentation Requirements” subtopic do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount.
		• For social security retirement benefits, the lender must obtain one of the following:
		  ◦ A copy of the Social Security Administration benefit verification letter,
		  ◦ Form 1099-SSA for the most recent calendar year,
		  ◦ Pages 1 and 2 of the borrower's most recent federal individual income tax returns (or pages 1–3 if filing Form 1040-SR). If the tax returns were filed jointly with an individual who is not a borrower on the transaction, the lender must obtain additional documentation supporting the amount of social security income used for qualifying.
		  ◦ Documentation evidencing current receipt

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Retirement, Government Annuity, and Pension Income, (continued)

Freddie Mac LPA, continued

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Retirement income (e.g., Social Security, pension, annuity, other similar benefits; not including retirement account distributions as income), cont'd	**Newly established retirement income:** • If the retirement income is newly established, verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first mortgage payment due date. • The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date.	**For newly established sources of retirement income:** Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms. The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. Verification of current receipt is not required.
Retirement account distributions as income (e.g., 401(k), IRA)	**Eligibility Requirements:** Distributions from retirement accounts recognized by the Internal Revenue Service (IRS) (e.g., 401(k), IRA) that are not subject to penalty (e.g., early withdrawal penalty) may be considered stable monthly qualifying income. Evidence of the income source, type, distribution frequency, distribution amount(s), current receipt (as applicable) and history of receipt (as applicable), must be documented. **Required Minimum Distributions:** 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 required minimum distribution amount is obtained, history of receipt is not required for the income to be considered stable.	• Copy of most recent retirement account statement(s), documentation from financial institution holding retirement account that verifies regularly scheduled distribution arrangements, 1099(s) and/or other equivalent documentation showing income source, type, distribution frequency, distribution amounts and history of receipt (as applicable), and • Copy of bank statement(s) or other equivalent documentation evidencing current receipt (as applicable), and • Evidence of sufficient assets among all retirement accounts used to support the qualifying income amount and continuance If the retirement distributions are not scheduled monthly payments (e.g., annual, semi-annual, quarterly), the most recent distribution verified through a copy of the retirement account statement, 1099 and/or other equivalent documentation, as applicable, is sufficient in lieu of current receipt; however, verification of receipt of multiple distributions may be necessary to determine frequency of distributions, history of receipt and amount of stable monthly qualifying income.

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Income, Continued

Retirement, Government Annuity, and Pension Income, (continued)

Freddie Mac LPA, continued

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Retirement account distributions as income (e.g., 401(k), IRA), continued	**History and stability requirements and guidance:** Due to the multiple variables inherent with distributions from retirement accounts, including, but not limited to, fixed and fluctuating income amounts, the history of receipt necessary to justify a stable monthly qualifying income amount may vary. This may include a range of history from zero to 24 months, depending upon the individual circumstances. As with all income, the lender must determine that the source and amount of the income are stable. Factors that the lender must consider when determining that the income used to qualify the borrower is stable, and when determining the history of receipt necessary to justify a stable monthly qualifying income amount include, but are not limited to the following: • 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 fluctuating amounts occurring with or without regular frequency. For fixed amounts occurring with regular frequency, a lesser history of receipt may be needed in order to determine the amount and stability of the qualifying income than would be needed for fluctuating amounts. For fluctuating amounts, it may be necessary to obtain a longer history of receipt in order to determine the amount and stability of the qualifying income while taking into consideration whether or	

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Retirement, Government Annuity, and Pension Income, (continued)

Freddie Mac LPA, continued

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Retirement account distributions as income (e.g., 401(k), IRA), continued	not the overall payments are similar when viewed year over year or with another similar measure, such as quarter over quarter. • Rules governing distributions (e.g., IRS rules governing exceptions to early withdrawal penalties and Required Minimum Distributions (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, thereby enabling a lesser amount of history to justify a stable monthly qualifying income amount. A written rationale explaining the analysis used to determine the qualifying income must be provided. **Continuance:** • Document that sufficient assets remain in the retirement account(s) after closing to support continuance of the retirement account distributions as income for at least the next three years. • If the retirement account(s) from which the borrower is currently taking distribution is projected to be depleted within three years, the borrower's additional retirement accounts may be considered when determining continuance of income used for qualifying. The lender must verify that the borrower has sufficient eligible retirement assets in aggregate to support the amount of qualifying income for at least three years after	

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Income, Continued

Retirement, Government Annuity, and Pension Income, (continued)

Freddie Mac LPA, continued

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Retirement account distributions as income (e.g., 401(k), IRA), continued	the note date. The additional retirement assets used to verify continuance may not be used as a source of funds for closing or reserves, as a current source of income for the borrower, or for the calculation of assets as a basis for repayment of obligations.	

Reference: See the "Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)" subtopic previously presented in this topic for additional information.

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Royalty Payment Income

Non-AUS

Verification requirements for royalty income are as follows:

- Obtain copies of the
  - royalty contract, agreement or statement confirming amount, frequency, and duration of the income, and
  - borrower's most recent signed federal income tax return, including the related IRS Form 1040, Schedule E.
- Confirm that the borrower has received royalty payments for at least 12 months and that the payments will continue for a minimum of three years after the date of the mortgage application.

Reference: See "Variable Income" in the "General Income Information" subtopic previously presented in this topic for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
For borrowers who have less than a two-year history:	• **History of receipt**: Most recent one-year receipt of payments on a regular basis • **Continuance**: Royalty contract(s) and/or lease agreements must evidence eligibility for payment continuance for at least the next three years • **Calculation**: 12-month average	• Copy of complete federal individual income tax return for the most recent one-year period, and • Copy of royalty contract(s) or lease agreement(s) evidencing the terms including, but not limited to, the duration of payment eligibility
For borrowers who have a history of two years or more:	• **History of Receipt**: Most recent two-years receipt of payments on a regular basis • **Continuance**: Must be likely to continue for at least the next three years • **Calculation**: 24-month average	• Copy of complete federal individual income tax returns for the most recent two-year period

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Salaried or Hourly Wage Income

Non-AUS

- A minimum history of two years of employment income is recommended. However, income that has been received for a shorter period of time may be considered as acceptable income, as long as the borrower's employment profile demonstrates that there are positive factors to reasonably offset the shorter income history.
- Obtain the following documents:
    - a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)),
    - the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period, or
    - the borrower's recent Leave and Earnings Statement (LES) for military income and entitlements.
- See "Variable Income" in the "General Income Information" subtopic previously presented in this topic for additional information on calculating variable income (applies to hourly paid employees with fluctuating hours).
- If a borrower who has historically been employed on a part-time basis indicates that he or she will now be working full-time, obtain written confirmation from the borrower's employer.
- A verbal VOE is required from each employer. See the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic for specific requirements.
- See "Standards for Employment Documentation" in the "General Income Documentation Requirements" subtopic previously presented in this topic for additional information about verifying employment income.

Reference: See the "Employment Offers or Contracts / Employment and Income Commencing After the Note Date" subtopic previously presented in this topic for additional guidance.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements with the following exception:

- DU will require the following:
    - a completed *Request for Verification of Employment* (Form 1005),
    - the borrower's recent paystub and IRS W-2 forms covering the most recent one-year period, or
    - the borrower's recent Leave and Earnings Statement (LES) for military income and entitlements.

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Salaried or Hourly Wage Income, (continued)

Freddie Mac LPA
Follow LPA requirements, which are as follows:

Employment Earnings Type	Streamlined Accept and Standard Documentation Levels
Primary employment earnings: • Base non-fluctuating earnings and • Fluctuating hourly earnings	**All of the following:** • YTD paystub(s) documenting all YTD earnings, W-2 form(s) for the most recent calendar year, and a 10-day pre-closing verification (10-day PCV) **OR, all of the following:** • Written verification of employment (VOE) documenting all YTD earnings and the earnings for the most recent calendar year, and a 10-day PCV
Secondary employment earnings	See the “Second Job Income” subtopic subsequently presented in this topic for documentation requirements.

Reference: See “Primary and Secondary Employment and Income” within the “Employed Income” section of the “General Income Information” subtopic previously referenced in this topic for additional information regarding primary employment history, continuance, base non-fluctuating, and fluctuating hourly earnings types requirements and guidance.

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Schedule K-1 Income *(For borrowers with Less than 25% Ownership in Business)*

Non-AUS

- The following table provides verification of income requirements for borrowers who have less than 25% ownership of a partnership, S corporation, or limited liability company (LLC). For borrowers who have more than 25% ownership, lenders must follow the verification of income requirements for self-employed borrowers. See the "Self-Employment Income" subtopic subsequently presented in this document for additional information.

✓	Verification of Schedule K-1 Income
	The borrower must provide the most recent two years of: • signed individual federal income tax returns, and • IRS Schedule K-1.

	Income reported on Schedule K-1 can only be considered if the lender obtains documentation verifying that:
	• the income was actually distributed to the borrower and is consistent with the level of business income being used to qualify, or
	• the business has adequate liquidity to support the withdrawal of earnings. The lender may use discretion in the method used to confirm the business has adequate liquidity. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.
	  • It is important that the lender select a business liquidity formula based on how the business operates. For example:
	    • **The Quick Ratio** (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.
	
	Quick Ratio = (current assets — inventory) ÷ current liabilities
	
	    • **The Current Ratio** (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.
	
	Current Ratio = current assets ÷ current liabilities
	
	  • While a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings, lenders may support adequate liquidity using alternative methods with a documented rationale.

	The lender is not required to analyze the viability of the business in accordance with self-employment requirements and may only use the borrower's proportionate share of earnings reflected on Schedule K-1 when calculating the borrower's income.
	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. **Note**: An exception to the two-year requirement of receiving "guaranteed payments to the partner" is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, the lender may rely on the borrower's guaranteed compensation. This must be evidenced by the borrower's partnership agreement and further supported by evidence of current year-to-date income.

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Schedule K-1 Income *(For borrowers with Less than 25% Ownership in Business),* (continued)

Non-AUS, continued

- **Use of Fannie Mae's Income Calculator Tool**
  - The lender may use Income Calculator to calculate the monthly Schedule K-1 qualifying income from S-corporations and partnerships where borrowers have less than 25% ownership interest. Income Calculator will provide a complete analysis of a borrower's Schedule K-1 qualifying income and produce a Findings Report. See the "Fannie Mae Income Calculator" subtopic previously presented in this document for additional guidance.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

Employment/income characteristics		Additional requirements

Borrowers with business ownership interest(s) less than 25%	• For use of ordinary income (loss) or guaranteed payments for services reported on IRS Schedule K-1 as stable monthly qualifying income, the lender must meet either:
	  ◦ The self-employed requirements in the section "Self-Employment Income" within this document, or
	  ◦ All requirements in this section in conjunction with the general requirements and guidance in "General Income Information" and "General Income Documentation Requirements" within this document. The Borrower should not have an ownership interest of 25% or more in any business. When using ordinary business income for qualification, the historical cash distributions must be reasonably consistent with the ordinary business income reported on the K-1s.
	
	Note: For use of W-2 income, the lender must meet the requirements of the "Employed Income" subtopic in the "General Income Information" or "Self-Employed Income" sections within this document; the additional requirements in this row do not apply.
		Schedule K-1 income from Partnerships and S corporations
		
		Minimum documentation:
		• Schedule K-1s for the most recent two calendar years for Partnerships and S Corporations
		• Documentation of all YTD income must be obtained if available (e.g., most recent YTD paystub or equivalent). If YTD information is not attainable (e.g., due to year-end payment structures), the lender may document and justify the income stability without this information.
		• The Schedule K-1(s) must evidence less than 25% ownership interest for the individual Borrower
		• Verification of current existence of business in accordance with the "Employed Income Calculation Guidance and Requirements" subtopic in the, "General Income Information" section within this document.

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Schedule K-1 Income *(For borrowers with Less than 25% Ownership in Business),* (continued)

Freddie Mac LPA, continued

Employment/income characteristics		Additional requirements
Borrowers with business ownership interest(s) less than 25%, continued		**History of receipt:** • **Ordinary business income:** Most recent two years • **Guaranteed payments for services:** Most recent two years; however, in certain instances, a shorter history may still be considered stable if the Seller provides a written analysis and sufficient supporting documentation justifying the determination of stability (e.g., recently changed from an employee of the same firm to a partner with a nominal ownership interest). In no event may the history be less than 12 months. • **Continuance:** Must be likely to continue for at least the next three years **Calculation:** Average must be based on the required and documented history of receipt and support a consistent level of income in accordance with the requirements in "General Requirements for all Stable Monthly Income" subtopic of "General Income Information" within this document. The lender must determine if more information and/or documentation is needed to support and justify the stable monthly income based on the individual circumstances.

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Seasonal Income / Seasonal Unemployment Income

Non-AUS

- The lender must verify the following for seasonal income:
  - Verify the borrower has at least a two year history of seasonal employment and income.
  - For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. See the "Public Assistance Income" subtopic, previously presented in this topic, for more information on unemployment benefits.
- The income sources discussed in this subtopic must be documented by obtaining the following:
  - a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)); ***or***
  - the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period. (Signed federal income tax returns may also be required to verify unemployment income related to seasonal employment.)
- A verbal VOE is also required from each employer. See the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic for specific requirements.

Reference: See "Variable Income" in the "General Income Information" subtopic previously presented in this topic for additional information on calculating variable income. Also, see "Standards for Employment Documentation" in the "General Income Documentation Requirements" subtopic previously presented in this topic for additional information about verifying employment income.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Seasonal Income / Seasonal Unemployment Income, (continued)

Freddie Mac LPA *(Seasonal Employment and Unemployment Compensation Associated with Seasonal Employment – LPA Terminology)*
Follow LPA requirements, which are as follows:

- Seasonal employment may be primary employment (e.g., highway construction and road work in colder regions) or secondary employment (e.g., educators teaching summer school). The borrower's earnings may be comprised of base non-fluctuating earnings, fluctuating hourly earnings and/or additional employed income.
  - The lender must determine whether the employment represents primary or secondary employment and use the applicable requirements for history, continuance, earnings type, documentation and calculation, as outlined in this document.
- When unemployment income associated with the seasonal employment is being used as stable monthly income:
  - **History of receipt**: Two years, consecutive
  - **Continuance**: Must be likely to continue for at least the next three years
  - **Calculation**: See “Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis” within the “Employed Income Calculation Guidance and Requirements” section of the “General Income Information” subtopic, previously presented in this topic, for calculation guidance and requirements.
  - **Streamlined Accept and Standard Documentation Requirements:**
    - Proof of receipt of unemployment compensation for the most recent two-year period (e.g., IRS Form 1099-G(s) and/or equivalent documentation)

Reference: See the “Additional Employed Income/Income History and Stability – Requirements and Guidance” subtopic subsequently presented within the “General Income Information” topic for guidance when a history of less than two years, but not less than one year, may be acceptable.

Second Job Income

Non-AUS
Secondary employment income is income that is derived from a second job or multiple jobs the borrower may have. The lender must verify the following:

- Verification of a minimum history of two years secondary employment income is recommended. However, income that has been received for a shorter period of time (but, no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the short income history.
- A borrower may have a history that includes different employers, which is acceptable as long as the income has been consistently received. In no instance may the borrower have any gap in employment greater than one month in the most recent 12-month period, unless the secondary employment is considered seasonal income.
- Second job income must be documented by obtaining the following:
  - a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)); or
  - the borrower’s recent paystub and IRS W-2 forms covering the most recent two-year period.
- A verbal VOE is also required from each employer. See the “Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)” subtopic subsequently presented in this topic for specific requirements.

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Second Job Income, (continued)

Non-AUS, continued

Notes:

- As this income type may be hourly or seasonal, see "Variable Income" in the "General Income Information" subtopic previously presented in this topic for additional information on calculating variable income. Also, see "Standards for Employment Documentation" in the "General Income Documentation Requirements" subtopic previously presented in this topic for additional information about verifying employment income.
- If secondary employment income is seasonal or from self-employment, see those subtopics as appropriate for additional guidance.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- When the second job income is not from self-employment, DU will require the borrower's recent paystub and IRS W-2 forms covering the most recent two-year period.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Secondary employment is considered as any type of employment (e.g., second part-time job or multiple jobs) that is in addition to the borrower's primary employment.

Employment Earnings Type	Streamlined Accept and Standard Documentation Levels
Secondary employment earnings: • Base non-fluctuating earnings and • Fluctuating hourly earnings	**All of the following:** • YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years, and a 10-day PCV **OR, all of the following:** • Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years, and a 10-day PCV

Reference: See "Primary and Secondary Employment and Income" within the "Employed Income" section of the "General Income Information" subtopic previously referenced in this topic for additional information regarding secondary employment history, continuance, base non-fluctuating, and fluctuating hourly earnings types requirements and guidance.

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Section 8 Homeownership Assistance Payments

Non-AUS ***(Section 8 Housing Choice Voucher Homeownership Program Payments – Fannie Mae Terminology)***

- The Housing Choice Voucher Homeownership Program (more commonly known as Section 8) is also an acceptable source of qualifying income.
- There is no requirement for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.
- **Verification of Section 8 Payment Vouchers**:
  - Determine the monthly payment amount from the public agency that issues the voucher. Because this income is nontaxable, the lender should develop an adjusted gross income for the borrower. See the "Tax Exempt Income" subtopic subsequently presented in this topic for additional information.

Truist Note: Housing Voucher payments delivered directly to servicer (not to borrower) require special servicing handling. Contact Purchase Relations to ensure there are no client service failures.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA ***(Homeownership Voucher Program – LPA Terminology)***
Follow LPA requirements, which are as follows:

- **History of receipt:** A history of receipt is not required for the income to be considered stable.
- **Continuance:** Homeownership Voucher Program assistance term limit must have a remaining term of at least three years.
- **Calculation:** Use the fixed monthly payment amount documented by the public housing agency that issued the voucher. The payments may not be used to offset the monthly housing payment amount used for qualification.
- **Streamlined Accept and Standard Documentation Requirements:** Copy of documentation from the public housing agency that issued the homeownership voucher verifying the terms including, but not limited to, the source, benefit type, payment frequency, payment amount and duration of the term limit for assistance.

Note: Housing Voucher payments delivered directly to servicer (not to borrower) require special servicing handling. Contact Purchase Relations to ensure there are no client service failures.

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Income, Continued

Self-Employment Income

Non-AUS

- **Overview**
  - When determining the appropriate qualifying income for a self-employed borrower, it is important to note that business income (specifically from a partnership or S corporation) reported on an individual IRS Form 1040 may not necessarily represent income that has actually been distributed to the borrower. The fundamental exercise, when conducting a self-employment income cash flow analysis, is to determine the amount of income that can be relied on by the borrower in qualifying for their personal mortgage obligation.
  - When underwriting these borrowers, it is important to review business income distributions that have been made or could be made to these borrowers while maintaining the viability of the underlying business. This analysis includes assessing the stability of business income and the ability of the business to continue to generate sufficient income to enable these borrowers to meet their financial obligations.

- **Factors to Consider for a Self-Employed Borrower**
  - Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed.
  - The following factors must be analyzed before approving a loan for a self-employed borrower:
    - the stability of the borrower's income,
    - the location and nature of the borrower's business,
    - the demand for the product or service offered by the business,
    - the financial strength of the business, and
    - the ability of the business to continue generating and distributing sufficient income to enable the borrower to make the payments on the requested loan.

- **Length of Self-Employment**
  - Fannie Mae generally requires lenders to obtain a two-year history of the borrower's prior earnings as a means of demonstrating the likelihood that the income will continue to be received.
  - However, the income of a person who has less than a two-year history of self-employment may be considered, as long as the borrower's most recent signed personal and business federal income tax returns reflect a full year (12 months) of self-employment income from the current business. The loan file must also contain documentation to support the history of receipt of prior income at the same (or greater) level and:
    - in a field that provides the same products or services as the current business, or
    - in an occupation in which they had similar responsibilities to those undertaken in connection with the current business.

    In such cases, the lender must give careful consideration to the nature of the borrower's level of experience, and the amount of debt the business has acquired.

Continued on next page

Self-Employment Income, (continued)

Non- AUS, continued

- **Verification of Income**
  - The lender may verify a self-employed borrower's employment and income by obtaining from the borrower copies of their signed federal income tax returns (both individual returns and in some cases, business returns) that were filed with the IRS for the past two years (with all applicable schedules attached).
  - Alternatively, the lender may use IRS-issued transcripts of the borrower's individual and business federal income tax returns that were filed with the IRS for the most recent two years—as long as the information provided is complete and legible and the transcripts include the information from all of the applicable schedules.
  - The lender may provide one year of personal and business tax returns if the following requirements are met**:**
    - the business from which the borrower is using self-employed income must have been in existence for five years as reflected on the Form 1003, and the borrower has had an ownership share of 25% or more for the past five years consecutively, and:
      - for partnerships, S corporations and corporations, the federal income tax return for the business must support the information reflected on the Form 1003. If the business was in existence prior to the borrower having 25% or more ownership, then the lender must demonstrate the borrower has had 25% or more ownership for at least five years consecutively.
      - for sole proprietorships, the individual federal tax return and any other documentation or information received must support the information reflected on the Form 1003 for the number of years the business has been in existence.
    - all businesses are assessed separately for the five-years in existence benchmark and the number of years of personal and federal income tax returns required could differ when there are multiple self-employment income sources.
    - the lender must complete Fannie Mae's *Cash Flow Analysis* (Form 1084) or any other type of cash flow analysis form that applies the same principles. A copy of the written analysis must be included in the permanent loan file.

    Note: Alternative documentation to establish the number of years the borrower has ownership of 25% or more in a business may be obtained as long as the documentation clearly identifies the specific business listed on the Form 1003 and is supported by the most recent year tax returns. Documentation must be obtained through a reliable source, such as an IRS-Issued Employer Identification Number Confirmation letter, business license, articles of incorporation, or partnership agreements.

  - When two years of signed individual federal tax returns are provided, the lender may waive the requirement for business tax returns if:
    - the borrower is using personal funds to pay down payment and closing costs and satisfy applicable reserve requirements,
    - the borrower has been self-employed in the same business for at least five years (requirements noted above), and
    - the borrower's individual tax returns show an increase in self-employment income over the past two years from the respective business.

Continued on next page

Self-Employment Income, (continued)

Non- AUS, continued

- **Analysis of Borrower's Personal Income**
  - The lender must prepare a written evaluation of its analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's individual income tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. This 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). Examples of income not derived from self-employment include salary and retirement income.
  - The lender may use *Cash Flow Analysis* (Form 1084), another type of cash flow analysis, or an automated tool such as Fannie Mae's Income Calculator, that apply the same principles as Form 1084.
  - A copy of the written analysis and conclusions or the Findings Report generated by the Income Calculator must be retained in the loan file.

- **Analysis of Borrower's Business Income**
  - When a borrower is relying upon self-employed income to qualify for a loan and the requirements that permit the lender to waive business tax returns are not met, the lender must prepare a written evaluation of its analysis of the borrower's business income. The lender must evaluate the borrower's business through its 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, expenses, and taxable income for the business,
    - 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.
  - The lender may use Fannie Mae's *Comparative Income Analysis* (Form 1088), Fannie Mae's Income Calculator, or any other method of trend analysis that enables it to determine a 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 copy of the written analysis and conclusions or the Findings Report generated by the Income Calculator must be retained in the loan file.

- **Use of Fannie Mae's Income Calculator**
  - The lender may use Income Calculator to calculate the monthly qualifying income from self-employment. Income Calculator will provide a complete analysis of self-employment income for each borrower on a business-by-business basis and produce a Findings Report.
  - The Income Calculator Findings Report summarizes the overall qualifying income amount trending analysis, business liquidity, and provides specific messaging for each business evaluation. These detailed messages are designed to assist lenders in processing and underwriting self-employed borrowers while providing certainty of the income calculation. See the "Fannie Mae Income Calculator" subtopic previously presented in this document for additional guidance.

Continued on next page

Self-Employment Income, (continued)

Non- AUS, continued

- **Schedule K-1 Income**
  - 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.
  - The lender must 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 the lender can confirm 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, then the lender must confirm adequate business liquidity, as discussed below.
  - If business tax returns are required, then the lender must consider the type of business structure and analyze the business returns, according to the requirements described in this topic.
  - The lender may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the lender may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.
  - It is important that the lender select a business liquidity formula based on how the business operates. For example:
    - **The Quick Ratio** (also known as the Acid Test Ratio) is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

      Quick Ratio = (current assets — inventory) ÷ current liabilities

    - **The Current Ratio** (also known as the Working Capital Ratio) may be more appropriate for businesses not relying on inventory to generate income.

      Current Ratio = current assets ÷ current liabilities

  - While a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings, lenders may support adequate liquidity using alternative methods with a documented rationale.

Continued on next page

Self-Employment Income, (continued)

Non- AUS, continued

- **Profit and Loss Statements**
  - The lender may use a profit and loss statement—audited or unaudited—for a self-employed borrower's business to support its 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, the lender may choose to require this document if it believes that it is needed to support its determination of the stability or continuance of the borrower's income.
  - If the lender did not count the borrower's year-to-date salary or draws in determining the borrower's qualifying income, it may add them to the net profit shown on the profit and loss statement as well as adding any of the allowable adjustments it used in analyzing the tax returns for the business, such as nonrecurring income and expenses, depreciation, and depletion.
  - However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that the borrower can use for qualifying purposes.

- **Use of Business Assets**
  - When a borrower is using self-employment income to qualify for the loan and also intends to use assets from their business as funds for the down payment, closing costs, and/or financial reserves, the lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. To assess the impact, the lender may require a level of documentation greater than what is required to evaluate the borrower's business income (for example, several months of recent business asset 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 recent tax return filing, or the lender's need for information to perform its analysis.

    Reference: See the "Business Assets" subtopic within the "Cash Requirements" topic subsequently presented in this document, for requirements when self-employment income is not being used to qualify, but business assets are being used for the down payment, closing costs, and/or financial reserves.

- **Income Verification for Self-Employed Co-Borrowers**
  - When co-borrower income that is derived from self-employment is not being used for qualifying purposes, the lender is not required to document or evaluate the co-borrower's self-employment income (or loss).
  - Any business debt on which the borrower is personally obligated must be included in the total monthly obligations when calculating the debt-to-income ratio.

- **Verbal Verification of Employment**
  - See the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic for specific requirements.

Continued on next page

Self-Employment Income, (continued)

Non-AUS, continued

- **Business Structures**
  - **Overview**
    - The legal structure of a business determines the following:
      - the way business income or loss is reported to the IRS,
      - the taxes that are paid,
      - the ability of the business to accumulate capital, and
      - the extent of the owner's liability.
    - There are five principal business structures: sole proprietorships, partnerships, limited liability companies (LLCs), S corporations, and corporations. Knowledge of the structure of a self-employed borrower's business will assist the lender in analyzing and evaluating the stability of the business and the degree of the borrower's involvement.

  - **Sole Proprietorships**
    - A sole proprietorship is an unincorporated business that is individually owned and managed. The individual owner has unlimited personal liability for all debts of the business. If the business fails, the borrower not only will have to replace their lost income, but also will be expected to satisfy the outstanding obligations of the business. Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy the borrower's business obligations.
    - The financial success or failure of this type of business depends solely on the owner's ability to obtain capital and to manage the various aspects of the business. Poor management skills or an inability to secure capital to keep the business running will compromise the continuance of the borrower's business (and income). The owner's death terminates the business and may cause the assets to be placed into probate, thus delaying the disposition of the assets to creditors and heirs.
    - The income, expenses, and taxable profits of a sole proprietorship are reported on the owner's IRS Form 1040, Schedule C, and are taxed at the tax rates that apply to individuals.
    - When evaluating a sole proprietorship, the lender must:
      - review the owner's most recent signed federal income tax returns to ensure that there is sufficient and stable cash flow to support both the business and the payments for the requested mortgage, and
      - determine whether the business can accommodate the withdrawal of assets or revenues should the borrower need them to pay the mortgage payment and/or other personal expenses.

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Self-Employment Income, (continued)

Non-AUS, continued

- **Partnerships**
  - A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses according to predetermined proportions that are set out in the partnership agreement. A partnership may be either a general partnership or a limited partnership:
    - **General Partnership** — Under a general partnership, each partner has responsibility for running the business, is personally liable for the debts of the entire business, and is responsible for the actions of every other partner (unless otherwise specified in the partnership agreement). A general partnership is dissolved immediately on the death, withdrawal, or insolvency of any of the partners, although the personal liability to partnership creditors exists even after the partnership is dissolved. However, the partnership's assets will first be applied to the creditors of the business and the partners' individual assets will first be applied to their personal creditors, with any surplus in a partner's personal assets then being applied to the remaining business creditors.
    - **Limited Partnership** — Under a limited partnership, a limited partner has limited liability based on the amount they invested in the partnership, does not typically participate in the management and operation of the business, and has limited decision-making ability. A limited partnership will have at least one general partner who manages the business and is personally liable for the debts of the entire business. A limited partner's death, withdrawal, or insolvency does not dissolve the partnership. Because limited partnerships often are formed as tax shelters, it is more likely that IRS Form 1065, Schedule K-1, will reflect a loss instead of income. In such cases, the borrower's ability to deduct the loss will be limited by the "at risk" amount of their limited partnership interest (and will probably be subject to passive loss limitations).
  - The partnership must report its profit or loss on IRS Form 1065 and each partner's share of the profit or loss on IRS Form 1065, Schedule K-1; however, the partnership pays no tax on the partnership income.
  - Each partner uses the information from IRS Form 1065, Schedule K-1, to report their share of the partnership's net profit or loss (and special deductions and credits) on their IRS Form 1040—whether or not the partner receives a cash distribution from the partnership. Individual partners pay taxes on their proportionate share of the net partnership income at their individual tax rates.
  - To quantify the level of the borrower's financial risk, the lender must:
    - determine whether the borrower has guaranteed any loans obtained by the partnership (other than loans that are considered as nonrecourse debt or qualified nonrecourse debt),
    - determine if the borrower received a distribution from the partnership, and
    - determine the borrower's share of non-cash expenses that can be added back to the cash flow of the partnership business.

Continued on next page

Self-Employment Income, (continued)

Non-AUS, continued

- **Limited Liability Companies**
  - A limited liability company (LLC) is a hybrid business structure that is designed to offer its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation. The member-owners of the LLC (or their assigned managers) can sign contracts, sell assets, and make other important business decisions. The LLC operating agreement may set out specific divisions of power among the member-owners (or managers). Although the member-owners generally have limited liability, there may be some instances in which they are required to personally guarantee some of the loans that the LLC obtains. Profits from the operation of the LLC may be distributed beyond the pool of member-owners, such as by offering profit distributions to managers.
  - The LLC may report its profit or loss on IRS Form 1065 or IRS Form 1120S with each member-owner's share of the profit or loss on Schedule K-1, IRS Form 1065 or IRS Form 1120S; however, the LLC pays no tax on its income. Each member-owner uses the information from Schedule K-1 to report their share of the LLC's net profit or loss (and special deductions and credits) on their individual IRS Form 1040, whether or not the member-owner receives a cash distribution from the LLC. Individual member-owners pay taxes on their proportionate share of the LLC's net income at their individual tax rates.
  - The lender must evaluate the LLC using IRS Form 1065 or IRS Form 1120S along with the Schedule K-1, as applicable, to determine the following:
    - whether the borrower actually received a cash distribution from the LLC, since profits may or may not be distributed to the individual member-owners; and
    - whether the borrower has guaranteed any loans obtained by the LLC (other than loans that are considered as nonrecourse debt or qualified nonrecourse debt).

- **S Corporations**
  - An S corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. An S corporation has many of the characteristics of a partnership. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items.
  - The ordinary income for an S corporation is reported on IRS Form 1120S, with each shareholder's share of the income reported on IRS Form 1120S, Schedule K-1.
  - Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, the lender must determine if the borrower received a cash distribution from the S corporation.
  - The cash flow of an S corporation is otherwise evaluated similarly to that of a regular corporation.

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Self-Employment Income, (continued)

Non-AUS, continued

- **Corporations**
  - A corporation is a state-chartered legal entity that exists separately and distinctly from its owners (who are called stockholders or shareholders). It is the most flexible form of business organization for purposes of obtaining capital. A corporation can sue; be sued; hold, convey, or receive property; enter into contracts under its own name; and does not dissolve when its ownership changes. There are two types of corporations—publicly owned (widely held) corporations and privately owned (closely held) corporations. Because more than 50% of the outstanding stock of a privately owned corporation is owned directly or indirectly by no more than five people, the corporation has little or no access to public funds and must raise capital through institutional financing.
  - Although legal control of the corporation rests with its stockholders, they typically are not responsible for the day-to-day operations of the business since they elect a board of directors to manage the corporation and delegate responsibility for the day-to-day operations to the directors and officers of the company. The distribution of profits earned by the business is determined by the corporation's board of directors or other entities that have a significant financial interest in the business. However, the profits usually are filtered down to the owners in the form of dividends. Since a stockholder is not personally liable for the debts of the corporation, losses are limited to their individual investment in the corporation's stock.
  - Corporations must report income and losses on IRS Form 1120 and pay taxes on the net income. The corporation distributes profits to its shareholders in the form of dividends, which it reports on IRS Form 1099-DIV. The shareholders must then report the dividends as income on their individual IRS Form 1040.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- If the borrower is the business owner or is self-employed, the business owner/self-employed indicator must be checked in the loan application along with the percentage of ownership. DU will consider the borrower self-employed if the ownership share is 25% or more, or if the ownership share is not completed but the business owner/self-employed indicator is checked. If the ownership share is 25% or more, the income is entered in Monthly Income (or Loss) based on the lender's calculation of net income (or loss) from self-employment. If the ownership share is less than 25%, the income is entered in Gross Monthly Income (base, bonus, overtime, etc.). Schedule K-1 income for these borrowers should be entered as Other in Gross Monthly Income.
- For DU loan casefiles where two years of the most recent signed personal and two years of the most recent signed business federal income tax returns are required, business tax returns do not have to be provided unless the business is a corporation, an S corporation, a limited liability company, or a partnership. Under certain conditions, the requirements for business tax returns may be waived.

  Reference: See the non-AUS requirements presented above for additional information about waiving the business return requirement.

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Self-Employment Income, (continued)

Fannie Mae DU, continued

- DU will issue a message permitting only one year of personal federal tax returns if the loan application indicates the borrower is self-employed with an ownership share of 25% or more, and the Start Date for all self-employed businesses is at least five years prior to the Casefile Create Date. If any of the borrower's self-employed businesses have a Start Date less than five years, DU will require two years of personal tax returns. DU will issue a separate message listing the requirements for business tax returns for all self-employed businesses, specifying that one- or two-years of tax returns are required based on the number of years the business has been in existence (determined by comparing the Start Date to the Casefile Create Date).

- **Analysis of Borrower's Personal Income**
  - The lender must prepare a written evaluation of its analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's individual income tax returns. The purpose of this written analysis is to determine the amount of stable and continuous income that will be available to the borrower. This 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). Examples of income not derived from self-employment include salary and retirement income.
  - The lender may use *Cash Flow Analysis* (Form 1084), another type of cash flow analysis, or an automated tool such as Fannie Mae-approved vendor tools (e.g. LoanBeam's FNMA SEI 1084 workbook) or Fannie Mae's Income Calculator, that apply the same principles as Form 1084.

    Truist Note: DU loans where the use of a Fannie Mae approved vendor tool (e.g. LoanBeam's FNMA SEI 1084 workbook) is used to complete the written analysis and to calculate self-employment income must be underwritten by a Correspondent lender approved by Truist for delegated underwriting authority. These transactions are not eligible for purchase if Truist underwrites the loan. See below for additional details. This requirement does not apply to the use of Fannie Mae's Income Calculator.

  - A copy of the written analysis and conclusions or the Findings Report generated by the Income Calculator must be retained in the loan file.

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Self-Employment Income, (continued)

Fannie Mae DU, continued

- **Analysis of Borrower's Personal Income**, continued
  - ***For Delegated Underwritten Loans ONLY***: The lender may use a Fannie Mae-approved vendor tool (e.g. LoanBeam's FNMA SEI 1084 workbook) to complete the written analysis and calculate self-employment income. The lender may receive representation and warranty enforcement relief of the calculated amount if the requirements outlined in the table below are met. See Fannie Mae's website for the list of Approved Vendor Tools.
    - **Enforcement Relief of Representations and Warranties for Loans with Data Calculated by Approved Vendor Tools**
      - The table below details enforcement relief for mortgages with data calculated by approved vendor tools.

Data Calculated by a Fannie Mae-Approved Vendor Tool	Fannie Mae will not enforce representations and warranties on	Details
Income	the accuracy of the calculation of the amount of self-employment income by the tool.	The following requirements apply: • the information submitted to the tool must be accurate and complete, • the lender must not perform any manual overrides of the output results of the tool, • the amount of self-employment income entered in DU must match the amount of income calculated by the tool, and • ***Special Feature Code (SFC) Requirement***: the loan must be identified with SFC 777.

      - In all cases, the lender must continue to comply with all DU messages, including documentation and determination that age of documentation requirements are met, and determine the eligibility of the self-employment income being used to qualify.

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Self-Employment Income, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Self-Employed Borrower Definition, Business Structure, and Verification of Ownership Interest Percentage**
  - The business structure determines the reporting method of both the business and self-employment income to the IRS. The federal income tax returns for the business usually document the percentage of ownership interest in the business.
  - The following table contains requirements and guidance for determining self-employment and verifying the borrower's business ownership percentage:

Business Structure[1]	Self-employment definition and verification of ownership interest percentage
Partnerships, S Corporations and Corporations	• A borrower who has an ownership interest of 25% or more in a partnership (general or limited), S corporation, and/or corporation is considered to be self-employed. • The ownership interest percentage must be verified by a review of the federal income tax returns for the business, including the IRS Schedule K-1(s) or IRS Form 1125-E, Compensation of Officers. If these documents do not provide this information, the ownership interest percentage must be verified with a letter from the accountant for the business or similar documents • If the borrower has ownership interest in one or more businesses, but the ownership interest is not 25% or more for any business, refer to the requirements and guidance in the "Schedule K-1 Income *(For borrowers with Less than 25% Ownership in Business)*" subtopic previously presented in this document for employment/income characteristics or use the requirements in this subtopic.
Sole Proprietorships and Schedule C	Sole proprietorships are unincorporated businesses. A sole proprietor owns 100% of the business and reports the income and expenses from that business on Schedule C of the federal individual income tax return. There is no associated federal business tax return. **Note**: For IRS Form 1099 income received for services performed and reported on Schedule C, lenders may refer to the "Income Reported on Internal Revenue Service (IRS) Form 1099 for Services Performed" requirements in the "Employment/Income Characteristics" subsection previously presented in the "General Income Information" subtopic in this document for additional information with respect to determining whether this income may be treated as non-self-employed income.
[1] If the lender is aware of a business structure change in the past five years, (e.g., sole proprietorship to S-corporation), refer to the "Business Structure Change" requirements outlined below.	

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Self-Employment Income, continued

Freddie Mac LPA, continued

- **Loan Product Advisor**
  - The lender must indicate to Loan Product Advisor that a borrower is self-employed when the borrower meets Freddie Mac's definition of self-employed as stated above. This is required in all cases where the self-employment income and/or loss is used to determine the borrower's stable monthly income for qualifying.
  - For borrowers with self-employed income assessed using automated income assessment with Loan Product Advisor using tax data, refer to "Automated Income Assessment with Loan Product Advisor Using Tax Data" in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for details.

- **Self-Employment History Requirements**
  - The following table contains requirements and guidance pertaining to self-employment history:

Self-Employment History	
Topic	**Requirements and Guidance**
Length of history requirement	In most cases, a two-year history of current self-employment is required to ensure income stability. The self-employment must be documented on Form 65, Uniform Residential Loan Application, and verified in accordance with this subtopic.

Self-employment less than two years	In certain instances, a borrower may not have a current two-year history of self-employment; yet, the income and employment may still be considered stable.
	
	When the borrower has been self-employed for less than two years, the lender must obtain supporting documentation sufficient to determine whether the income is stable. At a minimum, the lender must:
	• Consider and evaluate the borrower's experience in the business
	• Document that the borrower has a combined two-year history of receipt of income from the current self-employment and the prior job in the same or similar occupation or industry
	• Determine qualifying income by using the lesser of:
	  ◦ The stable monthly income from the new business, or
	  ◦ The stable monthly income earned in the previous occupation
	• Include a written analysis justifying the determination of stability of the income in the mortgage file
	• Consider the overall layering of risk, including the borrower's demonstrated ability to repay obligations
	
	Analysis of current business activity through a review of the year-to date (YTD) financial statement and/or the most recent three months of business bank statements may provide support to this evaluation.

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Self-Employment Income, continued

Freddie Mac LPA, continued

- **Self-Employment History Requirements,** continued

Self-Employment History	
Subject	**Requirements and Guidance**
Minimum history of receipt of income	The borrower's federal income tax returns must reflect at least one year of self-employment income
Geographical relocation	If the borrower is relocating to a different geographic area, at a minimum the lender must: • Consider and evaluate 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

- **Business Review and Analysis**
  - The following table contains requirements and guidance pertaining to review and analysis of the business that produces the stable monthly income for the borrower:

Business Review and Analysis	
Topic	**Requirements and Guidance**
Business review and analysis	The lender's analysis of the business must support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the borrower. • The analysis must include a review of the business tax returns • The lender's review must include, at a minimum, an analysis of gross receipts or sales, cost of goods sold and gross profits. All should be typical for the type of business and reflect consistent year over year trends. In addition, the business expenses should be reasonable for the type of business activity and level of business income. Business tenure should be considered. • The lender may determine that review and analysis of the business financial statements, business asset statements, and in the case of Partnerships and S corporations, an analysis of the historical cash distributions, is necessary to establish the financial and liquidity standing of the business. In addition, the lender may calculate and consider the liquidity ratios of the business using generally accepted accounting practices when analyzing the liquidity of the business.

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Self-Employment Income, (continued)

Freddie Mac LPA, continued

- **Business Income: Access and Use**
  - The following table contains requirements and guidance pertaining to verification of access to and use of business income:

Business Income: Access and Use	
Topic	**Requirements and Guidance**
Access to business income	**Documentation is not required to verify access to business income for the following:** • Sole proprietorships • Ordinary income, net rental real estate income, other net rental income and guaranteed payments received from partnerships and S corporations • W-2 income received from S corporations and corporations, • Corporations, if the borrower holds 100% ownership interest **Documentation is required to verify access to business income as follows:** • If business income not reported on the borrower's federal individual income tax returns is being used to qualify and none of the categories above apply for when documentation is not required, then the lender must verify that the borrower's legal right to the business income that is used as stable monthly income is not encumbered, restricted or prevented by the corporate resolution, partnership agreement, or other comparable document.
Use of business income	**Use of Business Income Reported on the Borrower's Federal Individual Income Tax Returns** • For sole proprietorships, stable monthly income must be based on the income reported on Schedule C of the borrower's federal individual income tax returns • For partnerships and S-corporations, stable monthly income may be based on the borrower's proportionate share of income (e.g., ordinary income, guaranteed payments) carried from the Form 1065 or 1120 S, through the Schedule K-1 and onto the borrower's federal individual income tax returns. Although cash distributions reported on the Schedule K-1 may not be used as qualifying income, they may be used to establish business liquidity and access to business funds, provided they are reasonably consistent with the ordinary income. • For S corporations and corporations, stable monthly income may be based on the income reported on the borrower's W-2 from the business. The corporate tax returns and Form 1125-E if applicable, must be reviewed for confirmation of the borrower's W-2 income from the business.

Continued on next page

Self-Employment Income, continued

Freddie Mac LPA, continued

- **Business Income: Access and Use,** continued

Business Income: Access and Use, continued	
Topic	**Requirements and Guidance**
Use of business income, continued	**Use of Business Income Not Reported on the Borrower's Federal Individual Income Tax Returns** • Income reported on the business tax returns but not on the personal tax returns may be considered as stable monthly income, provided the lender's analysis confirms that based on the financial strength of the business, the use of these funds as personal income would not have a detrimental impact on the business

- **Income Calculation and Fluctuation Analysis**
  - The following table contains requirements and guidance pertaining to self-employed income calculation and fluctuation analysis:

Income Calculation and Fluctuation Analysis	
Topic	**Requirements and Guidance**
Income calculation	• The lender's calculation of a self-employed borrower's average monthly income must be based on a review of the borrower's complete federal individual income tax returns (Form 1040) including W-2's and Schedule K-1's (if applicable) and the borrower's complete federal income tax returns for the business (Forms 1120, 1120 S and 1065), when applicable. • The lender must analyze the tax returns and document the calculation of the borrower's self-employed income on Form 91, *Income Calculations*, or a similar alternative form. • **If the self-employment history is less than two years**: Refer to the "Self-Employment History Requirements" section above for additional requirements.

Income calculation adjustments (examples)	The following list includes common examples of items that may be considered for inclusion in income when performing the self-employed income calculations on Form 91, or a similar alternative form.
	• **Non-cash deductions** (e.g., depreciation, depletion, amortization)
	• **Non-recurring losses** (e.g., casualty losses)
	• **Loss carry-over(s)** from previous tax years
	• **Mortgages and notes payable in less than one year**
	  ◦ The lender must analyze the terms of the mortgages and notes payable in less than one year and determine whether the income should be reduced by the debt when performing the income analysis
	  ◦ The analysis must include factors such as whether the business has sufficient liquidity to pay off the debt without a negative impact to the business, if the business type is indicative of debt that would continually roll over, and/or if the debt is a line of credit that is consistently renewable. If these factors are present, the income does not need to be reduced by the debt when performing the income analysis.

Continued on next page

Self-Employment Income, continued

Freddie Mac LPA, continued

- **Income Calculation and Fluctuation Analysis**, continued

Income Calculation and Fluctuation Analysis, continued	
Topic	**Requirements and Guidance**

Income fluctuation	• As part of the analysis, the lender must consider whether the borrower's self-employed income has increased or decreased over the previous two years when the lender's analysis includes a review of documentation covering a history greater than one year
	• If the analysis reflects that the borrower's income has significantly increased or decreased:
	  ◦ the lender must provide sufficient documentation and justification to support the determination that the income used to qualify the borrower is stable and likely to continue for the next three years
	  ◦ It may be necessary to obtain additional years' tax returns when the borrower's self-employment income fluctuates in order to determine the stability of the income
	• See "Additional Supporting Documentation for Business and Income Analysis" below for more information about additional supporting documentation for business and income analysis.

- **Additional Supporting Documentation for Business and Income Analysis**
  - The following table contains requirements and guidance pertaining to additional supporting documentation that may be used to determine whether a borrower has stable monthly income when evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, continued income stability when tax returns are on extension or are over 120 days old, evaluating a newer business and the impact of business fund withdrawals.

Additional Supporting Documentation for Business and Income Analysis	
Topic	**Requirements and Guidance**
Business financial statements	Business financial statements typically consist of a profit and loss statement and a balance sheet for the business that cover a specified period of time (e.g., YTD, quarterly, annual). • Financial statements for the business may be prepared by multiple parties, including but not limited to, the Certified Public Accountant, accountant or tax preparer that prepares the tax returns for the business, or the borrower • Financial statements may not be used for the calculation of stable monthly income (unless audited); however, they may provide additional support for the lender's business and income analysis • Financial statements for the business may be used to assist in evaluating and determining various components of self-employment analysis, including, but not limited to, business liquidity, continued income stability when tax returns are on extension or are over 120 days old, evaluating a newer business and the impact of business fund withdrawals

Continued on next page

Self-Employment Income, continued

Freddie Mac LPA, continued

- **Additional Supporting Documentation for Business and Income Analysis,** continued

Additional Supporting Documentation for Business and Income Analysis, continued	
Topic	**Requirements and Guidance**
Business and/or individual tax return(s) - most recent calendar year not yet available	If the borrower's federal individual and/or business income tax returns for the most recent calendar year, or fiscal year as applicable, are not available (e.g., borrower and/or borrower's business filed an IRS extension, tax returns are not yet filed with the IRS), examples of factors and documentation to consider when using older tax returns to determine continued income stability include, but are not limited to, the following: • Business review and analysis of current business activity through a review of the most recent financial statement(s) that cover the period since the last tax return filing(s) • Business review and analysis of current business activity through a review of at least the most recent three months of business bank statements • Signed IRS Form 941, Employer's Quarterly Federal Tax Return, for the prior calendar year and current calendar year quarter(s) that supports wages and other compensation documented on the most recent business tax return • Review of tax liability reported with IRS tax filing extension(s) (e.g., IRS Form 4868, IRS Form 7004) to determine consistency with tax liability reported on prior year(s) tax return(s) • Review of W-2s, 1099s and/or K-1s from the most recent calendar year, if available If the continued stability of the income cannot be determined, then the borrower's federal individual and/or business income tax returns from the most recent calendar year may need to be obtained to make the determination. Refer to the “Age of Tax Return Requirements” section previously presented in the “General Income Documentation Requirements” subtopic for additional information about age of tax return requirements, including, but not limited to, the requirement to document evidence of continued income stability using at least one of the examples listed above when the lender has not obtained the IRS confirmation verifying tax transcript(s) are not yet available for the business tax return(s).

- **Borrower Debt Paid by the Business**
  - See the “Business Debt in Borrower’s Name / Self-Employed Borrower’s Debt Paid by the Borrower’s Business” subtopic subsequently presented in this document for requirements.

Continued on next page

Self-Employment Income, continued

Freddie Mac LPA, continued

- **Business Structure Change**
  - The following table contains requirements and guidance pertaining to a business structure change:

Business Structure Change	
Topic	**Requirements and Guidance**
Business structure change	If the borrower changed their business structure (e.g., sole proprietorship to S-corporation, S-corporation to corporation), the borrower's ownership interest percentage must not change in order for the current and prior business structures to be considered the same business. Additionally, the lender must not have knowledge, information or documentation that other changes occurred (e.g., change of products and/or services, location), and there must be no indication the change had a negative impact on business revenue or expenses. The lender must document their evaluation in the written income analysis. If any of these requirements are not met, then the current and prior business structures must be treated as different businesses.

- **IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation**
  - The following table contains requirements and guidance pertaining to rental real estate income and expenses reported on IRS Form 8825:

Rental Real Estate Income and Expenses Reported on IRS Form 8825	
Topic	**Requirements and Guidance**
IRS Form 8825, Rental Real Estate Income and Expenses of a Partnership or an S Corporation	• All rental real estate income and expenses reported on IRS Form 8825 for partnerships and S corporations are to be treated as self-employment income, regardless of whether or not the borrower is personally obligated on the note and regardless of the borrower's percentage of ownership interest in the partnership or S corporation. The requirements outlined in the "Business Debt in Borrower's Name / Self-Employed Borrower's Debt Paid by the Borrower's Business" subtopic, subsequently presented in this document, are not applicable. • Refer to Form 91 for the appropriate treatment and calculation of the borrower's proportionate share of the net rental real estate income or loss.

Continued on next page

Self-Employment Income, continued

Freddie Mac LPA, continued

- **Self-Employment Income Not Used for Qualification**
  - The following table contains requirements and guidance pertaining to self-employment income not used for qualification:

Self-employment income not used for qualification	
Topic	**Requirements and Guidance**

Self-employment disclosed on Form 65 (or other documentation) but not used to qualify	• The lender is not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each borrower on the mortgage who:
	  • Has a primary source of income, other than self-employment, used for qualifying for the mortgage (e.g., salaried income from primary employment), and
	  • Is self-employed and self-employment income is a secondary source of income
	• For each borrower on the mortgage who is self-employed and does not have another source of income that is used in qualifying for the mortgage, the following requirements apply:
	  • The lender must obtain pages 1 and 2 of the borrower's federal individual income tax returns, and the applicable schedules (e.g., Schedule C, Schedule E), to determine if there is a business loss that may have an impact on the stable monthly income. See “IRS Tax Transcripts” in the “Tax Returns and Tax Return Information: Documentation and Verification Requirements” section in the “General Income Documentation Requirements” subtopic for information about using IRS tax transcripts to meet certain portions of this requirement.
	    • If a business loss is reported and the borrower qualifies with the loss, then the lender is not required to obtain any additional documentation relating to the business loss
	    • If a business loss is reported and the borrower does not qualify with the loss, then the lender must perform a business and income analysis 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. The lender must obtain additional documentation needed in order to fully evaluate the loss and support the analysis (e.g., business tax returns (final or otherwise), evidence of a one-time non-recurring event).
	  • If the tax returns or other documentation in the mortgage file (e.g., IRS tax transcripts, additional Schedule K-1's) reflect positive income from self-employment but that income is not used to qualify, additional documentation (e.g., complete business or federal individual income tax return(s)) is not required.

Continued on next page

Self-Employment Income, continued

Freddie Mac LPA, continued

- **Business Assets Used for Closing**
  - See "Business Assets" in the "Cash Requirements" topic subsequently presented in this document for guidance.

- **Verification of Current Existence of the Business**
  - See the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic subsequently presented in this topic for specific requirements.

- **Documentation Requirements**
  - The lender must establish and calculate the stable monthly income using at least the following required documentation. Additional documentation may be needed to support income stability, as described within this subtopic.
    - Form 91 or a similar alternative form (e.g., Income Calculation Report or Freddie Mac Income Calculator Certificate, both as described in the "Automated Income Assessment Using Tax Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic.
    - Verification of the current existence of the business as described in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic
    - Federal income tax returns, as required in the table below, including all applicable schedules and forms must reflect at least 12 months of self-employed income
    - Verification of how long the business has been in existence:
      - For partnerships, S corporations and corporations, the federal income tax return(s) for the business must indicate the number of years that the business has been in existence
      - For sole proprietorships, the federal individual income tax return(s) and any other documentation or information received must not contradict the number of years that the business has been in existence as documented on Form 65

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Self-Employment Income, (continued)

Freddie Mac LPA, continued

- **Documentation Requirements**, continued

Business structure	Streamlined Accept and Standard Documentation Levels	
	Business in existence greater than or equal to five years[1]	Business in existence less than five years
Sole Proprietorship	Complete signed federal individual (Form 1040) income tax return for the most recent year.	Complete signed federal individual (Form 1040) income tax returns for the most recent two years.
Partnership	Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent year.	Complete signed federal individual and partnership (Form 1065) income tax returns, including the Schedule K-1(s) for the most recent two years.
S Corporation	Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent year.	Complete signed federal individual and S corporation (Form 1120S) income tax returns, including the Schedule K-1(s), Form 1125-E and W-2(s) if applicable, for the most recent two years.
Corporation	Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent year.	Complete signed federal individual and corporation (Form 1120) income tax returns, including Form 1125-E and W-2(s) as applicable, for the most recent two years.
[1] The borrower must be self-employed (i.e., have an ownership interest of 25% or more) in the same business for at least five years		

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Social Security Income

Non-AUS

Verification requirements for social security income are as follows:

- Social Security income for retirement or long-term disability that the borrower is drawing from his or her own account/work record will not have a defined expiration date and must be expected to continue.
- Social Security income based on another person's account/work record or from the borrower's own work record, but for the benefit of another (such as a dependent) may also be used in qualifying, provided the lender documents a 3-year continuance.
- Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.

<table>
<tr><th colspan="3">Documentation Requirements</th></tr>
<tr><th>Type of Social Security Benefit</th><th>Borrower is drawing Social Security benefits from own account/work record[1]</th><th>Borrower is drawing Social Security benefits from another person's account/work record[2]</th></tr>
<tr><td>Retirement</td><td rowspan="2">• Social Security Administrator's (SSA) Award Letter,
• SSA-1099,
• Most recent signed federal income tax returns (or tax transcripts[3]) or
• Proof of current receipt</td><td rowspan="3">• SSA Award Letter,
• Proof of current receipt, AND
• Three-year continuance[4]</td></tr>
<tr><td>Disability</td></tr>
<tr><td>Survivor Benefits</td><td>N/A</td></tr>
<tr><td>Supplement Security Income (SSI)</td><td>• SSA Award Letter, and
• Proof of current receipt</td><td>N/A</td></tr>
</table>

[1] An SSA Award letter may be used to document the income if the borrower is receiving Social Security payments or if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by a recently issued award letter.

[2] Examples of how a borrower might draw social security benefits from another person's account/work record and use the income for qualifying:

- A borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.); or
- A borrower may use social security income received by a dependent (a minor or disabled dependent)

[3] If joint tax returns or tax transcripts include income that is not associated with a borrower on the loan transaction, the lender must obtain additional documentation supporting the amount of income from the SSA being used in qualifying, such as the SSA-1099.

[4] Confirmation of three-year continuance does not require documentation that provides a defined expiration date and can be assessed by verifying the SSA's requirements related to the specific benefit(s) being paid. For example, if the SSA ties receipt of the benefits to the beneficiary's age, confirmation of a three-year continuance can be met by verifying that the beneficiary's age supports that benefit(s) will continue for at least three years from the date of the loan application.

Truist Note: Truist further clarifies that inquiries into or requests for additional documentation concerning the nature or severity of the disability or medical conditions of the borrower are not allowed.

Continued on next page

Social Security Income, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:
If a borrower's Social Security income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described above. See "DU Validation Service" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Social Security Retirement Income**
  - See the "Retirement Income" subtopic previously presented in this topic for guidance.

- **Social Security Long-Term Disability Income**
  - See the "Long-Term Disability Income" subtopic previously presented in this topic for guidance.

- **Survivor and Dependent Benefit Income** *(e.g., Social Security Survivor benefits, other similar benefits)*

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Existing and established survivor and dependent benefit income	Evidence of the type, source, pre-determined payment amount, payment frequency and current receipt must be obtained • **History of receipt**: A history of receipt is not required for the income to be considered stable • **Continuance**: Must be likely to continue for at least the next three years • **Calculation**: Use the documented fixed monthly payment amount	• Document income type, source, payment frequency, pre-determined payment amount and current receipt with one or more of the following documents, as needed: a copy of the benefit verification letter, award letter, 1099, bank statement(s) or other equivalent documentation. • Age of documentation requirements as described in the "General Income Documentation Requirements" subtopic do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount.

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Social Security Income, continued

Freddie Mac LPA, continued

- **Survivor and Dependent Benefit Income** *(e.g., Social Security Survivor benefits, other similar benefits)*, continued

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Newly established survivor and dependent benefit income	• Verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first mortgage payment due date. • The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date.	Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms. The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. Verification of current receipt is not required.

Reference: See the "VA Benefits Income" subtopic subsequently presented in this topic for Survivor's Department of Veterans Affairs (VA) benefits guidance.

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Income, Continued

Social Security Income, continued

Freddie Mac LPA, continued

- **Social Security Supplemental Security Income (SSI)**

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Existing and established SSI benefits	Evidence of the source, benefit type, pre-determined payment amount, payment frequency and current receipt must be obtained • **History of receipt**: A history of receipt is not required for the income to be considered stable. • **Continuance**: SSI may be considered to have a reasonable expectation of continuance unless there is evidence that the benefits will not continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the insurance and/or benefit payment will not continue. • **Calculation**: Use the documented SSI benefit amount	• Document source, benefit type, payment frequency, pre-determined payment amount and current receipt with one or more of the following documents, as needed: a copy of the benefit verification letter, award letter, 1099, bank statement(s) or other equivalent documentation. • Age of documentation requirements as described in the "General Income Documentation Requirements" subtopic do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount.
Newly established SSI benefits	• Verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first mortgage payment due date. • The terms that must be verified include, but are not limited to, the source, benefit type, effective date of income commencement, payment frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date.	• Document the finalized terms of the newly established income including, but not limited to, the source, benefit type, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms. • The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. Verification of current receipt is not required.

Continued on next page

Social Security Income, (continued)

Freddie Mac LPA, continued

- **Social Security Supplemental Security Income (SSI)**, continued

  Truist Note: Truist further clarifies that inquiries into or requests for additional documentation concerning the nature or severity of the disability or medical conditions of the borrower are not allowed.

Tax Exempt Income

Non-AUS

- The lender should give special consideration to regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, certain types of public assistance payments, and food stamps.
- The lender must verify that the particular source of income is nontaxable, unless the source of income meets one of the exceptions below. Documentation that can be used for this verification includes award letters, policy agreements, account statements, tax returns, or any other documents that address the nontaxable status of the income.
- If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the lender should develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.
- If the actual amount of federal and state taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% of the borrower's nontaxable income, the lender may use that amount to develop the adjusted gross income, which should be used in calculating the borrower's qualifying ratio.
- **Exceptions:**
  - The lender is not required to provide documentation to support that the income is nontaxable for the following:
    - **Child Support Income:** The full amount of documented qualifying child support is nontaxable.
    - **Section 8 Housing Choice Voucher Homeownership Program Payments**: The full amount of income from these payments is nontaxable.
    - **Social Security Income:** 15% of the income is nontaxable.

      Example for Social Security Income:
      Benefit Amount: $1,500
      Nontaxable Amount: $1,500 x 15% = $225
      Gross-Up Amount: $225 x 25% = $56 (rounded to the nearest dollar)
      Qualifying Income: $1556 (does not require additional documentation)

      Note: If the lender opts to gross-up more than 15% of social security income, documentation to support that the additional income is nontaxable must be included in the loan file.

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Tax Exempt Income, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **History of receipt**: A history of receipt is not required
- **Continuance**: Must be likely to continue to remain tax exempt
- **Calculation**: To determine the amount to adjust (i.e., "gross-up") the borrower's income, use:
  - 25% of the tax exempt portion of the income, or
  - The current federal and state income tax withholding tables
- **Streamlined Accept and Standard Documentation Requirements:**
  - Copy of complete federal individual income tax return for the most recent one-year period or other documentation evidencing that the income, or a portion of the income, is tax exempt
  - For social security income (i.e., retirement income, disability benefits, survivor benefits and supplemental security income), the lender may gross up 15% of the income without obtaining additional documentation.
    - For example, if the borrower's social security income is $1,000/month, the lender can gross up $150 (i.e., 15% of $1,000) without obtaining documentation that this portion of the income is tax exempt. Using 25% as the income adjustment factor, the income is calculated as follows:
      - $150 x 25% = $37.50
      - $1,000 + $37.50 = $1,037.50
      - $1,037.50 can be used for qualifying without obtaining tax returns or other documentation evidencing that the income is tax exempt.
    - The lender must obtain additional documentation in order to gross up the entire amount of income (i.e., $1,000) for use in qualifying the borrower.

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Temporary Leave and Short-term Disability Income

Non-AUS

- Temporary leave from work is generally employee-initiated, short in duration and for reasons including, but not limited to of maternity or parental leave, short-term medical disability, or other temporary leave types that are acceptable by law or to the borrower's employer. Borrowers on temporary leave may or may not be paid during their absence from work.

  Note: Mandatory leave initiated by an employer, such as a furlough or layoff, is not considered temporary leave regardless of an expected return to work date. For income from unemployment benefits received as a result of mandatory leave initiated by an employer, see the "Public Assistance Income" subtopic previously presented in this topic.

- If a lender is made aware that a borrower will be on temporary leave at the time of the loan closing and that borrower's income is needed to qualify for the loan, the lender must determine allowable income and confirm employment as described below.
  - The borrower's employment and income history must meet standard eligibility requirements.
  - The borrower must provide written confirmation of their intent to return to work.
  - The lender must document the borrower's agreed-upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer.

    Note: Examples of the documentation may include, but are not limited to, previous correspondence from the employer or designee that specifies the duration of leave or expected return date or a computer printout from an employer or designee's system of record. (This documentation does not have to comply with the Allowable Age of Credit Documents requirements.)

  - The lender must receive no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period.
  - The lender must obtain a verbal verification of employment in accordance the verbal verification of employment requirements outlined in this document. If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower employed.
  - The lender must verify the borrower's income in accordance with standard guidance for the income source. The lender must obtain:
    - the amount and duration of the borrower's "temporary leave income," which may require multiple documents or sources depending on the type and duration of the leave period; and
    - the amount of the "regular employment income" the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

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Temporary Leave and Short-term Disability Income, (continued)

Non-AUS, continued

Notes:

- Income verification may be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.
- If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower.

- **Requirements for Calculating Income Used for Qualifying**
  - If the borrower **will** return to work as of the first loan payment date, the lender can consider the borrower's regular employment income in qualifying
  - If the borrower will **not** return to work as of the first loan payment date, the lender must use the lesser of the borrower's temporary leave income (if any) or regular employment income. If the borrower's temporary leave income is less than their regular employment income, the lender may supplement the temporary leave income with available liquid financial reserves. The following are instructions on how to calculate the "supplemental income":
    - **Supplemental income amount = available liquid reserves divided by the number of months of supplemental income**
      - *Available liquid reserves*: subtract any funds needed 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 of supplemental income*: the number of months from the first loan payment date to the date the borrower will begin receiving their regular employment income, rounded up to the next whole number.
  - After determining the supplemental income, the lender must calculate the total qualifying income.
    - **Total qualifying income = supplemental income plus the temporary leave income**
  - The total qualifying income that results may not exceed the borrower's regular employment income.

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Temporary Leave and Short-term Disability Income, continued

Non-AUS, continued

- **Requirements for Calculating Income Used for Qualifying**, continued

Example:

Regular income amount:	$6,000 per month
Temporary leave income:	$2,000 per month
Total verified liquid assets:	$30,000
Funds needed to complete the transaction:	$18,000
Available liquid reserves:	$12,000
First payment date:	July 1
Date borrower will begin receiving regular employment income:	November 1
Supplemental income:	$12,000/4 = $3,000
Total qualifying income:	$3,000 + $2,000 = $5,000

Note: These requirements apply if the lender becomes aware through the employment and income verification process that the borrower is on temporary leave. If a borrower is not currently on temporary leave, the lender must not ask if they intend to take leave in the future.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- When income from temporary leave is being used to qualify for the mortgage loan, the lender must enter the appropriate qualifying income amount into DU.
  - If the borrower **will** return to work as of the first mortgage payment date, the lender can consider the borrower's regular employment income in qualifying and must enter the income into DU using the applicable income type.
  - If the borrower will **not** return to work as of the first mortgage payment date, but is able to qualify using the lesser of the borrower's temporary leave income (if any) or regular employment income, that “lesser of” income amount must be entered into DU. Entry of the income into DU depends on what was derived as the “lesser of” amount:
    - When the borrower's temporary leave income is used, enter the income amount into DU using the other income type Temporary Leave.
    - When the borrower's regular employment income is used, enter the income amount in DU using the applicable income type.

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Temporary Leave and Short-term Disability Income, continued

Fannie Mae DU, continued

- If the borrower's temporary leave income is less than the regular employment income and the lender is able to "supplement" the temporary income with available liquid reserves, the following must be applied:
  - The lender must enter the combined temporary leave income and supplemental income from reserves in DU using the other income type Temporary Leave. The combination of these two incomes may not exceed the borrower's regular monthly employment income.
  - As DU is not able to determine that supplemental income is being used, nor is it able to determine the amount of reserves used to supplement the temporary income, the lender must manually reduce the amount of the borrower's total liquid assets by the amount of reserves used to supplement the temporary income (in order to avoid the reserves being used for both income and assets).

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Temporary leave from an employer may encompass various circumstances (e.g., family and medical, short-term disability, maternity, other temporary leaves with or without pay). Temporary leave is generally short in duration. The period of time that a borrower is on temporary leave may be determined by various factors such as applicable law, employer policies and short-term insurance policy and/or benefit terms. Leave ceases being considered temporary when the borrower does not intend to return to the current employer or does not have a commitment from the current employer to return to employment.
- The requirements and guidance for income while on temporary leave do not extend to employer-initiated actions such as furloughs and layoffs.

Reference: See the "Long-Term Disability Income" subtopic previously presented in this topic if the lender has knowledge the borrower has applied for, is receiving or will be receiving long-term disability benefits or long-term insurance benefits.

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Temporary Leave and Short-term Disability Income, continued

Freddie Mac LPA, continued

- **Determining qualifying income and borrower capacity to meet obligations while on temporary leave**
  - During a temporary leave, a borrower's income may be reduced and/or completely interrupted. The lender must determine that during and after the temporary leave the borrower has capacity to repay the mortgage and all other monthly obligations. The lender's determination must be based on required documentation, lender knowledge and available information.
    - For borrowers returning to their current employer prior to or on the first mortgage payment due date, the lender may use for qualifying income the borrower's pre-leave gross monthly income.
    - For borrowers returning to their current employer after the first mortgage payment due date:
      - The lender may use for qualifying income the borrower's gross monthly income amount being received for the duration of the temporary leave
      - In the event that the income has been reduced or interrupted, the lender may use for qualifying income the monthly reduced income amount (this amount may be zero) being received for the duration of the leave combined with the borrower's available liquid assets, as necessary. Available liquid assets may be used as a partial or complete income supplement up to the amount of the income reduction. The "Asset Calculation for Establishing the Debt Payment –to-Income Ratio" guidance outlined in the "Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)" subtopic previously presented in this topic does not apply to the calculation of assets as an income supplement when determining qualifying income and borrower capacity to meet obligations while on temporary leave. Assets that are required for the transaction (e.g., down payment, closing costs and reserves) may not be considered as available assets.
      - The total qualifying income must not exceed the borrower's pre-leave gross monthly income amount

- **Streamlined Accept and Standard Documentation Requirements**:
  - The following documentation is required for all borrowers on temporary leave:
    - Documentation to verify the borrower's pre-leave income and employment, regardless of leave status
    - Written statement, in the form of a signed letter or an e-mail directly from the borrower confirming the borrower's intent to return to the current employer and the intended date of return
    - Documentation generated by current employer confirming the borrower's eligibility to return to the current employer after temporary leave. Acceptable forms of employer documentation that the lender may obtain from the borrower include, but are not limited to: an employer-approved leave request, a Family Medical Leave Act document, or other documentation generated by the employer or a third-party verifier on behalf of the employer.

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Temporary Leave and Short-term Disability Income, continued

Freddie Mac LPA, continued

- **Streamlined Accept and Standard Documentation Requirements,** continued:
  - In addition, the following documentation is required for borrowers returning to the current employer after the first mortgage payment due date:
    - Documentation evidencing amount and duration of all temporary leave income being used to qualify the borrower (e.g., short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer) that are being received during the temporary leave
    - All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet the requirements of and be verified in accordance with the Streamlined Accept Documentation or Standard Documentation requirements, as applicable, listed in the "Cash Requirements" topic subsequently presented in this document.
    - A written rationale explaining the analysis used to determine the qualifying income

Tip Income

Non-AUS

Verification requirements for tip income are as follows:

- Obtain the following documents:
  - a completed *Request for Verification of Employment* (Form 1005 or Form 1005(S)), or
  - the borrower's recent paystub and
  - IRS W-2 forms covering the most recent two-year period or the most recent two years tax returns with IRS Form 4137, Social Security and Medicare Tax on Unreported Tip Income, to verify tips not reported by the employer.

  Reference: See the "General Income Documentation Requirements" subtopic previously presented in this topic for additional information.

- Tip income may be used to qualify the borrower if the lender verifies that the borrower has received it for the last two years.
- The lender must determine the amount of tip income that may be considered in qualifying the borrower. See "Variable Income" in the "General Income Information" subtopic, previously presented in this topic, for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Tip Income, (continued)

Freddie Mac LPA
Follow LPA requirements, which are as follows:

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Tip income reported by the employer	• **History of receipt**: Two-years, consecutive • **Continuance**: Must be likely to continue for at least the next three years • **Calculation**: See "Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis" in the "Employed Income Calculation Guidance and Requirements" section of the "General Income Information" subtopic previously presented in this document for calculation guidance and requirements.	All of the following: • YTD paystub(s) documenting all YTD earnings, W-2 forms for the most recent two calendar years and a 10-day PCV **OR**, all of the following: • Written VOE documenting all YTD earnings and the earnings for the most recent two calendar years and a 10-day PCV
Tip income – Cash and charge tips reported on IRS Form 4137	• **History of receipt**: Two years, consecutive • **Continuance**: Must be likely to continue for at least the next three years • **Calculation**: See "Fluctuating Hourly Employment Earnings and Additional Fluctuating Employment Earnings – Calculation Methods and Analysis" in the "Employed Income Calculation Guidance and Requirements" section of the "General Income Information" subtopic previously presented in this document for calculation guidance and requirements.	All of the following: • IRS Form 4137 for the most recent two years • Complete federal individual income tax returns covering the most recent two-year period • 10-day PCV

Reference: See the "Additional Employed Income/Income History and Stability – Requirements and Guidance" subtopic subsequently presented within the "General Income Information" topic for guidance when a history of less than two years, but not less than one year, may be acceptable.

Continued on next page

Income, Continued

Trailing Co-Borrower Income

Non-AUS
Not eligible

Fannie Mae DU
Not eligible

Freddie Mac LPA
Not eligible

Trust Income

Non-AUS

- The following table provides verification requirements for trust income.

✓	The lender must...
	Obtain one or more of the following trust verification documents to confirm the amount, frequency, type of income being received, and the date the trust was created: • a copy of the trust agreement, • the trustee's statement, • the trust's federal income tax returns, or • a letter from an accountant or attorney who reviewed the trust documents, when the above documents are not available or when the borrower is the trustee. **Note**: A borrower who is also a trustee may not supply the trustee's statement.
	Confirm the trust was established for 12 months or longer, unless all of the following requirements are met: • the trust verification documentation reflects fixed payments, • the borrower is not the grantor, and • at least one payment is received prior to closing. Trusts created in the previous 12 months using a borrower's eligible employment-related assets, as defined in "Employment-Related Assets as Qualifying Income" requirements, may still be used as stable income but must meet the income calculation and all other "Employment-Related Assets as Qualifying Income" requirements.
	Confirm continuance of income per the "Continuity of Income" requirements previously presented in the "General Income Information" subtopic in this document. This confirmation must be based on the type of income received through the trust. For example, if the income from the trust is derived from rental income, then three-year continuance is not required. However, if the income is a fixed payment derived from a depleting asset, then three-year continuance must be determined. If any assets from the trust are being used for down payment, closing costs, or reserves, those assets must be subtracted from the total amount before determining if the trust income meets the "Continuity of Income" requirements.

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Trust Income, continued

Non-AUS, continued

✓	**The lender must...**continued	
	Requirements for Trust with Fixed Payments	**Requirements for Trust with Variable Payments**
	Use the fixed payment amount from the trust verification documentation as the borrower's qualifying income, converting it to a monthly amount, as applicable. Document current receipt of trust income with one month's bank statement or other equivalent documentation.	Calculate the qualifying income amount per the "Variable Income" requirements previously presented in the "General Income Information" subtopic in this document. Document the following: • a minimum 24-month history of trust income by obtaining copies of the borrower's signed federal income tax returns for the most recent two years or copies of the trust's federal income tax returns for the most recent two years, and • current receipt of trust income with one month's bank statement or other equivalent documentation. **Note**: Income received for 12 to 24 months may be considered as acceptable income when other positive factors are present that reasonably offset a shorter income history.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

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Trust Income, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **History of receipt**:
  - Most recent two-years when the income is based on historical fluctuating payments from a trust asset (e.g., dividends and interest)
  - Most recent one-year when the trust specifies pre-determined fixed payment amounts occurring at regular intervals for a duration of at least three years
- **Continuance**: Document that sufficient assets remain after closing to support continuance of the trust income for at least the next three years
- **Calculation**:
  - **For fluctuating payments**: 24-month average
  - **For pre-determined fixed payments**: Use the fixed payment amount documented in the trust agreement
- **Streamlined Accept and Standard Documentation Requirements:**

Topic	Documentation Requirements
For trust income based on historical fluctuating payments from a trust asset:	• Copy of fully executed trust agreement outlining payment terms, and • Copy of complete federal individual income tax returns for the most recent two-year period verifying receipt of income for the most recent two years, and • Evidence of sufficient assets to support the qualifying income (e.g., bank statements, letter from trustee). When the borrower is the trustee, a letter from the trustee is not acceptable documentation.
For trust income based on a pre-determined fixed payment amount:	• Copy of fully executed trust agreement specifying fixed payment amount occurring at set intervals (e.g., monthly, quarterly) and duration of payments, and • Copy of bank statements or equivalent documentation verifying receipt of pre-determined fixed payments for the most recent one-year, and • Evidence of sufficient assets to support the qualifying income (e.g., bank statements, letter from trustee). When the borrower is the trustee, a letter from the trustee is not acceptable documentation.

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VA Benefits Income

Non-AUS

Verification requirements for income from VA benefits are as follows:

- Document the borrower's receipt of VA benefits with a letter or distribution form from the VA.
- Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. (Verification is not required for VA retirement or long-term disability benefits.)

Note: Education benefits are not acceptable income because they are offset by education expenses.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- If a borrower's VA benefit income is validated by the DU validation service, DU will issue a message indicating the required documentation. This documentation may differ from the requirements described in the non-AUS section above. See "DU Validation Service" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Existing and established survivor and dependent benefit income	Evidence of the type, source, pre-determined payment amount, payment frequency and current receipt must be obtained • **History of receipt**: A history of receipt is not required for the income to be considered stable • **Continuance**: Must be likely to continue for at least the next three years • **Calculation**: Use the documented fixed monthly payment amount	• Document income type, source, payment frequency, pre-determined payment amount and current receipt with one or more of the following documents, as needed: a copy of the benefit verification letter, award letter, 1099, bank statement(s) or other equivalent documentation. • Age of documentation requirements as described in the "General Income Documentation Requirements" subtopic do not have to be met for verification of income type, source, payment frequency or pre-determined payment amount.

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Income, Continued

VA Benefits Income, (continued)

Freddie Mac LPA, continued

Income Type	Stable Monthly Income Requirements	Streamlined Accept and Standard Documentation Requirements
Newly established survivor and dependent benefit income	• Verification of current receipt is not required; however, the finalized terms of the new income must be documented. The income must commence prior to or on the first mortgage payment due date. • The terms that must be verified include, but are not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount that will commence prior to or on the first mortgage payment due date.	• Document the finalized terms of the newly established income including, but not limited to, the source, type, effective date of income commencement, payment frequency and pre-determined payment amount with a copy of the benefit verification letter, notice of award letter or other equivalent documentation from the payor that provides and establishes these terms. The income must commence prior to or on the first mortgage payment due date. The documentation must be dated no more than 120 days prior to the note date. Verification of current receipt is not required.

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Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (10-Day PCV)

Non-AUS

- Lenders must obtain a verbal verification of employment (verbal VOE) for each borrower using employment or self-employment income to qualify.
- The verbal VOE must be obtained within 10 business days prior to the note date for employment income, and within 120 calendar days prior to the note date for self-employment income.
- The verbal VOE requirement is intended to help lenders mitigate risk by confirming, as late in the process as possible, that the borrower remains employed as originally disclosed on the loan application. A change in the borrower's employment status could have a significant impact on that borrower's capacity to repay the mortgage loan and must be fully reevaluated.
- Alternatively, lenders may obtain the verbal VOE after closing, up to the time of loan delivery (to Truist). If the verbal VOE (or allowable alternative) cannot be obtained prior to delivery (to Truist), the loan is ineligible.

  Note: If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower "employed." See the "Temporary Leave and Short-Term Disability Income" subtopic for additional guidance.

- The following table describes the requirements for a verbal VOE and allowable alternatives.

Type of Income	Requirements

Hourly, Salary, and Commission Income (Non-Military)	**Verbal Verification of Employment**:
	• The lender must independently obtain a phone number and, if possible, an address for the borrower's employer. This can be accomplished by using a telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau.
	• The lender must contact the employer verbally and confirm the borrower's current employment status within 10 business days prior to the note date.
	
	Note: If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower "employed." See the "Temporary Leave and Short-Term Disability Income" subtopic for details on temporary leave.
	
	• The conversation must be documented. It should include the following:
	  ◦ name and title of the person who confirmed the employment for the lender,
	  ◦ name and title of the person who completed the verification for the employer,
	  ◦ date of the call, and
	  ◦ the source of the phone number.
	
	Truist Note: This information can be documented on COR 0050a or a similar document that contains the same information.

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Income, Continued

Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (10-Day PCV), (continued)

Non-AUS, continued

Type of Income	Verbal VOE Requirements

Hourly, Salary, and Commission Income (Non-Military), continued	**Alternative Methods to Verify Employment**:
	• The lender can obtain a written verification confirming the borrower's current employment status within 10 business days prior to the note date. The written documentation must include the name and title of the person who completed the verification for the employer.
	• The lender can obtain an email exchange with the borrower's employer from the employer's work email address within 10 business days prior to the note date.
	    • The lender must conduct additional due diligence to confirm that the email address for the employer is accurate. Examples of due diligence include, but are not limited to, searches of domain name on employer website (review for match to employer email address), employer directory on the internet, or other professional networking or business profile websites.
	    • The email exchange must include borrower's name and employer's name; name, title, and work email address of the individual contacted at the employer; date of contact; and borrower's current employment status.
	• If the borrower is a union member who works in an occupation that results in a series of short-term job assignments (such as a skilled construction worker, longshoreman, or stagehand), and the union facilitates the borrower's placement in each assignment, the lender may obtain the verbal VOE from the union.
	• If the employer uses a third party employment verification vendor, the lender must obtain written verification from the vendor of the borrower's current employment status within the same time frame as the verbal VOE requirements.
	
	Note: Because third-party vendor databases are typically updated monthly, the verification must evidence that the information in the vendor's database was no more than 35 days old as of the note date.
	
	• ***For Delegated Underwritten Loans ONLY***:
	    • The following **additional** alternative methods to verify employment are acceptable:
	        • Within 15 days prior to the note date, the borrower can provide the most recent available paystub as of that date that:
	            • meet the "Standards for Employment Documentation" requirements previously outlined in the "General Income Documentation Requirements" subtopic,
	            • reflects information for the most recent expected pay period based on the date it is provided and the borrower's pay cadence, and
	            • does not include any information indicating the borrower may not be actively employed.

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Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (10-Day PCV), (continued)

Non-AUS, continued

Type of Income	Verbal VOE Requirements

Hourly, Salary, and Commission Income (Non-Military), continued	• ***For Delegated Underwritten Loans ONLY*:** (continued)
	  • Bank statements dated no earlier than 15 business days prior to the note date that:
	    • meet the "Verification of Deposits and Assets" requirements subsequently outlined in the "General Asset Documentation Requirements" subtopic,
	    • reflects information for the most recent expected pay period based on the date of the statement and the borrower's pay cadence, and
	    • does not include any information indicating the borrower may not be actively employed.
	
	Truist Note: Loans where a paystub or bank statement is used as an alternative method to verify employment must be underwritten by a Correspondent lender approved by Truist for delegated underwriting authority. These transactions are not eligible for purchase if Truist underwrites the loan.

Military Personnel	• If the borrower is in the military, in lieu of a verbal or written VOE, the lender must obtain either:
	  • a military Leave and Earnings Statement dated within 120 calendar days prior to the note date, or
	  • a verification of employment through the Defense Manpower Data Center (https://mla.dmdc.osd.mil/mla/#/home/).

Self-Employed Income	**Requirements**:
	• The lender must verify the existence of the borrower's business within 120 calendar days prior to the note date:
	  • from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible; or
	  • by verifying a phone listing and address for the borrower's business using a telephone book, the internet, or directory assistance.
	• The lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information.
	
	Truist Note: This information can be documented on COR 0050b or a similar document that contains the same information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Alternative Documentation Requirements for Income Validated by the DU Validation Service**
  - When employment is validated by DU, DU includes in its assessment the age of the information in the vendor's database. The DU message will include a date by which the loan must close. This may differ from the age of data and 10 business day requirements above. Compliance with the DU message satisfies the requirement for completing the verification of employment.
  - When employment is initially validated by the DU validation service using an asset verification report, but the loan will not close by the "Close by Date" stated in the validation message, an alternative method of reverifying employment is permitted using a supplemental asset report.

Reference: See "DU Validation Service" in the "Fannie Mae DU" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.

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Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (10-Day PCV), (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Employed Income Verification Requirements**
  - Verification of the borrower's current employment (10-day PCV) must be obtained in accordance with the requirements of this section. Refer to the specific income type subtopics previously presented in this topic and the "Relocation Mortgages" subtopic previously presented in the "Eligible Transactions" topic within this document for additional information about when a 10-day PCV is or is not required.
  - The 10-day PCV, when required, must either be obtained no more than 10 business days prior to the note date, or after the note date but prior to the delivery date (to Truist).
  - The following chart contains requirements for eligible 10-day PCV types:

10-day PCV Types	Requirements
Verbal verification of employment (verbal VOE)	The mortgage file must include Form 90, Verbal Verification of Employment, or a similar written document (i.e., COR 0050a, etc.) that includes all of the following: • Name of the borrower, employer's name, name and title of the individual contacted at employer, date of contact, and the phone number used to contact the employer • Name of the third-party source used to obtain the phone number for the employer (e.g., phone directory, reliable internet source, directory assistance, etc.) • Borrower's current employment status • Any additional information that was verified • Name, title and employer of the representative who contacted the borrower's employer and completed the verbal VOE
E-mail verification of employment (e-mail VOE)	The mortgage file must include an e-mail exchange with the borrower's employer from the independently obtained employer's work e-mail address that, at a minimum, includes all of the following: • Borrower's name and employer's name • Name and title of the individual contacted at the employer, date of contact and the individual's work e-mail address • Borrower's current employment status In addition, the mortgage file must include: • Information about the third-party source used to obtain the employer's e-mail (e.g., a reliable internet source), and • Name, title and employer of the representative who contacted the borrower's employer and obtained the e-mail verification

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Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (10-Day PCV), (continued)

Freddie Mac LPA, continued

- **Employed Income Verification Requirements**, continued

10-day PCV Types	Requirements
Employment Commencing After the Note Date	In addition to the verbal or email VOE requirements above, for employment commencing after the note date, the lender must confirm and include the following information on the verbal or e-mail VOE document: • The terms reflected on the non-contingent offer letter or employment contract accepted by the borrower have not changed since the acceptance date, including employment start date, base non-fluctuating salary and any other relevant income or employment information used to qualify the borrower
Written VOE	A written VOE verifying the current employment status of the borrower in accordance with the requirements previously outlined in the “Employed Income Documentation and Verification Requirements” section in the “General Income Documentation Requirements” subtopic.
YTD Paystub	***For Delegated Underwritten Loans ONLY:*** A YTD paystub that: • is from the pay period immediately preceding the note date, and • has the “paid through” date no more than 15 business days before the note date **Truist Note**: Loans where a YTD paystub is used as 10-day PCV type must be underwritten by a Correspondent lender approved by Truist for delegated underwriting authority. These transactions are not eligible for purchase if Truist underwrites the loan.
Military Leave and Earnings Statement	A military Leave and Earnings Statement dated no more than 120 days prior to the note date
Third-party employment verification service provider – electronically generated	See the “Third-Party Verification Service Providers: Employment and Income Verifications” section previously presented in the “General Income Documentation Requirements” subtopic for guidance.
Automated employment assessment with Loan Product Advisor using account data	See “Automated Employment Assessment with Loan Product Advisor Using Account Data” in the “Freddie Mac LPA Loans” subtopic subsequently presented in the “Underwriting the Borrower” topic for verification requirements.

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Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (10-Day PCV), (continued)

Freddie Mac LPA, continued

- **Self-Employed Income Verification Requirements**
  - **Verification of Current Existence of the Business**
    - The following chart contains requirements and guidance pertaining to verification of current existence of the business:

      Truist Note: This information can be documented on COR 0050b or a similar document that contains the same information.

Topic	Requirements and Guidance
Verification of current existence of business	Verification of the current existence of the business is required when positive income from the business is used as stable monthly income

Acceptable third party sources	• Acceptable third party sources include, but are not limited to:
	  • Regulatory agency
	  • Phone directory
	  • Internet source (e.g., Better Business Bureau)
	  • Directory assistance
	  • Applicable licensing bureau
	• Verification of current existence of the business obtained verbally from an acceptable third party source must be documented and include all of the following:
	  • Name and address of the business
	  • Name of individual and entity contacted to obtain the verification
	  • Date information verified
	  • Name and title of the individual who completed the verification for the lender

Alternative sources	The lender may consider alternative sources if the above are not available, such as: • Preparer of the tax returns for the business (e.g., accountant), provided the preparer has an arm's length relationship with the borrower • At least one months' business bank statement that supports the current existence of the business and the level and type of income and expenses reported on the business tax returns
Date requirements	The verification must be completed prior to the delivery date (to Truist), but no more than 120 calendar days prior to the note date

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Virtual Currency (Fannie Mae Terminology) / Cryptocurrency (Freddie Mac Terminology)	**Non-AUS** • Any income received by the borrower in the form of virtual currency, such as cryptocurrencies, is not eligible to be used to qualify for the loan. • For income types that require sufficient remaining assets to establish continuance, those assets cannot be in the form of virtual currency. • Virtual currency is not an eligible asset under "Assets as Qualifying Income" requirements. • The rental payment on a lease must be reflected in U.S. dollars (cannot be in virtual currency). See the "Rental Income" subtopic previously presented in this topic for additional guidance on rental income. **Fannie Mae DU** Follow DU requirements, which are the same as non-AUS requirements. **Freddie Mac LPA** Follow LPA requirements, which are as follows: • Income that is paid to the borrower in cryptocurrency may not be used for qualification. • For income types that require evidence of sufficient remaining assets to establish likely continuance, those assets may not be in the form of cryptocurrency. • Cryptocurrency may not be included in the calculation of assets as a basis for repayment of obligations. • Truist clarifies that the rental payment on a lease must be reflected in U.S. dollars (cannot be in cryptocurrency). See the "Rental Income" subtopic previously presented in this topic for additional guidance on rental income.

Liabilities and Qualifying Ratios

30 Day Accounts

Non-AUS

- Open 30-day charge accounts require the balance to be paid in full every month. Fannie Mae does not require open 30-day charge accounts to be included in the debt-to-income ratio.
- For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, lenders must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves.
- If the borrower paid off the account balance prior to closing, the lender may provide proof of payoff in lieu of verifying funds to cover the account balance.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, including:

- DU will include the balance of the 30-day charge accounts on the loan application in the Reserves Required to be Verified amount shown on the DU Underwriting Findings report. However, for transactions that do not require the verification of reserves, the balance of 30–day charge accounts in the Reserves Required to be Verified amount will be reduced by any cash out the borrower will receive through the transaction.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For 30-day accounts (i.e., accounts that require the balance to be paid in full monthly), the full amount of the outstanding account balance must be included in the debt payment-to-income ratio, or the lender must verify that the borrower has sufficient funds to pay off the outstanding account balance. The funds must be in addition to any funds used to qualify the borrower for the mortgage transaction, and the source of funds must be an eligible source as described in the "Cash Requirements" topic subsequently outlined in this document.

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Acceptable Documentation

Non-AUS

- Any available technology may be used to reproduce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.
- Age of credit documents:
  - For all mortgage loans (existing and new construction), the credit documents must be no more than four months old on the note date.
  - When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. If the credit documents are older than allowed, the lender must update them.

  Reference: See the "Properties Affected by a Disaster" subtopic subsequently presented in the "Appraisal Requirements" topic for exceptions to the allowable age of credit documents for loans impacted by a natural disaster.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Age of Documentation**
  - **Age of Verifications**
    - Verifications of information used to evaluate the borrower's creditworthiness must be dated no more than 120 calendar days before the note date. Verifications subject to this requirement include verification of payment history.

Continued on next page

Alimony, Child Support or Maintenance Payments

Non-AUS

- When the borrower is required to pay alimony, child support, or separate maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten months—the payments must be considered as part of the borrower's recurring monthly debt obligations.
  However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony. A copy of the divorce decree, separation agreement, court order, or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.
- For alimony and separate maintenance obligations, the lender has the option to reduce the qualifying income by the amount of the obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- When using the option of reducing the borrower's monthly qualifying income by the alimony or separate maintenance payment, the lender must enter the amount of the monthly obligation as a negative alimony or separate maintenance income amount. If the borrower also receives alimony income, this amount should be combined with the amount of the alimony payment and entered as a net amount.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Alimony or Maintenance Payments with More than 10 Months of Payments Remaining**
  - The monthly payment amount must be documented in the mortgage file with a copy of the signed court order, legally binding separation agreement and/or final divorce decree, or equivalent documentation.
  - Instead of including these payments in the calculation of the debt, they must be deducted from the borrower's stable monthly income, and the reduced stable monthly income must be used to qualify the borrower.
  - When entering an alimony obligation in Loan Product Advisor®, select "Alimony" under "Income Type" and enter it as a negative number. If the borrower also receives alimony income, select "Alimony" under "Income Type" and enter the amount received.

  Note: If the mortgage file documentation supports that there are 10 or fewer months of payments remaining, the payment may be omitted from the DTI ratio.

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Liabilities and Qualifying Ratios, Continued

Alimony, Child Support or Maintenance Payments), (continued)

Freddie Mac LPA, continued

- **Child Support Payments with More than 10 Months of Payments Remaining**
  - The monthly payment amount must be documented with a copy of the signed court order, legally binding separation agreement and/or final divorce decree, or equivalent documentation.

  Note: If the mortgage file documentation supports that there are 10 or fewer months of payments remaining, the payment may be omitted from the DTI ratio.

Bridge / Swing Loans

Non-AUS

- When a borrower obtains a bridge (or swing) loan, the funds from that loan can be used for closing on a new primary residence before the current residence is sold. This creates a contingent liability that must be considered part of the borrower's recurring monthly debt obligations and included in the DTI ratio calculation.
- Fannie Mae will waive this requirement and not require the debt to be included in the DTI ratio if the following documentation is provided:
  - a fully executed sales contract for the current residence, and
  - confirmation that any financing contingencies have been cleared.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
See the "Mortgage Payments on Previous Home" and "Qualifying Ratios" subtopics subsequently presented in this topic for guidance.

Continued on next page

Business Debt in Borrower's Name / Self-Employed Borrower's Debt Paid by the Borrower's Business

Non-AUS

- When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report (such as a Small Business Administration loan) is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.
- The account payment does not need to be considered as part of the borrower's DTI ratio if:
  - the account in question does not have a history of delinquency,
  - the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and
  - the lender's cash flow analysis of the business took payment of the obligation into consideration.
- The account payment must be considered as part of the borrower's DTI ratio in any of the following situations:
  - If the business does not provide sufficient evidence that the obligation was paid out of company funds.
  - If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
  - If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount of interest, taxes, or insurance expense, if any, that relates to the account in question.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP *(Self-Employed Borrower's Debt Paid by the Borrower's Business – LP Terminology)*

- When a self-employed borrower is obligated on a debt that has been paid by the borrower's business for 12 months or longer, the monthly payment for the debt may be excluded from the monthly debt payment-to-income ratio if the following requirements are met:
  - The mortgage file contains evidence that the debt has been paid timely by the borrower's business for no less than the most recent 12 months, and
  - The tax returns evidence that business expenses associated with the debt (e.g., interest, lease payments, taxes, insurance) have been reported and support that the debt has been paid by the business.

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Debt Paid by Others / Contingent Liabilities

Non-AUS

- Certain debts can be excluded from the borrower's recurring monthly obligations and the DTI ratio:
  - When a borrower is obligated on a non-mortgage debt—but is not the party who is actually repaying the debt—the lender may exclude the monthly payment from the borrower's recurring monthly debt obligations. This applies whether or not the other party is obligated on the debt, but is not applicable if the other party is an interested party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving, accounts, lease payments, alimony, child support, and separate maintenance.

    References:
    - See the "Federal Tax Installment Plans" subtopic subsequently presented in this topic for treatment of payments due under a federal income tax installment agreement.
    - See the "Interested Party Contributions (IPC)" topic previously presented in this document for additional guidance.

  - When a borrower is obligated on a mortgage debt - but is not the party who is actually repaying the debt - the lender may exclude the full monthly housing expense (PITIA) from the borrower's recurring monthly obligations if:
    - the party making the payments is obligated on the mortgage debt,
    - there are no delinquencies in the most recent 12 months, and
    - the borrower is not using rental income from the applicable property to qualify.
- In order to exclude non-mortgage or mortgage debts from the borrower's DTI, the lender must obtain the most recent 12 month's cancelled checks (or bank statements) from the other party making the payments that document a 12 month satisfactory payment history with no delinquent payments.
- When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties. See the "Multiple Financed Properties for the Same Borrower" subtopic previously presented in the "Loan Terms" topic.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Debt Paid by Others / Contingent Liabilities (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- A contingent liability may be excluded from the monthly debt payment-to-income ratio when meeting the requirements below. The documentation used to exclude the liability must meet the age of documentation requirements outlined in the "Acceptable Documentation" subtopic previously presented in this topic.

Debt Type	Eligibility and Documentation Requirements
• **Installment (not including Mortgages)** • **Revolving** • **Monthly lease payment**	Documentation in the mortgage file must indicate the following: • A party other than the borrower has been making timely payments for the most recent 12 months (regardless of whether the party is obligated on the debt) • The party making the payments is not an interested party to the subject real estate or mortgage transaction*
• **Mortgage Payment** • **Other property-related expenses (e.g. taxes, insurance, homeowners association dues, etc.)**	Documentation in the mortgage file must indicate the following: • A party other than the borrower has been making timely payments for the most recent 12 months • When a mortgage payment is being excluded, the party making the mortgage payments must be obligated on the note • The party making the payments is not an interested party to the subject real estate or mortgage transaction*

* For examples of an interested party, see the "Interested Party Contributions (IPC)" topic subsequently presented in this document.

- The lender must evaluate the validity of circumstances under which the payments are being made by another party. For example, payments on multiple student loans made by the borrower's parent represent a common situation. However, additional investigation and documentation might be necessary when a borrower's multiple installment and revolving debts are being paid by the borrower's spouse who is not on the subject mortgage.

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Court-Assigned Debts

Non-AUS

- When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability.
- The lender is not required to count this contingent liability as part of the borrower's recurring monthly debt obligations.
- The lender is not required to evaluate the payment history for the assigned debt after the effective date of the assignment. The lender cannot disregard the borrower's payment history for the debt before its assignment.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- A liability on a debt, including a mortgage, may be excluded from the monthly debt payment-to-income ratio if the obligation to make the payments on a debt of the borrower:
  - Has been assigned to another by court order, such as a divorce decree, regardless of whether the borrower is legally released from liability by the creditor, and
  - The lender documents the order (e.g., provides appropriate pages from the separation agreement or divorce decree).

Continued on next page

Deferred Installment Debt

Non-AUS

- Deferred installment debts must be included as part of the borrower's recurring monthly debt obligations.
- For deferred installment debts other than student loans, if the borrower's credit report does not indicate the monthly amount that will be payable at the end of the deferment period, the lender must obtain copies of the borrower's payment letters or forbearance agreements so that a monthly payment amount can be determined and used in calculating the borrower's total monthly obligations.

References:

- See the "Student Loans" subtopic for guidance on deferred student loans.
- See the "Installment Loans" subtopic for guidance on installment debt that is not in a period of either deferment or forbearance.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Payments on all installment debts with more than 10 months of payments remaining, including debts that are in a period of either deferment or forbearance, must be included in the borrower's monthly debt payment.

  Truist Note: An exception to the above requirement is permitted for installment debt that meets the requirements outlined in the "Debt Paid by Others / Contingent Liabilities" subtopic, previously presented in this topic.

  References:

  - See the "Debt Paid by Others / Contingent Liabilities" subtopic previously presented in this topic for the eligibility and documentation requirements to exclude installment debt from the monthly debt payment-to-income ratio.
  - See the "Installment Loans" subtopic for guidance on installment debt that is not in a period of either deferment or forbearance.

- When a monthly payment on an installment debt, other than a student loan, is listed as deferred or in forbearance, the lender must obtain documentation verifying the monthly payment amount.

  Reference: See the "Student Loans" subtopic for additional guidance on student loans.

Continued on next page

Federal Tax Installment Plans

Non-AUS

- When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the lender may include the monthly payment amount as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:
  - There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located.
  - The lender obtains the following documentation:
    - an approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
    - evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

Note: As a reminder, lenders remain responsible under the life-of-loan representations and warranties for clear title and first lien enforceability.

- The payments on a federal income tax installment agreement can be excluded from the borrower's DTI ratio if the agreement meets the terms outlined in the following liabilities subtopics:
    - "Debts Paid By Others / Contingent Liabilities", or
    - "Installment Debt"
- If any of the above conditions are not met, the borrower must pay off the outstanding balance due under the installment agreement with the IRS. See the "Judgement and/or Liens" subtopic, previously presented in the "Credit Requirements" topic, for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Federal Tax Installment Plans (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **IRS-Approved Installment Agreements**
  - When the borrower is obligated on an installment agreement approved by the IRS for payment of past-due federal taxes, the following requirements must be met:
    - The monthly payment must be included in the borrower's debt payment-to-income ratio if there are more than 10 months of payments remaining on the installment agreement

      Truist Note: An exception to the above requirement is permitted for installment debt that meets the requirements outlined in the “Debt Paid by Others / Contingent Liabilities” subtopic, previously presented in this topic.

    - The lender must obtain and retain in the mortgage file a copy of the installment agreement approved by the IRS. The installment agreement must reflect the payment terms and verify the monthly payment amount and balance
    - The lender must document in the mortgage file that the borrower is not past due under the terms of the installment agreement
    - There must be no indication, and the lender must have no knowledge, that the IRS has filed a Notice of Federal Tax Lien for the taxes owed under the installment agreement

- **Applications for Installment Agreements Pending IRS Approval**
  - When the borrower has applied for an installment agreement with the IRS that is pending IRS approval, the following requirements must be met:
    - A copy of the application for the installment agreement reflecting the amount of taxes owed and requested payment terms must be included in the mortgage file,
    - The greater of the monthly payment amount requested by the borrower or the amount of taxes owed divided by 72 must be included in the borrower's monthly debt payment-to-income ratio, and
    - There must be no indication, and the lender must have no knowledge, that the IRS has filed a Notice of Federal Tax Lien for the taxes owed by the borrower

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Garnishments

Non-AUS
All garnishments with more than ten months remaining must be included in the borrower's recurring monthly debt obligations for qualifying purposes.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP
Follow LPA requirements, which are as follows:
- For Accept Mortgages, Loan Product Advisor has evaluated the borrower's credit reputation, and determined that the credit reputation is acceptable.

Installment Debt

Non-AUS
- All installment debt that is not secured by a financial asset (including student loans, automobile loans, personal loans, and timeshares) must be considered part of the borrower's recurring monthly debt obligations if there are more than 10 monthly payments remaining.
- An installment debt with 10 or fewer monthly payments remaining also should be considered as a recurring monthly debt obligation if it significantly affects the borrower's ability to meet his or her credit obligations.

  Note: A timeshare account should be treated as an installment debt regardless of how it is reported on the credit report or other documentation (that is, even if reported as a mortgage loan).

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- Payments on all installment debts with more than 10 months of payments remaining, including debts that are in a period of either deferment or forbearance must be included in the borrower's monthly debt payment.

  Truist Note: An exception to the above requirement is permitted for installment debt that meets the requirements outlined in the "Debt Paid by Others / Contingent Liabilities" subtopic, previously presented in this topic.

  References:
  - See the "Debt Paid by Others / Contingent Liabilities" subtopic previously presented in this topic for the eligibility and documentation requirements to exclude installment debt from the monthly debt payment-to-income ratio.
  - See the "Deferred Installment Debt" subtopic for guidance on installment debt that is in a period of either deferment or forbearance.

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Liabilities and Qualifying Ratios, Continued

Installment Debt (continued)

Freddie Mac LPA, continued

- For installment debts being omitted from the debt payment-to-income ratio due to 10 or fewer months of payments remaining the information on the credit report or other mortgage file documentation must show that there are 10 or fewer payments remaining.
- When a monthly payment on an installment debt, other than a student loan, is not reported on the credit report or is listed as deferred or in forbearance, the lender must obtain documentation verifying the monthly payment amount.

  Reference: See the "Student Loans" subtopic for additional guidance on student loans.

- Timeshare loans are considered installment debts, regardless of how they are reported on the borrower's credit report. Maintenance fees associated with timeshares are not required to be included in the monthly debt payment-to-income ratio.

Reference: See the "Loans Secured by Financial Assets" subtopic for guidance on installment debt secured by financial assets.

Job Related Expenses (Unreimbursed Employee Business Expenses)

Non-AUS

Truist Note: As a result of 2018 tax law changes that prevent lenders from being able to identify unreimbursed business expenses, Fannie Mae removed requirements related to unreimbursed employee business expenses and the requirements for IRS Form 2106. Lenders are not required to obtain tax return documentation to identify unreimbursed business expenses and unreimbursed employee expenses are not required to be deducted from the borrower's income.

Reference: See the "Automobile Allowance" and "Commission Income" subtopics previously presented in this document for income calculation and documentation guidance.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- Unreimbursed employee expenses reported on the borrower's federal individual income tax returns are not required to be deducted from the borrower's income.

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Lease Payments

The following table shows information on lease payments.

Non-AUS
Lease payments must be considered as recurring monthly debt obligations regardless of the number of months remaining on the lease. This is because the expiration of a lease agreement for rental housing or an automobile typically leads to either a new lease agreement, the buyout of the existing lease, or the purchase of a new vehicle or house.

Reference: See the "Properties with Solar Panels" subtopic previously outlined in this document for an exception to the above guidance for payments for solar panels subject to a lease agreement, power purchase agreement (PPA) or similar type of agreement that meets standard requirements.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Non-AUS requirements apply.
Follow LPA requirements, which are as follows:

- Monthly lease payments, regardless of the number of payments remaining, with the exception of payments for solar panels subject to a lease agreement, power purchase agreement (PPA) or similar type of agreement that meets standard requirements, must be included in the monthly debt payment-to-income ratio.

  Truist Note: An exception to the above requirement is also permitted for monthly lease payments that meet the requirements outlined in the "Debt Paid by Others / Contingent Liabilities" subtopic, previously presented in this topic.

  References:
  - See the "Properties with Solar Panels" subtopic previously outlined in this document for additional guidance.
  - See the "Debt Paid by Others/Contingent Liabilities" subtopic previously presented in this topic for the eligibility and documentation requirements to exclude monthly lease payments from the monthly debt payment-to-income ratio.

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Loans Secured By Financial Assets

Non-AUS

- When a borrower uses their financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the borrower has a contingent liability.
- The lender is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided the lender obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the lender must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

  Note: Payment on any debt secured by virtual currency is an exception to the above requirement and must be included when calculating the debt-to-income ratio.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Payments on installment debts secured by financial assets, other than cryptocurrencies, in which repayment may be obtained by liquidating the asset, may be excluded from the monthly debt payment-to-income ratio when qualifying the borrower, regardless of the payment amount or number of payments remaining. The loan secured by the financial asset must have been made by a financial institution. The lender may consider only the portion of the funds that exceeds the loan balance as funds used to qualify the borrower for the mortgage transaction.

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Liabilities and Qualifying Ratios, Continued

Mortgage Assumptions/ Property Settlement Buyouts

Non-AUS Loans

- When a borrower sells a mortgaged property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability.
- The debt is not required to be counted for a contingent liability (PITIA) as part of the borrower's recurring monthly debt obligations if it is verified that the property purchaser has at least a 12-month history of making regular, timely payments for the mortgage. Document this by obtaining:
- evidence of the transfer of ownership;
- a copy of the formal, executed assumption agreement; and
- a credit report indicating that consistent and timely payments were made for the assumed mortgage.
- As part of a property settlement buyout, when a borrower's interest in a property is bought out by another co-owner of the property, as often happens in a divorce settlement, but the lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability.
- Document the file to confirm the transfer of title to the property; this liability does not have to be considered as part of the borrower's recurring monthly debt obligations.

Fannie Mae DU
Non-AUS requirements apply.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- A mortgage may be excluded from the monthly debt payment-to-income ratio when the borrower is listed as the borrower on a mortgage that has been assumed by another party.
- If the borrower has not been legally released from liability on the assumed mortgage, the monthly payment for the assumed mortgage may be excluded from the monthly debt payment-to-income ratio when:
  - The mortgage file contains documentation of the property transfer, evidencing that the borrower no longer owns the property, and
  - The assignee has made timely payments for at least the most recent 12 months, as documented by:
    - A copy of the fully executed mortgage assumption agreement, and
    - Evidence of timely payments on the assumed mortgage for the most recent 12 months as documented on the borrower's credit report

Reference: See the "Court Assigned Debts" subtopic previously presented in this topic for guidance on excluding an assigned debt liability from the monthly debt payment-to-income ratio.

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Liabilities and Qualifying Ratios, Continued

Mortgage Payments on Previous Home

Non-AUS
Qualifying Considerations

- When the borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is:
    - an existing investment property or a current primary residence converting to investment use, the borrower must be qualified in accordance with, but not limited to, the requirements published in the Cash Reserve and Rental Income subtopics, and if applicable the "Multiple Financed Properties for the Same Borrower" subtopic;
    - an existing second home or a current primary residence converting to a second home, the PITIA of the second home must also be counted as part of the borrower's recurring monthly debt obligations; or
    - the borrower's current primary residence that is pending sale but will not close (with title transfer to the new owner) prior to the subject transaction, the lender must comply with the policies in this topic.

    Reference: In conjunction with the above requirements, the standards in the following topics must also be met (if applicable): Cash Reserves, Rental Income, and "Multiple Financed Properties for the Same Borrower."

- **Current Primary Residence Pending Sale:**
    - If the borrower's current primary residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.
    - However, Fannie Mae will not require the current primary residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:
        - the executed sales contract for the current residence, and
        - confirmation that any financing contingencies have been cleared.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Borrower's Primary Residence Pending Sale:**
    - If the borrower's current primary residence is pending sale and the sale will not close before the note date of the mortgage, the monthly payment amount for the property pending sale may be excluded from the monthly debt payment-to-income ratio if the mortgage file contains an executed sales contract for the property pending sale. If the executed sales contract includes a financing contingency, the mortgage file must also contain evidence that the financing contingency has been cleared or a lender's commitment to the buyer of the property pending sale.

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Liabilities and Qualifying Ratios, Continued

Mortgage Payments on Previous Home, (continued)

Freddie Mac LP, continued

- For borrowers being relocated pursuant to an employee relocation program, the monthly payment amount for the property pending sale may be excluded from the monthly debt payment-to-income ratio if the mortgage meets the requirements for mortgages made pursuant to an employee relocation program, as outlined in "Relocation Mortgages" subtopic previously presented in the "Eligible Transactions" topic within this document.

Non-Applicants Accounts

Non-AUS

- Credit reports may include accounts identified as possible non-applicant accounts (or with other similar notation). Non-applicant accounts may belong to the borrower, or they may truly belong to another individual.

- Typical causes of non-applicant accounts include:
  - applicants who are Juniors or Seniors,
  - individuals who move frequently,
  - unrelated individuals who have identical names, and
  - debts the borrower applied for under a different social security number or under a different address. These may be indicative of potential fraud.
- If the debts do not belong to the borrower, the lender may provide supporting documentation to validate this, and may exclude the non-applicant debts from the borrower's DTI ratio. If the debts do belong to the borrower, they must be included as part of the borrower's recurring monthly debt obligations.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Truist Note: Freddie Mac has clarified the following:
- If the debts do not belong to the borrower, the lender may provide supporting documentation to validate this, and may exclude the non-applicant debts from the borrower's DTI ratio. If the debts do belong to the borrower, they must be included as part of the borrower's recurring monthly debt obligations.

Reference: See the "Credit Reports" subtopic and "Underwriting the Borrower" topic subsequently presented in this document for additional information regarding lender requirements related to the accuracy of data.

Property Taxes, Insurance and HOA Assessments

Reference: See the "Qualifying Ratios" subtopic subsequently presented in this document for guidance.

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Rental Housing Payment

Non-AUS

- The housing payment for each borrower's primary residence must be considered when underwriting the loan. For the following scenarios, the borrower's monthly rental housing payment must be evaluated (if the borrower does not otherwise have a mortgage payment or no housing expense):
  - for non-occupant borrowers, and
  - for second homes or investment properties.
- The following list provides examples of acceptable documentation to verify the rental payment:
  - six months canceled checks or equivalent payment source;
  - six months bank statements reflecting a clear and consistent payment to an organization or individual;
  - direct verification of rent from a management company or individual landlord; or
  - a copy of a current, fully executed lease agreement and two months canceled checks (or equivalent payment source) supporting the rental payment amount.

Reference: See "Documentation and Assessment of a Nontraditional Credit History" within the "Nontraditional Credit History" subtopic previously presented in this document for rental payment history requirements when using non-traditional credit.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For mortgages with a non-occupying borrower and mortgages secured by second homes and investment properties, when the borrower does not own, but rents their principal domicile (i.e., the primary residential property physically occupied by the borrower), the monthly rental housing payment for that principal domicile must be included in the calculation of the monthly housing expense-to-income ratio.

  Reference: See "Monthly Housing Expense-to-Income Ratio" in the "Qualifying Ratios" subtopic previously outlined in this document for additional guidance

- The following documentation is required to verify the monthly rental payment amount:
  - Direct verification of rent from a management company, or
  - Direct verification of rent from an individual landlord supported by two months of canceled checks or other evidence of two months' payments, or
  - A copy of the current, fully executed lease agreement supported by two months of canceled checks or other evidence of two months' payments, or
  - Six months of canceled checks or bank statements supporting consistent payments in the amount used in qualifying

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Revolving Debt

Non-AUS

- 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 tradelines 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%, the lender must use 5% of the outstanding balance as the borrower's recurring monthly debt obligation.

Fannie Mae DU

- Follow DU requirements, which are the same as non-AUS requirements with the following exception:
  - For DU loan casefiles, if a revolving debt is provided on the loan application without a monthly payment amount, DU will use the greater of $10 or 5% of the outstanding balance as the monthly payment when calculating the total debt-to-income ratio.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Monthly payments on revolving accounts must be included in the borrower's monthly debt payment.

  Truist Note: An exception to the above requirement is permitted for revolving debt that meets the requirements outlined in the "Debt Paid by Others / Contingent Liabilities" subtopic, previously presented in this topic.

- Regardless of the balance of a revolving account, in the absence of a monthly payment on the credit report, and if there is no documentation in the mortgage file indicating the monthly payment amount, 5% of the outstanding balance will be considered the required monthly payment amount.

Reference: See the "Debt Paid by Others / Contingent Liabilities" subtopic previously presented in this topic for the eligibility and documentation requirements to exclude revolving debt from the monthly debt payment-to-income ratio.

Continued on next page

Student Loans

Non-AUS

- If a monthly student loan payment is provided on the credit report, the lender may use that amount as the monthly payment for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.
- If the credit report does not provide a monthly payment for the student loan, or if the credit report show $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below:
- If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.
- For deferred loans or loans in forbearance, the lender may calculate:
- 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 repayment terms.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Reference: See the “Student Loan Cash-Out Refinance” subtopic previously presented in this document for additional guidance when paying off student loan debt through a refinance transaction.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Student Loans in Deferment, Forbearance, or Repayment, Including Income-Driven Repayment Plans**
  - In all cases, an amount greater than zero must be included in the monthly debt payment-to-income ratio for all student loans, as described below.
  - For student loans in deferment, forbearance, or repayment, including income-driven repayment plans:
    - If the monthly payment amount reported on the credit report is greater than zero, the lender must use the monthly payment amount reported on the credit report, unless other documentation in the mortgage file supports a different current payment amount greater than zero, or
    - If the monthly payment amount reported on the credit report is zero, the lender must use 0.5% of the outstanding loan balance, as reported on the credit report, unless other documentation in the mortgage file supports a different current payment amount greater than zero
  - For student loans in income-driven repayment plans:
    - The monthly payment amount, as described above, may be used for qualifying, unless documentation in the mortgage file indicates the borrower must recertify their income and/or the borrower's payment will increase prior to or on the first mortgage payment due date

Continued on next page

Liabilities and Qualifying Ratios, Continued

Student Loans, (continued)

Freddie Mac LPA, continued

- When documentation in the mortgage file indicates the borrower must recertify their income and/or that the borrower's payment will increase prior to or on the first mortgage payment due date, the lender must include in the monthly debt payment-to-income ratio:
  - The greater of the current payment or 0.5% of the outstanding loan balance, or
  - The documented future payment amount if greater than the current payment, or
  - The future payment amount that is less than or equal to the current payment, provided that the mortgage file contains documentation that the borrower has recertified their income and the future payment amount has been approved. The future payment amount must be greater than zero.

- **Student Loan Forgiveness, Cancelation, Discharge, and Employment-Contingent Repayment Programs**
  - The student loan payment may be excluded from the monthly debt payment-to-income ratio provided the mortgage file contains documentation that indicates the following:
    - The student loan has 10 or fewer monthly payments remaining until the full balance of the student loan 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

    AND
    - The borrower is eligible or approved, as applicable, for the student loan forgiveness, cancelation, discharge or employment-contingent repayment program, and the lender is not aware of any circumstances that will make the borrower ineligible in the future. Evidence of eligibility or approval must come from the student loan program or the employer, as applicable.

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Liabilities and Qualifying Ratios, Continued

Qualifying Rates

Non-AUS

- **Qualifying Payment Amount**
  - The calculation of the qualifying payment amount for the subject property will differ based on the transaction type (as shown in the following table). For all loans, the qualifying rate is based on the original loan amount and the loan amortization term.

Transaction Type	Qualifying Rate
Fixed Rate Mortgages	Note Rate
5/6-Month ARMs	Greater of the note rate plus 2% or the fully indexed rate

7/6-Month & 10/6-Month ARMs	• Unless otherwise stated below, the borrower is qualified based on no less than the note rate.
	• For the following transactions, the borrower is qualified based on the greater of the note rate or the fully indexed rate:
	  • Higher-Priced Covered Transactions (HPCTs)
	  • Higher-Priced Mortgage Loans (HPMLs)
	  • Loans in the following states: Maryland, Massachusetts, and New Mexico

  - In all cases, qualification must consider the borrower's current obligations and other mortgage-related obligations, e.g., PITIA.
  - Loans subject to temporary interest rate buydowns must be qualified without consideration of the bought-down rate, based on the transaction type above.

  - **Calculating the Fully Indexed Rate**
    - The fully indexed rate is the sum of the value of the applicable index and the mortgage margin, which is then rounded to the nearest one-eighth percent.

      Note: Unless specific product terms provide otherwise, if the index plus gross margin equals a number that is equidistant between the higher and lower one-eighth percent, Fannie Mae rounds down to the nearest one-eighth percent.

    - The applicable index value that determines the fully indexed rate is any index value in effect during the 90 days that precede the note date.

  - **Determining ARM Acceptability**
    - Lenders must determine whether an ARM loan is acceptable for purchase by subtracting the initial note rate of the loan from the fully indexed rate in effect when the loan was originated. The difference must not exceed 3%.

Continued on next page

Qualifying Rates (continued)

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements. The following additional guidance applies:

- For DU loan casefiles, the fully indexed rate is defined as the index plus the margin as entered in the online loan application. The index and margin are required for all ARM loans submitted to DU.
- **7/6-Month & 10/6-Month ARMs**: The following 7/6-Month and 10/6 Month ARM transactions must be manually underwritten (i.e., underwritten in accordance with **all** non-AUS requirements) if the fully indexed rate is greater than the note rate:
  - Higher-Priced Covered Transactions (HPCTs)
  - Higher-Priced Mortgage Loans (HPMLs)
  - Loans in the following states: Maryland, Massachusetts, and New Mexico

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For fixed rate transactions, borrowers qualify at the note rate.
- For all ARMs, the borrower must be qualified as follows:

ARM Type	Borrower Qualified at
5/6-Month ARMs	No less than the greater of the Note Rate plus two percentage points or the fully-indexed rate

7/6-Month & 10/6-Month ARMs	• Unless otherwise stated below, the borrower is qualified based on the note rate.
	• For the following transactions, the borrower is qualified based on the greater of the note rate or the fully-indexed rate:
	  • Higher-Priced Covered Transactions (HPCTs)
	  • Higher-Priced Mortgage Loans (HPMLs)
	  • Loans in the following states: Maryland, Massachusetts, and New Mexico

  - The fully-indexed rate is the sum of the margin plus a value of the applicable Index at any time within 90 days preceding the note date, rounded to the nearest one-eighth of 1% (0.125%).
  - **Special ARM Qualifications**
    - For 5/6-Month ARMs that are less than one year old at the time of delivery, the initial note rate cannot be more than three percentage points below the fully-indexed rate.
- Mortgage loans subject to temporary interest rate buydowns must be qualified without consideration of the bought-down rate, based on the transaction type above.

Continued on next page

Liabilities and Qualifying Ratios, Continued

Qualifying Ratios

Non-AUS

- **General Information on Liabilities**
  - The lender's risk analysis must include all liabilities affecting income or assets that will affect the borrower's ability to fulfill the mortgage payment obligation.
  - A borrower's liabilities include the following:
    - housing payment (mortgage or rent) for each borrower's primary residence,
    - all revolving charge accounts,
    - installment loan debts with a remaining payment term greater than 10 months,
    - installment debts secured by virtual currency,
    - lease payments,
    - real estate loans,
    - HELOCs,
    - alimony and child support,
    - maintenance payments, and
    - all other debts of a recurring nature.
  - For each liability, the lender must determine the unpaid balance, the terms of repayment, and the borrower's payment history, and verify any other liability that is not shown on a credit report by obtaining documentation from the borrower or creditor. See the "Undisclosed Debts" subtopic subsequently presented in this topic for additional guidance.

- **Monthly Obligations Not Included in Liabilities**
  - Some obligations, often identified on a 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 debt-to-income ratio. These obligations include items such as:
    - federal, state, and local taxes;
    - Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt secured by these funds);
    - commuting costs;
    - union dues; and
    - voluntary deductions.

- **DTI Ratios**
  - The DTI ratio consists of two components:
    - total monthly obligations, which includes the qualifying payment for the subject mortgage loan and other long-term and significant short-term monthly debts; and
    - total monthly income of all borrowers, to the extent the income is used to qualify for the mortgage.

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Liabilities and Qualifying Ratios, Continued

Qualifying Ratios, continued

Non-AUS, continued

- **DTI Ratios**, continued
  - For non-AUS loans, the overall maximum debt-to-income (DTI) ratio may not exceed 45%, except as outlined below:
    - When one or more borrowers on the loan does not have a credit score and is relying on non-traditional credit to qualify, the maximum DTI ratio is 36%.
    - Using only the income of the occupying borrower(s) to calculate the DTI ratio, the maximum allowable DTI ratio is 43%.

      Note: This maximum DTI applies even if the combined qualifying ratios for the borrower and the guarantor, co-signer, or non-occupant borrower are well below 45%. See the non-traditional credit guidance shown above (i.e., maximum 36% DTI) that applies when the transaction includes a borrower who does not have a credit score.

- **Calculating Total Monthly Obligation**
  - The total monthly obligation is the sum of the following:
    - the housing payment for each borrower's primary residence
      - if the subject loan is the borrower's primary residence, use the PITIA and qualifying payment amount;
      - if there is a non-occupant borrower, use the mortgage payment (including HOA fees and subordinate lien payments) or rental payments;
    - monthly payments on installment debts and other mortgage debts that extend beyond ten months;
    - monthly payments on installment debts and other mortgage debts that extend ten months or less if the payments significantly affect the borrower's ability to meet credit obligations;
    - monthly payments on installment debts secured by virtual currency;
    - monthly payments on revolving debts;
    - monthly payments on lease agreements, regardless of the expiration date of the lease;
    - monthly alimony, child support, or maintenance payments that extend beyond ten months (alimony (but not child support or maintenance) may instead be deducted from income);
    - monthly payments for other recurring monthly obligations; and
    - any net loss from a rental property.

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Liabilities and Qualifying Ratios, Continued

Qualifying Ratios, continued

Non-AUS, continued

- **DTI Ratio Tolerance and Re-Underwriting Criteria**
  - Fannie Mae expects lenders to have in place processes to facilitate borrower disclosure of changes in financial circumstances throughout the origination process to increase the likelihood of discovering material undisclosed debts or reduced income. See the “Undisclosed Debts” subtopic subsequently presented in this topic for additional information.
  - As a result of the lender's normal processes and controls, the lender may need to re-underwrite the loan after initial underwriting. If the borrower discloses or the lender discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing, the loan must be re-underwritten if the new information causes the DTI ratio to increase by more than the allowed tolerances.
  - In all cases, if the lender determines that there is new subordinate financing on the subject property during the loan process, the mortgage loan must be re-underwritten.

  Note: Re-underwriting means that a comprehensive risk and eligibility assessment must be performed.

- **Applying the Re-Underwriting Criteria**
  - The following steps are required if the borrower discloses or the lender discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing:

Step	Description
1	The lender must document the additional debt(s) and reduced income in accordance with standard liability and income documentation requirements, as applicable. Note: The lender is not required to obtain a new credit report to verify the additional debt(s). However, if the lender chooses to obtain a new credit report after the initial underwriting decision was made, the loan must be re-underwritten.
2	If there is new subordinate debt on the subject property, the mortgage loan must be re-underwritten.
3	The lender must recalculate the DTI ratio.
4	• If the recalculated DTI ratio exceeds 45%, the loan is not eligible for delivery to Fannie Mae. • If the recalculated DTI ratio does not exceed 45%, the mortgage loan must be re-underwritten with the updated information to determine if the loan is still eligible for delivery. Note: If the increase in the DTI ratio moves the DTI ratio above the 36% threshold, the loan must meet the credit score and reserve requirements that apply to DTI ratios greater than 36% up to 45%.
5	The final loan application signed by the borrower must include all income and debts verified, disclosed, or identified during the mortgage process.
6	Upon delivery, the lender must deliver the qualifying monthly income and expense amounts that are on the final loan application.

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Liabilities and Qualifying Ratios, Continued

Qualifying Ratios, continued

Non-AUS, continued

- **Monthly Housing Expense for the Subject Property**
  - **Monthly Housing Expense**
    - Monthly housing expense is the sum of the following and is referred to as PITIA for the subject property:
      - principal and interest (P&I);
      - property, flood, and mortgage insurance premiums (as applicable);
      - real estate taxes;
      - ground rent;
      - special assessments;
      - any owners' association dues (including utility charges that are attributable to the common areas, but excluding any utility charges that apply to the individual unit);
      - any monthly co-op corporation fee (less the pro rata share of the master utility charges for servicing individual units that is attributable to the borrower's unit);
      - any subordinate financing payments on mortgages secured by the subject property.

      Note: The monthly payment of a subordinate lien associated with a business debt secured by the subject property can be excluded from the monthly housing expense if it meets the requirements outlined in the "Business Debt in Borrower's Name / Self-Employed Borrower's Debt Paid by the Borrower's Business" subtopic previously outlined in this document.

    - Lenders must enter all components of the monthly housing expense on the loan application including subordinate financing P&I, homeowner's insurance, supplemental property insurance, real estate taxes, mortgage insurance, association/project dues, and other proposed housing expenses.
    - If the subject mortgage is secured by the borrower's primary residence, the monthly housing expense is based on the qualifying payment required. This amount is the monthly housing expense used to calculate the debt-to-income (DTI) ratio.

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Liabilities and Qualifying Ratios, Continued

Qualifying Ratios, continued

Non-AUS, continued

- **Calculating Monthly Real Estate Tax Payment**
    - The lender must base its calculation of real estate taxes for borrower qualification on no less than the current assessed value. However, the lender must project the real estate taxes if one of the following applies:
        - For purchase and construction-related transactions, the lender must use a reasonable estimate of the real estate taxes based on the value of the land and the total of all new and existing improvements. This requirement also applies to properties in jurisdictions where a transfer of ownership typically results in a reassessment or revaluation of the property and a corresponding increase in the amount of taxes.
        - There is a tax abatement on the subject property that will last for no less than 5 years from the note date. For example:
            - for a municipality with a 10-year abatement, the lender may qualify the borrower with the reduced tax amount;
            - for a municipality with a 10-year abatement and with annual real estate tax increases in years 1 through 10, the lender must qualify the borrower with the annual taxes that will be required at the end of the 5th year after the first mortgage payment date.
        - The lender has the option to project the real estate taxes if the amount of taxes will be reduced based on federal, state, or local jurisdictional requirements. However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.

- **Payoff or Paydown of Debt for Qualification**
    - Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally:
        - Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt.
        - If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

Continued on next page

Qualifying Ratios, continued

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- The maximum allowable DTI is 50%, except as outlined below:
  - For cash-out refinance transactions, the maximum ratio may be lower for loan casefiles underwritten through DU. See the "Cash-Out Refinance" subtopic previously presented in this document for additional guidance.
- DU analyzes the risk factors in the loan casefile for all borrowers on the mortgage loan. Regardless of whether an individual borrower will be occupying the property as their primary residence, DU will consider the income and liabilities of that borrower.

- **Calculating Total Monthly Obligation**
  - The total monthly obligation is the sum of the following:
    - the housing payment for each borrower's primary residence
      - if the subject loan is the borrower's primary residence, use the PITIA and qualifying payment amount;
      - if there is a non-occupant borrower, use the mortgage payment (including HOA fees and subordinate lien payments) or rental payments
      - if the subject loan is a second home or investment property, use the mortgage payment (including HOA fees and subordinate lien payments) or rental payments;
    - the qualifying payment amount if the subject loan is for a second home or investment property;
    - monthly payments on installment debts and other mortgage debts that extend beyond ten months;
    - monthly payments on installment debts and other mortgage debts that extend ten months or less if the payments significantly affect the borrower's ability to meet credit obligations;
    - monthly payments on installment debts secured by virtual currency;
    - monthly payments on revolving debts;
    - monthly payments on lease agreements, regardless of the expiration date of the lease;
    - monthly alimony, child support, or maintenance payments that extend beyond ten months (alimony (but not child support or maintenance) may instead be deducted from income);
    - monthly payments for other recurring monthly obligations; and
    - any net loss from a rental property.

Continued on next page

Qualifying Ratios, continued

Fannie Mae DU, continued

- **DTI Ratio Tolerance and Re-Underwriting Criteria**
  - Fannie Mae expects lenders to have in place processes to facilitate borrower disclosure of changes in financial circumstances throughout the origination process to increase the likelihood of discovering material undisclosed debts or reduced income. See the “Undisclosed Debts” subtopic subsequently presented in this topic for additional information.
  - As a result of the lender's normal processes and controls, the lender may need to re-underwrite the loan after initial underwriting. If the borrower discloses or the lender discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing, the loan must be re-underwritten if the new information causes the DTI ratio to increase by more than the allowed tolerances.
  - In all cases, if the lender determines that there is new subordinate financing on the subject property during the loan process, the mortgage loan must be re-underwritten.

Note: Re-underwriting means that loan casefiles must be resubmitted to DU with updated information.

- **Applying the Re-Underwriting Criteria**
  - The following steps are required if the borrower discloses or the lender discovers additional debt(s) or reduced income after the underwriting decision was made up to and concurrent with loan closing:

Step	Description
1	The lender must document the additional debt(s) and reduced income in accordance with standard liability and income documentation requirements, as applicable. Note: The lender is not required to obtain a new credit report to verify the additional debt(s). However, if the lender chooses to obtain a new credit report after the initial underwriting decision was made, the loan must be re-underwritten.
2	If there is new subordinate debt on the subject property, the mortgage loan must be re-underwritten.
3	The lender must recalculate the DTI ratio outside of DU.
4	• If the recalculated DTI ratio exceeds 50%, the loan is not eligible for delivery to Fannie Mae. • See “Ensuring DU Data and Delivery Information Accuracy/DU Tolerances” guidance subsequently presented in the “Underwriting the Borrower” subtopic for the tolerances and resubmission requirements associated with changes impacting the DTI.
5	The final loan application signed by the borrower must include all income and debts verified, disclosed, or identified during the mortgage process.
6	Upon delivery, the lender must deliver the qualifying monthly income and expense amounts that are on the final loan application.

Reference: See the “Underwriting the Borrower” topic subsequently presented in this product description for additional information about DU resubmission tolerances.

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Qualifying Ratios, continued

Fannie Mae DU, continued

- **Monthly Housing Expense for the Subject Property**
  - **Monthly Housing Expense**
    - If the subject mortgage 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.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Monthly Housing Expense-to-Income Ratio**
  - The housing expense-to-income ratio is determined by dividing the borrower's monthly housing expense by the borrower's stable monthly income. The monthly housing expense must be documented in the mortgage file and established as described below.

  - **Establishing the Monthly Housing Expense for Mortgages Secured by Primary Residences**
    - For mortgages secured by a primary residence, the following expenses must be included in the calculation of the monthly housing expense-to-income ratio:
      - Principal and interest payments on the mortgage
      - Property hazard insurance premiums
      - Real estate taxes
        - **New Construction:** When the actual real estate tax amount is not yet available, the real estate tax amount included in the monthly housing expense must be based on the value of the improvements and the land
        - **Transfer of Ownership:** If the mortgaged premises is 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 tax amount
        - **Tax-Abatements or Exemptions:** The real estate tax amount may be reduced or excluded from the monthly housing expense calculation, as applicable.
          - The mortgage file must contain evidence of its continuance for at least five years after the note date and evidence of:
            - The tax abatement for a reduced real estate tax amount, or
            - The exemption for an excluded real estate tax amount.
          - If the tax exemption is due to the borrower's age or disability, documentation verifying five years' continuance is not required. However, the exemption must not have a predetermined expiration date within five years of the note date.
    - The following additional expenses must be included when applicable:
      - Mortgage insurance premiums
      - Flood insurance premiums

Continued on next page

Qualifying Ratios, continued

Freddie Mac LPA, continued

- **Monthly Housing Expense-to-Income Ratio**, continued
  - **Mortgages Secured by Primary Residences,** continued
    - Leasehold payments
    - Special assessments with more than 10 monthly payments remaining
    - Homeowners' association dues (excluding unit utility charges)
    - Maintenance fees (excluding unit utility charges)
    - Payments on secondary financing, including a Home Equity Line of Credit (HELOC)
      - HELOC payments must be included when there is an outstanding balance on the account. In the absence of a monthly payment on the credit report for the HELOC, and if there is no documentation in the mortgage file indicating a monthly payment amount, 1.5% of the outstanding balance is considered the monthly payment amount.

        References:
        - See the "Secondary Financing / General" topic previously presented in this document for requirements when documentation of HELOC terms is required.
        - See the "Sale of Real Property / Sale of Real Property or Proceeds from a Loan Secured by Real Property" subtopic subsequently presented in the "Cash Requirements" topic for requirements when HELOC proceeds are used for the transaction.

  - **Establishing the Monthly Housing Expense for Mortgages Secured by Second Homes and Investment Properties**
    - For mortgages secured by second homes and investment properties, the monthly housing expense is the sum of the monthly charges described in the "Establishing the Monthly Housing Expense for Mortgages Secured by Primary Residences" section above for **each** borrower's primary residence.
    - If the borrower does not own but rents their principal domicile, the borrower's rental payment for that principal domicile must be included in the calculation of the monthly housing expense-to-income ratio.

  - **Establishing the Monthly Housing Expense for Mortgages With a Non-Occupying Borrower**
    - For mortgages with a non-occupying borrower, the monthly housing expense is the sum of the monthly charges described in the "Establishing the Monthly Housing Expense for Mortgages Secured by Primary Residences" section above for **each** borrower's primary residence.
    - If the borrower does not own but rents their principal domicile, the borrower's rental payment for that principal domicile must be included in the calculation of the monthly housing expense-to-income ratio.

Continued on next page

Qualifying Ratios, continued

Freddie Mac LPA, continued

- **Rental Payment Documentation Requirements**
    - When the borrower rents their principal domicile, one of the following is required to verify the monthly rental payment amount:
        - Direct verification of rent from a management company
        - Direct verification of rent from an individual landlord supported by two months of canceled checks or other evidence of two months' payments
        - A copy of the current, fully executed lease agreement supported by two months of canceled checks or other evidence of two months' payments
        - Six months of canceled checks or bank statements supporting consistent payments in the amount used in qualifying

- **Monthly Debt Payment-to-Income (DTI) Ratio**
    - The DTI ratio is determined by dividing the total of the borrower's monthly housing expense plus all monthly payments on the borrower's liabilities by the borrower's stable monthly income.

    - **General Requirements**
        - The borrower's liabilities must be reflected on the mortgage application (Form 65, *Uniform Residential Loan Application*) and considered when qualifying the borrower. Lenders must review the mortgage application, credit report, borrower's paystubs (if provided) and other file documentation for borrower liabilities.
        - All of the borrower's debts incurred through the note date must be considered when qualifying the borrower. See the "Undisclosed Debts" subtopic subsequently presented in this topic for additional guidance.
        - When the borrower pays off or pays down an existing debt to qualify for the mortgage, the lender must document the source of funds used. The source of funds must meet the eligibility and documentation requirements described in the "Cash Requirements" topic subsequently outlined in this document.

    - **Liabilities Included in the Monthly DTI Ratio**
        - Documentation of all monthly payment amounts for the following liabilities must be included in the mortgage file, and the monthly payment amount must be included in the DTI ratio:
            - Monthly housing expense
            - Payments on all installment debts with more than 10 months of payments remaining, including debts that are in a period of either deferment or forbearance.
            - Alimony or maintenance payments with more than 10 months of payments remaining

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Liabilities and Qualifying Ratios, Continued

Qualifying Ratios, continued

Freddie Mac LPA, continued

- **Monthly Debt Payment-to-Income Ratio,** continued

  Note: Instead of including these payments in the calculation of the debt, they must be deducted from the borrower's stable monthly income, and the reduced stable monthly income must be used to qualify the borrower. See the "Alimony, Child Support, and/or Maintenance Payments" subtopic previously presented in this topic for additional information.

  - Child support payments with more than 10 months of payments remaining
  - Monthly payments on revolving or 30-day accounts

    Note: When a borrower is not the primary account holder but is an authorized user on a revolving or 30-day account, the monthly payment, as reported on the credit report, must be included in the DTI ratio only if the lender is required per the "Authorized User Accounts" requirements (subsequently outlined in the "Credit Requirements" topic) to include in the mortgage file documentation evidencing that the borrower has been making the payments on the account for the last 12 months.

  - Monthly lease payments, regardless of the number of payments remaining

    Exception: Payments for solar panels subject to a lease agreement, power purchase agreement (PPA) or similar type of agreement that meet the requirements outlined in the "Properties with Solar Panels" subtopic previously presented in the "Occupancy/Property Types" topic within this document, may be excluded from the DTI ratio.

  - Monthly payment amounts for properties for which rental income is being considered for qualification purposes

    References:
    - See the "Rental Income" subtopic previously presented in this document for requirements with respect to treatment of debt when using rental income.
    - See the "Self-Employment Income" subtopic previously presented in this document for requirements with respect to treatment of debt when all rental income and expenses are reported on IRS Form 8825, *Rental Real Estate Income and Expenses of a Partnership or an S Corporation*.

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Liabilities and Qualifying Ratios, Continued

Qualifying Ratios, continued

Freddie Mac LPA, continued

- **Monthly Debt Payment-to-Income Ratio,** continued
    - Monthly payment amounts for other properties
        - The monthly payment amount must include all of the following:
            - Principal and interest on the first lien
            - Taxes
            - Insurance (e.g., hazard insurance premium and flood insurance premium
        - The following additional expenses must be included when applicable:
            - Bridge loan payment
            - Mortgage insurance premiums
            - Leasehold payments
            - Homeowners' association dues (excluding unit utility charges)
            - Special assessments with more than 10 monthly payments remaining
            - Maintenance fees (excluding unit utility charges)
            - Payment on any secondary financing (including a Home Equity Line of Credit [HELOC])
                - HELOC payments must be included in the monthly DTI ratio when there is an outstanding balance on the account.
                - In the absence of a monthly payment on the credit report for the HELOC, and if there's no documentation in the mortgage file indicating a monthly payment amount, 1.5% of the outstanding balance will be considered to be the HELOC monthly payment amount.

                  References:
                    - See the "Secondary Financing" topic previously presented in this document for requirements when documentation of HELOC terms is required.
                    - See the "Sale of Real Property / Sale of Real Property or Proceeds from a Loan Secured by Real Property" subtopic subsequently presented in the "Cash Requirements" topic for requirements when HELOC proceeds are used for the transaction.

Continued on next page

Qualifying Ratios, continued

Freddie Mac LPA, continued

- **Monthly Debt Payment-to-Income Ratio,** continued
    - **Liabilities that May be Excluded from the Monthly DTI Ratio**
        - See the following subtopics previously presented in this topic for the eligibility and documentation requirements to exclude liabilities, including mortgage debt, from the monthly debt payment-to-income ratio:
            - Business Debt in Borrower's Name / Self-Employed Borrower's Debt Paid by the Borrower's Business
            - Court-Assigned Debts
            - Debt Paid by Others / Contingent Liabilities
            - Loans Secured by Financial Assets
            - Mortgage Assumptions/Property Settlement Buyouts
            - Mortgage Payments on Previous Home
- The maximum DTI ratio is 50%.
- For transactions with a non-occupant borrower, the lender is not required to calculate or evaluate the occupant borrower's monthly debt payment-to-income ratio separately.

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Liabilities and Qualifying Ratios, Continued

Undisclosed Debts

Non-AUS

- Fannie Mae expects lenders to have in place processes to facilitate borrower disclosure of changes in financial circumstances throughout the origination process to increase the likelihood of discovering material undisclosed debts.
- For each liability, the lender must determine the unpaid balance, the terms of repayment, and the borrower's payment history, and verify any other liability that is not shown on a credit report by obtaining documentation from the borrower or creditor.
- If the credit report does not contain a reference for each significant open debt shown on the loan application—including outstanding mortgage debt, bank, student, or credit union loans—the lender must provide separate credit verification.
- If a current liability appears on the credit report that is not shown on the loan application, the borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the borrower's explanation.
- If the borrower discloses, or the lender discovers, additional liabilities after the underwriting decision has been made, up to and concurrent with closing, the lender must recalculate the borrower's debt-to-income ratio.
    - See the "Qualifying Ratios" subtopic previously presented in this topic for additional information regarding permitted DTI ratio tolerance and re-underwriting criteria.
- The final loan application signed by the borrower must include all debts disclosed or identified during the mortgage process.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The borrower's liabilities must be reflected on the mortgage application (Form 65, Uniform Residential Loan Application) and considered when qualifying the borrower.
- Lenders must review the mortgage application, credit report, borrower's paystubs (if provided) and other file documentation for borrower liabilities.
- All of the borrower's debts incurred through the note date must be considered when qualifying the borrower.

Continued on next page

Acceptable Documentation

Non-AUS

- Any available technology may be used to reproduce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.
- Age of credit documents:
  - For all mortgage loans (existing and new construction), the credit documents must be no more than four months old on the note date.
  - When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. If the credit documents are older than allowed, the lender must update them.

Reference: See the "Properties Affected by a Disaster" subtopic subsequently presented in the "Appraisal Requirements" topic for exceptions to the allowable age of credit documents for loans impacted by a natural disaster.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which areas follows:

- **Age of Documentation**. Verifications of payment history must be dated no more than 120 days before the note date, and must be used in evaluating the creditworthiness of the borrower. Any information verified more than 120 days before the note date must be reverified. Verifications made after the note date do not satisfy the requirements of this section.

Credit Requirements

General Credit Documentation Requirements

Non-AUS

- Any available technology may be used to reproduce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.
- Age of credit documents:
  - For all mortgage loans (existing and new construction), the credit documents must be no more than four months old on the note date.
  - When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. If the credit documents are older than allowed, the lender must update them.

  Reference: See the "Properties Affected by a Disaster" subtopic subsequently presented in the "Appraisal Requirements" topic for exceptions to the allowable age of credit documents for loans impacted by a natural disaster.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Written verifications**
  - Written verifications must meet all of the following requirements:
    - Standard verification forms, such as direct verification of tradelines and noncredit payment references, including mortgage payment history and verification of rental payments must be sent directly from the originator to the borrower's creditor or landlord and, upon completion, returned directly from that entity to the originator
    - Facsimile verification forms are acceptable if it is clear from the document that the information was sent by facsimile transmission directly from the source to the originator and are considered to be originals
    - The original documents must not contain any alterations, erasures, correction fluid or correction tape
    - The lender's mortgage file contains legible copies of the originals
    - The copies must have been made by the originator or the applicant directly from the originals. Copies provided by any other source, such as the agent or builder, are not acceptable.

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General Credit Documentation Requirements (continued)

Freddie Mac LPA, continued

- **Documents of Foreign Origin and Documents in a Foreign Language**
  - All documents in the mortgage file related to the origination of the mortgage must be in English or must be translated into English by the document originator or an unaffiliated third-party translation service. Such translations must be attached to each non-English document, and the lender represents and warrants to Freddie Mac that the translation is complete and accurate.
  - All foreign currency amounts must be converted to U.S. dollars. See "Source of Funds from Outside the United States and its Territories" outlined in the "Special Requirements for Borrower Personal Funds" section in the "General Asset Information" subtopic subsequently presented in this document for requirements when the source of funds needed for closing costs is, or otherwise originates from, asset(s) located outside the United States and its territories.
- **Age of Documentation**
  - **Age of Verifications**
    - Verifications of information used to evaluate the borrower's creditworthiness must be dated no more than 120 calendar days before the note date. Verifications subject to this requirement include verification of payment history.

Continued on next page

Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs

Non-AUS

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

    Note: The terms "preforeclosure sale" and "short sale" are used interchangeably in this document and have the same meaning.

  - The lender must determine the cause and significance of the derogatory information, verify that sufficient time has elapsed since the date of the last derogatory information, and confirm that the borrower has re-established an acceptable credit history. The lender must make the final decision about the acceptability of a borrower's credit history when significant derogatory credit information exists.
  - This subtopic describes the amount of time that must elapse (the "waiting period") after a significant derogatory credit event before the borrower is eligible for a new loan salable to Fannie Mae. The waiting period commences on the completion, discharge, or dismissal date (as applicable) of the derogatory credit event and ends on the disbursement date of the new loan. See the "Significant Derogatory Credit Events and Waiting Period Requirements" section outlined below for additional information.

- **Identification of Significant Derogatory Credit Events in the Credit Report**
  - Lenders must review the credit report and Section VIII, Declarations, of the loan application to identify instances of significant derogatory credit events. Lenders must review the public records section of the credit report and all tradelines, including mortgage accounts (first liens, second liens, home improvement loans, HELOCs, and manufactured home loans), to identify previous foreclosures, deeds-in-lieu, preforeclosure sales, charge-offs of mortgage accounts, and bankruptcies. Lenders must carefully review the current status of each tradeline, manner of payment codes, and remarks to identify these types of significant derogatory credit events. Remarks Codes are descriptive text or codes that appear on a tradeline, such as "Foreclosure," "Forfeit deed-in-lieu of foreclosure," and "Settled for less than full balance."
  - Significant derogatory credit events may not be accurately reported or consistently reported in the same manner by all creditors or credit reporting agencies. If not clearly identified in the credit report, the lender must obtain copies of appropriate documentation. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or preforeclosure sale, or date of the charge-off of a mortgage account; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

    Note: Timeshare accounts are considered installment loans and are not subject to the waiting periods described below.

Continued on next page

Credit Requirements, Continued

Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Non-AUS, continued

- **Significant Derogatory Credit Events and Waiting Period Requirements**
  - The following table summarizes the waiting period requirements for all significant derogatory credit events.

    Note: The waiting period commences on the completion, discharge, or dismissal date (as outlined in the table below) of the derogatory credit event and **ends** on the disbursement date of the new loan.

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Bankruptcy – Chapter 7 or 11	A **four-year** waiting period is required, measured from the discharge or dismissal date of the bankruptcy action	A **two-year** waiting period is permitted if extenuating circumstances can be documented, and is measured from the discharge or dismissal date of the bankruptcy action.
Bankruptcy – Chapter 13	A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows: • **two years** from the discharge date, or • **four years** from the dismissal date. The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.	A **two-year** waiting period is permitted after a Chapter 13 dismissal, if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge.

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**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Credit Requirements, Continued

Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Non-AUS, continued

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Multiple Bankruptcy Filings	For a borrower with more than one bankruptcy filing within the past seven years, a **five-year** waiting period is required, measured from the most recent dismissal or discharge date. **Note**: The presence of multiple bankruptcies in the borrower's credit history is evidence of significant derogatory credit and increases the likelihood of future default. Two or more borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies. For example, if the borrower has one bankruptcy and the co-borrower has one bankruptcy this is not considered a multiple bankruptcy.	A **three-year** waiting period is permitted if extenuating circumstances can be documented, and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of extenuating circumstances.
Foreclosure	A **seven-year** waiting period is required, and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower.	A **three-year** waiting period is permitted if extenuating circumstances can be documented, and is measured from the completion date of the foreclosure action. Additional requirements apply between three and seven years, which include: • Maximum LTV, TLTV, or HTLTV ratios of the lesser of 90% or the maximum LTV, TLTV, or HTLTV ratios for the transaction type. • The purchase of a primary residence is permitted. • Limited cash-out refinances are permitted for all occupancy types pursuant to the eligibility requirements in effect at that time. **Note**: The purchase of second homes or investment properties and cash-out refinances (any occupancy type) are not permitted until a seven-year waiting period has elapsed.

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Credit Requirements, Continued

Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Non-AUS, continued

Derogatory Event	Waiting Period Requirements	Waiting Period with Extenuating Circumstances
Deed-in-Lieu of Foreclosure, Preforeclosure Sale/Short Sale, or Mortgage Charge-Off	A **four-year** waiting period is required from the completion date of the deed-in-lieu of foreclosure, preforeclosure sale/short sale, or charge-off as reported on the credit report or other documents provided by the borrower. **Note**: These transaction types are completed as alternatives to foreclosure. • A deed-in-lieu of foreclosure is 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." • A preforeclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as "Settled for less than full balance." • A charge-off of a mortgage account occurs when a creditor has determined that there is little (or no) likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status, and is identified on the credit report with a manner of payment (MOP) code of "9."	A **two-year** waiting period is permitted if extenuating circumstances can be documented. **Note**: Deeds-in-lieu and preforeclosure sales/short sales may not be accurately or consistently reported in the same manner by all creditors or credit reporting agencies. See "Identification of Significant Derogatory Credit Events in the Credit Report" above for additional information.

Continued on next page

Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Non-AUS, continued

- **Foreclosure and Bankruptcy on the Same Mortgage**
  - If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the lender obtains the 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.

- **Extenuating Circumstances**
  - Extenuating circumstances are nonrecurring events that are beyond the borrower's control that result in a sudden, significant, and prolonged reduction in income or a catastrophic increase in financial obligations.
  - If a borrower claims that derogatory information is the result of extenuating circumstances, the lender must substantiate the borrower's claim. Examples of documentation that can be used to support extenuating circumstances include:
    - documents that confirm the event such as a copy of a divorce decree, medical bills, notice of job layoff, job severance papers, etc.; and
    - documents that illustrate factors that contributed to the borrower's inability to resolve the problems that resulted from the event such as a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns (covering the periods prior to, during, and after a loss of employment), etc.
  - The lender must obtain a written explanation from the borrower explaining the relevance of the documentation. The written explanation must support the claims of extenuating circumstances, confirm the nature of the event that led to the bankruptcy or foreclosure-related action, and illustrate that the borrower had no reasonable options other than to default on his or her financial obligations. The written explanation may be in the form of a letter from the borrower, an email from the borrower, or some other form of written documentation provided by the borrower.

- **Requirements for Re-establishing Credit**
  - After a bankruptcy, foreclosure, deed-in-lieu of foreclosure, preforeclosure sale/short sale, or charge-off of a mortgage account, the borrower's credit will be considered re-established if all of the following are met:
    - The waiting period and the related additional requirements are met.
    - The loan meets the minimum credit score requirements based on the parameters of the loan and the established eligibility requirements.
    - The borrower has traditional credit. Nontraditional credit or "thin files" are not acceptable.

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Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- Because DU does not have the disbursement date of the subject loan, DU uses the date of the credit report to measure whether or not the applicable waiting period has been met. However, because the credit report date may not result in an accurate calculation of the waiting period (it is earlier than the disbursement date), the lender may use the disbursement date to confirm that the waiting period has been met. See the table below for additional information.

Derogatory Event	Measurement of Waiting Period
Bankruptcy Foreclosure	• If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are complete and appear to comply with the applicable waiting period requirements, DU will issue a recommendation, but the lender must still confirm that the waiting period has been met and may base its determination on the disbursement date of the new loan. • If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are complete, but do not appear to comply with the applicable waiting period requirements, an Ineligible recommendation will be issued. DU uses the date of the credit report to determine whether or not the applicable waiting period has been met. The lender may obtain an updated credit report and resubmit the loan casefile to DU after the required time has elapsed or manually underwrite the loan using the disbursement date to confirm that the waiting period has been met. • If the completion, discharge, or dismissal dates (as applicable) reflected in the credit report are incomplete, the lender must confirm that the waiting period has been met and may base its determination on the disbursement date of the new loan.
Deed-In-Lieu of Foreclosure Preforeclosure Sale/Short Sale Mortgage Charge-Off	• DU will determine if the date of the event was within the applicable waiting period. However, the recommendation will not be changed and the lender must confirm the waiting period requirement has been met, and may base its determination on the disbursement date of the new loan.

- DU applies the following additional requirements to significant derogatory credit events:

  Note: DU is not able to identify whether the borrower's derogatory credit event(s) was the result of extenuating circumstances. See below for information on how to treat extenuating circumstances.

Continued on next page

Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Fannie Mae DU, continued

Derogatory Event	Requirements
Bankruptcy	• If a Chapter 13 bankruptcy was discharged within the last two years, dismissed within the last four years, or filed but neither discharged nor dismissed within the last four years, the loan casefile will receive an Ineligible recommendation and will be ineligible for delivery to Fannie Mae. • If a non-Chapter 13 bankruptcy was filed, discharged, or dismissed within the last four years, the loan casefile will receive an Ineligible recommendation and will be ineligible for delivery to Fannie Mae. • DU will not take bankruptcy information in the public record section of the credit report into account if the bankruptcy is dated more than seven years prior to the credit report date. • DU will not take tradeline accounts that are reported with a bankruptcy status code or manner of payment (MOP) code of “7” into account if there is at least one bankruptcy reported in a public record within seven years of the credit report date. In this scenario, DU assumes the date filed and the date discharged in the public record are more accurate than the dates in the tradeline; i.e., specific filed and discharged dates do not exist in the tradeline. • DU will use tradeline accounts that are reported with a bankruptcy status code or MOP code of “7” if there is not a bankruptcy reported in a public record within seven years of the credit report date. In this scenario, the lender will need to verify the actual filed and discharged dates to determine that the bankruptcy meets the DU bankruptcy requirements. • DU is not able to determine if multiple filings have occurred due to the manner in which bankruptcies are reported to the credit report. DU will issue a message when it appears that there may have been multiple bankruptcy filings. This message will list each of the bankruptcies seen on the credit report, and will instruct lenders to ensure the loan casefile meets the criteria for underwriting loan casefiles with multiple bankruptcies. • ***Underwriting when the Credit Report Contains Inaccurate Bankruptcy Information*** • When DU identifies a bankruptcy on the credit report and the information is inaccurate, the lender may instruct DU to disregard the bankruptcy information on the credit report in the eligibility assessment. This is done by entering “Confirmed CR BK Incorrect" in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the bankruptcy information on the credit report will not be used.

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Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Fannie Mae DU, continued

Derogatory Event	Requirements
Bankruptcy, (c0ntinued)	• If the lender enters "Confirmed CR BK Incorrect", the lender must document that the Chapter 13 bankruptcy was discharged two or more years or dismissed four or more years from the disbursement date of the new loan, or that the non-Chapter 13 bankruptcy was discharged or dismissed four or more years from the disbursement date of the new loan. • ***Underwriting when a Bankruptcy was due to Extenuating Circumstances*** • When DU identifies a bankruptcy on the credit report and that bankruptcy was due to extenuating circumstances, the lender may instruct DU to disregard the bankruptcy information on the credit report in the eligibility assessment. This is done by entering "Confirmed CR BK EC" in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the bankruptcy information on the credit report will not be used. • If the lender enters "Confirmed CR BK EC", the lender must document that the bankruptcy was due to extenuating circumstances, and that the Chapter 13 bankruptcy was dismissed two or more years from the disbursement date of the new loan, or that the non-Chapter 13 bankruptcy was discharged or dismissed two or more years from the disbursement date of the new loan.

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Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Fannie Mae DU, continued

Derogatory Event	Requirements

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 tradeline.
	• If a foreclosure was reported within the seven-year period prior to the credit report date, the loan casefile will receive an Ineligible recommendation and will be ineligible for delivery to Fannie Mae.
	• If the filed date and the satisfied date of the foreclosure are both unknown, but it appears that the foreclosure occurred within the seven-year period prior to the credit report date, the lender must confirm that the foreclosure did not occur within the most recent seven-year period.
	• Foreclosure laws vary by state and the time it takes to complete the process may vary by state. DU assumes that the date the foreclosure was reported in the tradeline is the date of the foreclosure sale or liquidation. The lender must confirm that all foreclosures are satisfied.
	• Mortgage accounts that are identified as a deed-in-lieu of foreclosure or preforeclosure sale will not be identified as a foreclosure.
	• ***Underwriting when Inaccurate Foreclosure Information Exists***
	  ◦ When DU identifies a foreclosure on a credit report tradeline and the foreclosure information on that tradeline is inaccurate, the lender may instruct DU to disregard the foreclosure information on the credit report in the eligibility assessment. This is done by entering "Confirmed CR FC Incorrect" in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the foreclosure information on the credit report tradeline will not be used in the eligibility assessment.
	  ◦ If the lender enters "Confirmed CR FC Incorrect," the lender must then document the foreclosure was completed seven or more years from the disbursement date of the new loan, or that the account was not subject to foreclosure and the loan complies with all other applicable requirements.

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Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Fannie Mae DU, continued

Derogatory Event	Requirements

Foreclosure (continued)	• ***Underwriting when Extenuating Circumstances Exist***
	  ◦ When DU identifies a foreclosure on a credit report tradeline and that foreclosure was due to extenuating circumstances, the lender may instruct DU to disregard the foreclosure information on the credit report in the eligibility assessment. This is done by entering "Confirmed CR FC EC" in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the foreclosure information on the credit report tradeline will not be used in the eligibility assessment.
	  ◦ If the lender enters "Confirmed CR FC EC," the lender must then document that the foreclosure was due to extenuating circumstances, the foreclosure was completed three or more years from the disbursement date of the new loan, and the loan complies with all other requirements specific to a foreclosure due to extenuating circumstances.

Deed-In-Lieu of Foreclosure	• DU will determine if a mortgage tradeline is a deed-in-lieu of foreclosure by using specific Remarks Codes that are present in the credit report data and associated to the tradeline. • When DU identifies a deed-in-lieu of foreclosure, the lender must document that the event was completed four or more years from the disbursement date of the new loan, or two or more years from the disbursement date of the new loan when the lender confirms that the mortgage loan meets the applicable time frames and eligibility requirements for a deed-in-lieu of foreclosure due to extenuating circumstances.
Preforeclosure Sales/Short Sales	• DU will determine if a mortgage tradeline is a preforeclosure sale/short sale by using specific Remarks Codes that are present in the credit report data and associated to the tradeline. • When DU identifies a preforeclosure sale/short sale, the lender must document that the event was completed four or more years from the disbursement date of the new loan, or two or more years from the disbursement date of the new loan when the lender confirms that the mortgage loan meets the applicable time frames and eligibility requirements for a preforeclosure sale/short sale due to extenuating circumstances.

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Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs (continued)

Fannie Mae DU, continued

Derogatory Event	Requirements
Charge-off of Mortgage Accounts	• Mortgage accounts, including first liens, second liens, home improvements loans, HELOCs, and manufactured home loans, will be identified as a charge-off if there is an MOP code of "9" (collection or charge-off) and there is no information indicating the account may also be subject to a foreclosure (MOP code "8" or foreclosure Remarks Code), a deed-in-lieu of foreclosure (DIL Remarks Code), or a preforeclosure sale (PFS Remarks Code). • When DU identifies a charge-off on a mortgage tradeline, the lender must document that the event was completed four or more years from the disbursement date of the new loan, or two or more years from the disbursement date of the new loan when the lender confirms that the mortgage loan meets the applicable time frames and eligibility requirements for a charge-off due to extenuating circumstances.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- For "Accept/Eligible" mortgages, the significance of the derogatory credit event (i.e., bankruptcy, foreclosure, deed-in-lieu of foreclosure, preforeclosure sale/short sale, and mortgage charge-off) information has already been considered by Loan Product Advisor and the borrower's credit reputation has been deemed acceptable. No further evaluation of the derogatory credit event is required.

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Collections and/or Non-Mortgage Charge-Offs

Non-AUS
- All collection and non-mortgage charge-off accounts must be paid off at or prior to closing except in the following cases:
  - Collection accounts and charge-offs on non-mortgage accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than $250 or the total balance of all accounts is $1,000 or less. Non-medical collection accounts and charge-offs on non-mortgage accounts that exceed these limits must be paid off at or prior to closing.

Reference: See the "Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs" subtopic previously presented for guidance regarding a mortgage account that was subject to a charge-off.

Fannie Mae DU
Follow DU requirements, which are as follows:
Accounts that are reported as past due (not reported as a collection account) must be brought current. Medical collection accounts are excluded from the limits below and are not required to be paid in full at or prior to closing.
- For one-unit, primary residence properties, borrowers are not required to pay off outstanding collections or non-mortgage charge-offs—regardless of the amount.

  Note: If the lender marks the collection account Paid By Close in the online loan application, DU will issue a message in the DU Underwriting Findings report stating that the collection must be paid.

- For two- to four-unit primary residence and one-unit second home properties, collections and non-mortgage charge-offs totaling more than $5,000 must be paid in full prior to or at closing.
- For investment properties, individual collection and non-mortgage charge-off accounts equal to or greater than $250 and accounts that total more than $1,000 must be paid in full prior to or at closing.

Reference: See the "Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs" subtopic previously presented for guidance regarding a mortgage account that was subject to a charge-off.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- For "Accept/Eligible" mortgages, the significance of a collection/non-mortgage charge-off has already been considered by LPA and the borrower's credit reputation has been deemed acceptable. No further evaluation of the collection/non-mortgage charge-off is required.

Reference: See the "Bankruptcies, Foreclosures, Deeds-In-Lieu, Short Sales, and Mortgage Charge-Offs" subtopic previously presented for guidance regarding a mortgage account that was subject to a charge-off.

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Consumer Credit Counseling (CCC)

Non-AUS

- Truist clarifies that whether borrowers have or have not completed participation in the sessions before closing on the mortgage transaction is not relevant since it is the borrower's credit history that is of primary importance. Standard credit history requirements apply.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For "Accept/Eligible" mortgages, the borrower's credit reputation has been deemed acceptable. No further evaluation of the consumer credit counseling is required.

Continued on next page

Credit Reports

Non-AUS

- **Overview**
  - The lender must obtain a credit report for each borrower on the loan application who has an individual credit record. The credit report must be based on data provided by the national credit repositories. Acceptable credit report formats are described in the "Types of Credit Reports" section outlined below.
  - A nontraditional mortgage credit report or other form of alternative credit verification may be used if the borrower:
    - does not have sufficient credit to enable the development of a credit score, or
    - does not use the type of credit that is reported to credit repositories.

    Reference: See the "Nontraditional Credit History" subtopic for additional information.

- **General Requirements**
  - Credit reports must meet the following general requirements:
    - The report must include both credit and public record information for each locality in which the borrower has resided during the most recent two-year period.
    - The report must include all discovered credit and legal information that is not considered obsolete under the Fair Credit Reporting Act. Although the Fair Credit Reporting Act currently specifies that credit information is not considered obsolete until after seven years, and bankruptcy information, after ten years, Fannie Mae requires only a seven-year history to be reviewed for all credit and public record information.
    - The report must be an original report, with no erasures, white-outs, or alterations. An automated credit report or one that is transmitted by fax is considered to be an "original" report.
    - The report must include the full name, address, and telephone number of the credit reporting agency, as well as the names of the national repositories that the agency used to provide information for the report.
    - The credit reporting agency must make responsive statements about all items on the credit report—indicating "unable to verify" or "employer refused to verify," when appropriate.

- **Frozen Credit**
  - The credit report utilized to make the credit decision must reflect all three credit repositories have been accessed and none are currently frozen.

Continued on next page

Credit Requirements, Continued

Credit Reports, (continued)

Non-AUS, continued

- **Foreign Credit Reports**
  - The use of credit reports or scores from a foreign country is not permitted.
- **Age of the Credit Report**
  - For all mortgage loans (existing and new construction), credit reports must be no more than four months old on the note date.
  - When consecutive credit reports are in the loan file, the most recent document is used to determine whether it meets the age requirement. If the credit reports are older than allowed, the lender must update them.

  Reference: See the "Properties Affected by a Disaster" subtopic subsequently presented in the "Appraisal Requirements" topic for exceptions to the allowable age of credit documents for loans impacted by a natural disaster.

- **Public Records Information**
  - The report must include all available public records information, identify the sources of the public records information, and disclose whether any judgments, foreclosures, tax liens, or bankruptcies were discovered (with these adverse items reported in accordance with the Fair Credit Reporting Act and to the extent reported by consumer reporting agencies participating in the National Consumer Assistance Plan).
- **Acceptable and Unacceptable Changes**
  - Collected credit report information should not be changed. However, it is permissible to delete duplicate information, translate codes to plain language, and make appropriate adjustments to resolve conflicting information to ensure the clarity of the report.
  - The following types of changes are unacceptable:
    - deleting tradelines that pertain to a borrower's bankruptcy,
    - adding a payment amount to a creditor's tradeline when the creditor does not require a payment, or
    - restricting information collection to a shorter time period than Fannie Mae requires.
  - Credit repositories should only change the information called to its attention by a creditor or a party that is not associated with either the real estate sale or purchase transaction or the mortgage financing.

Continued on next page

Credit Reports, (continued)

Non-AUS, continued

- **Required Creditor Information**
  - For each debt listed, the report must provide:
    - the creditor's name,
    - the date the account was opened,
    - the amount of the highest credit,
    - the current status of the account,
    - the required payment amount,
    - the unpaid balance, and
    - a payment history.
  - The report must indicate the dates that accounts were last updated with the creditors. Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.

- **Format for Reporting Payment History**
  - All data must be presented in a format that is easy to read and that is understandable without the need for code translations.
  - The report must list the historical status of each account. This status must be presented in a "number of times past due" format and include the dates of the delinquencies.
  - The preferred format is "0 x 30, 0 x 60, 0 x 90 days" late. The following formats are also acceptable:
    - "RI, R2, R3, …," if it also gives historical negative ratings, such as "was R3 in 6/05."
    - a consecutive numbering sequence, such as "0001000 …," provided the meaning is clear from the report.
  - Statements such as "current," "satisfactory," or "as agreed" are not satisfactory by themselves

- **Inquiries**
  - The report must generate an inquiry that will appear on future credit reports and must list all inquiries that were made in the previous 90 days.
  - See the "Inquiries" subtopic subsequently presented in this topic for additional information.

- **Unreported Debts**
  - If the credit report does not include a reference for each significant open debt on the application, the lender must obtain a separate written verification for each unreported debt. The lender also needs to verify separately accounts listed as "will rate by mail only" or "need written authorization."
  - See the "Undisclosed Debt" subtopic subsequently presented in the "Liabilities" topic for additional information.

- **Assessing Borrower Credit Management Skills**
  - The borrower's credit management skills can be assessed by analyzing repayment patterns, credit utilization, and level of experience in using credit.

Continued on next page

Credit Requirements, Continued

Credit Reports, (continued)

Non-AUS, continued

- **Types of Credit Reports**
  - **In-File Credit Reports**
    - An in-file credit report provides credit and public record information obtained from one or more credit repositories. The report contains "as is" information, which typically has not been updated or re-verified as a result of the credit inquiry.
    - The report must meet the following requirements:
      - The report should include all information from three different credit repositories, or two repositories, if that is the extent of the data available for the borrower.
      - If only one in-file credit report is available for a borrower, this is acceptable if the lender is able to obtain a credit score for the borrower and the lender requested information from three credit repositories.
      - If the report does not include a reference for each significant debt reported by the borrower on the loan application, the lender must obtain a separate written verification for each unreported (or unrated) debt.
      - If the report lists accounts that were not checked with the creditor within 90 days of the date of the in-file report, the lender must obtain an updated credit report or a separate written verification for those accounts.

  - **Automated Merged Credit Reports**
    - An automated merged credit report combines the in-file credit reports from multiple repositories into a single report. A joint merged credit report includes all credit repository credit data on more than one individual applicant.
    - The report must meet the following requirements:
      - The report must include all information from three different credit repositories, or two repositories, if that is the extent of the data available for the borrower.
      - If information from only one credit repository is available, this is acceptable if the lender is able to obtain a credit score for the borrower and the lender requested information from three different credit repositories.
      - The report cannot be provided by a credit reporting agency that is affiliated with the lender in any way.
      - The report must include all information reported for the borrower from the in-file credit reports.
      - The report must identify the repositories that were used for the in-file credit reports.
      - The report does not have to repeat duplicate information that is in in-file credit reports. However, if duplicate information is not exactly the same on each report, the automated merged report must either repeat the information or include the most derogatory of the duplicate information that pertains to payment history and/or current payment status.

Continued on next page

Credit Reports, (continued)

Non-AUS, continued

- **Types of Credit Reports**, continued
  - **Residential Mortgage Credit Reports**
    - A residential mortgage credit report is a detailed account of the borrower's credit, employment, and residency history, as well as public records information.
    - The report must meet the following requirements:
      - The credit reporting agency must contact at least two national repositories of accumulated credit records for each locality in which the borrower has lived during the most recent two-year period.
      - All information must be obtained from, or verified by, sources other than the borrower. When co-borrowers have individually obtained credit, separate repository inquiries are necessary, although the results of both reports may be combined in one report, as long as the report clearly indicates that this has been done.
      - The credit reporting agency must verify, either in writing or by telephone, the borrower's current employment and income (if it can be obtained). If the borrower has changed jobs in the past two years, the credit report also must mention the borrower's previous employment and income.
      - The report must include a positive statement that the employment was verified, the date of the verification, and the name of the individual who confirmed the employment. If this information was not obtained by an employer interview, the credit reporting agency must indicate why that was not done.
      - The report must include the name of the party who ordered the report. If another party paid for the report, the credit report must provide that party's name, unless the lender ordered the report and the billed party has a documented agent or corporate relationship with the lender.
      - The original report must be delivered to the office of the party who requested it, using any means acceptable under the Fair Credit Reporting Act or other similar regulations, such as sending it through the U.S. postal system, by messenger, over a fax machine, or through other automated means.
      - The report must include a certification that it meets the standards for a residential mortgage credit report.
    - When the credit reporting agency has incomplete information, discovers that the borrower might not have disclosed all information that should be found in the public records, or obtains other information that indicates the possible existence of undisclosed credit records, the credit reporting agency must interview the borrower(s) to obtain additional information that is needed to provide an accurate report or perform additional research to verify whether the purported undisclosed records actually exist.

Continued on next page

Credit Reports, (continued)

Non-AUS, continued

- **Accuracy of Credit Information in a Credit Report**
  - For all mortgage loans, the lender is responsible for reviewing the credit report, as well as all credit information, to determine that the credit report meets Fannie Mae's requirements.
  - If a borrower indicates that any significant information in the credit file is inaccurate—such as reported accounts that do not belong to the borrower or derogatory information that is reported in error—the lender should carefully review the credit information with the borrower, then request the credit reporting company that provided the information to confirm its accuracy.

- **Disputed Tradelines**
  - If the borrower has disputed information in their credit file and the credit reporting company confirms that the disputed information is incorrect or incomplete and underwriting the loan application needs to be completed before the credit files can be corrected, the lender cannot use the credit score(s) when manually underwriting the loan. Instead, the credit risk assessment must be based on a review of the borrower's traditional credit history.
  - If there are multiple disputed tradelines or a dispute on a mortgage tradeline, the lender should obtain correspondence directly from the borrower indicating the reason for the dispute. The aspect of the tradeline–such as balance and payment history–that is being disputed is of particular interest when considering the impact to the borrower's overall credit profile.
    - The lender is responsible for determining whether the borrower's explanation is reasonable and/or whether additional documentation (such as canceled checks) is necessary to disprove the adverse information. Lenders are not required to investigate disputed medical tradelines.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- Lenders are required to request a three in-file merged credit report from one of the credit information providers listed on Fannie Mae's website.
- The credit report used by DU in the final loan casefile submission must be maintained in the mortgage loan file.
- A DU observation message will identify all of the credit reports evaluated by DU during the loan submission.
- The version of the credit report received by DU must meet the requirements in this subtopic and be one that supports trended credit data. Trended credit data is expanded information on a borrower's credit history at a tradeline level on several monthly factors, including: amount owed, minimum payment, and payment made. Lenders are not required to analyze trended credit data in the credit report.

  Note: To obtain a credit report that is compatible with DU loan casefile requirements, the borrower's present address must be within the U.S. or U.S. territories, with the exception of an Army Post Office (APO), Fleet Post Office (FPO), or Diplomatic Post Office (DPO) military address. Borrowers with foreign credit reports must be manually underwritten.

Continued on next page

Credit Reports, (continued)

Fannie Mae DU, continued

- **Accuracy of Credit Information in a Credit Report**
  - For all mortgage loans, the lender is responsible for reviewing the credit report, as well as all credit information, to determine that the credit report meets Fannie Mae's requirements and that the data evaluated by DU was accurate.

- **Disputed Tradelines**
  - For loan casefiles underwritten through DU, DU will indicate if the lender is required to investigate the disputed account to determine if the account belongs to the borrower and confirm the accuracy and completeness of the information reported on the account.
  - When the credit report contains tradelines disputed by the borrower, DU will first assess the risk of the loan casefile using all tradelines, including those disputed. If DU issues an "Approve/Eligible" recommendation using the disputed tradelines, no further documentation or action is necessary. DU will issue a message specific to this scenario.
  - If DU does not issue an "Approve/Eligible" recommendation when including the disputed tradelines, DU will re-assess the risk without using the disputed tradelines. If DU is then able to issue an "Approve/Eligible" recommendation, the lender must investigate the tradelines to determine whether the borrower is responsible for the accounts or if the account information is accurate or complete.
    - If the borrower is not responsible for the disputed accounts, the lender must obtain supporting documentation and may deliver the loan as a DU loan. No further action is necessary regarding the disputed tradelines.
    - If the borrower is responsible for the disputed account, the lender must investigate the information, including determining the aspect of the tradeline that is being disputed. If the borrower is able to provide documentation to disprove any adverse information (such as canceled checks), the lender may deliver the loan as a DU loan.
    - If the borrower is responsible for the disputed account and the account and tradeline information is accurate and complete, the loan is not eligible for delivery as a DU loan. The lender may manually underwrite the loan if the transaction is eligible for manual underwriting.

      Truist Note: If the loan file is manually underwritten, the Fannie Mae DU underwriting findings may not be used and the **entire** file must meet all non-AUS requirements.

  - The monthly payments for the disputed tradelines must be included in the debt-to-income ratio if the accounts belong to the borrower.

    Note: Tradelines reported as medical debt are not shown in the disputed tradeline message. Therefore, lenders are not required to investigate disputed medical tradelines.

Continued on next page

Credit Reports, (continued)

Fannie Mae DU, continued

- **Examples**
  - The following scenarios are examples of when a loan receiving an “Approve/Eligible” recommendation with the disputed tradeline(s) excluded from DU's risk assessment would be eligible for delivery as a DU loan:
    - A borrower’s account was referred for collection by the creditor. Subsequently, the borrower paid off the account, but the pay-off was not reported on the tradeline. The borrower requested that a dispute be placed on the tradeline. The tradeline information was accurate, but because it did not reflect that the borrower paid off the account, it may be considered incomplete. The borrower must provide documentation that the account was paid in full.
    - A borrower and his son have the same name (Sr. and Jr.). The borrower’s credit report contains a tradeline that actually belongs to the son. The tradeline is reported as disputed. The borrower can provide confirmation that he is not obligated on the account.
    - The servicer of a disputed loan indicates a late payment in January of the previous year. The borrower can provide documentation (such as canceled checks or bank statements) that indicate that the payment was made on time.
  - The following scenario is an example of when a loan receiving an “Approve/Eligible” recommendation with the disputed tradeline(s) excluded from DU’s risk assessment would not be eligible for delivery as a DU loan:
    - The credit report indicates a disputed tradeline on the borrower’s mortgage being refinanced. The tradeline indicates a 60–day late payment in January of the previous year. The borrower cannot provide any documentation to support that the payment was made on time.

- **Duplicate Public Records**
  - Items that typically appear in the Public Records section of the credit report (judgments, bankruptcies, foreclosures, and tax liens) are often duplicated because the credit agencies may not attempt to merge items of this severe nature. As a result, these items may also appear in more than one verification message in the Underwriting Findings report.
  - If it is clear from the credit report data that the items are duplicates (identical account numbers, date filed, and dollar amounts), the lender can disregard the duplicates and document the item once. However, if it is unclear from the credit report whether any of the items are duplicated, the lender should treat each item individually and obtain the required documentation for each item, as indicated in the verification messages.

- **Foreign Credit Reports**
  - The use of credit reports or scores from a foreign country is not permitted.

Continued on next page

Credit Reports, (continued)

Fannie Mae DU, continued

Note: See the "Underwriting the Borrower" topic subsequently presented in this product description for additional DU information regarding credit report data.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- The lender must include in the mortgage file a complete set of credit reports for all borrowers. All credit reports used by the lender to evaluate the borrower's creditworthiness, including the calculation of total monthly debt payments, must be of the same type. For example, the lender may not use a merged credit report for one borrower and an RMCR for another borrower.
- The lender must determine that the consumer reporting agency/bureau or credit repositories accessed the correct credit file by confirming the borrower's identifying information (name, current and previous address and Social Security number) on the credit reports returned. The lender is required to re-request the credit reports if a data entry error was made, or if the credit reports contain incorrect identifying information.

- **Repository of Credit Information**
  - A repository of credit information is an organization engaged primarily in gathering, recording, updating, storing and distributing financial and public record information concerning the debt repayment histories of individuals being considered for credit extension. The following national organizations meet this definition:
    - Equifax Credit Information Services, Inc.
    - Experian Information Solutions, Inc.
    - Trans Union

Continued on next page

Credit Reports, (continued)

Freddie Mac LPA, continued

- **Consumer Reporting Agency or Bureau**
  - A consumer reporting agency is an organization engaged in the preparation and sale of credit reports used by credit grantors to determine the credit and public record history of an individual. These reports contain data obtained from the repositories of credit information. The reports may also contain information and verifications obtained from other sources.

- **Frozen Credit**
  - The credit report utilized to make the credit decision must reflect all three credit repositories have been accessed and none are currently frozen.

- **In-file Credit Reports**
  - An in-file credit report is issued by a credit repository and contains "as is" information which is information that has not been updated or re-verified as a result of a credit inquiry.

- **Merged Credit Reports**
  - A merged credit report is issued by a credit repository or a consumer reporting agency or bureau and includes the credit information from at least two credit repositories. A merged credit report includes all credit repository credit data for an individual borrower. A joint merged credit report includes all credit repository credit data on two individual borrowers.
  - The credit information from each credit repository may be presented in a stacked merged credit report (that is, all records from all repositories are included in the report), or the consumer reporting agency or bureau may eliminate duplicate records through an automated merge process. Each consumer reporting agency or bureau may have a slightly different merge logic to eliminate duplicate records.
  - If the lender chooses to use merged or joint merged credit reports, Freddie Mac requires the credit repository or consumer reporting agency or bureau to obtain reports from at least two credit repositories for each borrower.

- **Residential Mortgage Credit Report**
  - A Residential Mortgage Credit Report (RMCR) is a detailed account of the credit, employment and residence history as well as public records information prepared by a consumer reporting agency for an individual borrower or two individual borrowers. The RMCR was designed for use in mortgage financing of 1- to 4-unit dwellings. Credit information from two national repositories is merged and verified by a consumer reporting agency or bureau before it is sent to the user. The consumer reporting agency or bureau may also verify other information not contained in repository records.

Continued on next page

Credit Requirements, Continued

Credit Reports, (continued)

Freddie Mac LPA, continued

- **Credit Report Options for Loan Product Advisor Mortgages**
  - Freddie Mac encourages the lender to use the merged or joint merged credit reports obtained through Loan Product Advisor.
  - If the lender chooses to use Loan Product Advisor provided merged credit reports, then only those credit reports must be retained in the mortgage file.
  - However, the lender may also use the following credit reports obtained outside of Loan Product Advisor:
    - In-file credit reports
    - Merged or joint merged credit reports
    - RMCR
  - If the lender chooses to use credit reports obtained outside of Loan Product Advisor and also prints reports from Loan Product Advisor, the lender must include in the mortgage file any credit reports received from Loan Product Advisor and the credit reports obtained outside of Loan Product Advisor.
  - The lender may use any of the above credit reports to assess the borrower's credit reputation and to calculate total monthly debt payments.
  - All credit reports submitted to Loan Product Advisor must include trended credit data. Trended credit data is expanded credit information reflecting historical tradeline data such as balances, scheduled payments, and actual payments reported for each month over an extended period of time.

- **Foreign Credit Reports**
  - The use of credit reports or scores from a foreign country is not permitted.

- **Age of the Credit Report**
  - All credit reports must be dated within 120 days before the note date.

Continued on next page

Credit Requirements, Continued

Credit Reports, (continued)

Freddie Mac LPA, continued

- **Credit Report Standards**
  - All credit reports must meet the applicable standards from the following table:

Standard	In-file credit report	Merged credit report	RMCR
Must have no erasures, alterations, correction fluid or correction tape and must be filed in the mortgage file	X	X	X
Show the names of the national credit repositories from which the information was obtained. The report must contain information from at least two national credit repositories for each area in which the borrower has resided during the most recent two-year period. Separate credit repository inquiries are necessary when multiple borrowers have maintained credit individually.	X	X	X
Be issued by a consumer reporting agency that obtains or verifies all information from sources other than the applicant	X	X	X
Present all credit data in a format that is easy to read and free of excessive coding. All codes must be clearly defined.	X	X	X
Identify the full name, address and telephone number of the repository, consumer reporting agency or bureau issuing the report	X	X	X
Identify who ordered the report and who was billed for it (if different from the party who ordered it), unless the billed party has a documented agent or corporate relationship with the lender who ordered the report			X
Be delivered to the office of the requestor	X	X	X
Show responsive statements concerning items on the report. For example, the consumer reporting agency must report "unable to verify" or "employer refused to verify." The same responsive reporting applies to trade and credit history.			X
Generate an inquiry that will be identified on subsequent credit reports (i.e., hard credit pull)	X	X	X

Continued on next page

Credit Requirements, Continued

Credit Reports, (continued)

Freddie Mac LPA, continued

Standard	In-file credit report	Merged credit report	RMCR
List all inquiries made within the previous 90 days	X	X	X
Show a positive statement that the consumer reporting agency attempted to verify the borrower's current employment and, if obtainable, income. The report must show the date of verification. Verification may be made by telephone. If there has been a change in employment in the past two years, the report must also state the borrower's previous employment and income. In cases in which employment was not verified, the report must indicate why it was not.			X
Include all available public records information. The legal search must disclose whether any judgments, foreclosures, tax liens or bankruptcies were discovered in the public records. Adverse items must be reported as provided under the Fair Credit Reporting Act.	X	X	X
List, in all cases, the historical status of each account. This status must be in a "number of times past due" format. Freddie Mac prefers the format of "0 x 30, 0 x 60, 0 x 90 days" late. However, the format of R1, R2, etc., is acceptable if the meaning of the ratings is given and the credit report also gives historical negative ratings, such as "was R3 in 6/84." As long as its meaning is clear from the credit report, a consecutive numbering sequence for payment history — such as "00010000..." is also acceptable. Statements such as "current," "as agreed," or "satisfactory" are not acceptable by themselves because they are too vague.	X	X	X
The consumer reporting agency must interview the subjects of the credit report when the agency has incomplete information or when it discovers information that indicates the possible existence of undisclosed credit information or public records. The interview may be conducted by telephone and should obtain any information necessary to provide a credit report that is factually correct and complete.			X

Continued on next page

Credit Reports, (continued)

Freddie Mac LPA, continued

Standard	In-file credit report	Merged credit report	RMCR
Indicate the dates the accounts were last updated with the creditors. Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.			X
Indicate the dates the accounts were last updated with the creditors	X	X	
Contain all credit and legal activity that has occurred within a minimum of the last seven years	X	X	X

Note: In addition to reviewing the files delivered by the lender, Freddie Mac will spot-check credit reports and make other checks to ensure the quality of credit reports used in the underwriting process. If Freddie Mac, in its discretion, determines that a credit report is inadequate, Freddie Mac reserves the right to declare as unacceptable the consumer reporting agency originating the report and the lender may not use that consumer reporting agency for mortgages sold to Freddie Mac.

Credit Score Requirements

Non-AUS

- **Credit Score Versions**
  - Credit scores are required for most mortgage loans purchased or securitized by Fannie Mae. The classic FICO credit score is produced from software developed by Fair Isaac Corporation and is available from the three major credit repositories. Fannie Mae requires the following versions of the classic FICO score:
    - Equifax Beacon® 5.0;
    - Experian®/Fair Isaac Risk Model V2SM; and
    - TransUnion FICO® Risk Score, Classic 04.
  - The lender must request these FICO credit scores for each borrower from each of the three major credit repositories when they order the three in-file merged credit report. If the borrower's credit file includes complete and accurate information to ensure the validity of the credit score, the lender does not need to further evaluate the borrower's creditworthiness.

    Note: The credit report will indicate if a credit score could not be produced due to insufficient credit. The credit report must be maintained in the mortgage 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 credit.

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**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Credit Requirements, Continued

Credit Score Requirements, continued

Non-AUS, continued

- **Minimum Credit Score Requirements**
  - The following minimum credit score requirements apply. The minimum credit score must be based on the representative credit score for the transaction and the **HIGHEST** of the LTV, TLTV, or HTLTV ratios, as applicable.

Maximum DTI </= 36%				
Occupancy Type	**Transaction Type**	**# of Units**	**Minimum Credit Score**	**Minimum Reserves**
Primary Residences	Purchase & Rate/Term Refinance	1	680 if > 75% 640 if </= 75%	0
			660 if > 75%	6
		2	680 if > 75% 640 if </= 75%	6
		3-4	660	6
	Cash-Out Refinance	1	680 if > 75% 660 if </= 75%	0
			660 if > 75% 640 if </= 75%	6
		2-4	680	6

Maximum DTI </= 45%				
Occupancy Type	**Transaction Type**	**# of Units**	**Minimum Credit Score**	**Minimum Reserves**
Primary Residences	Purchase & Rate/Term Refinance	1	720 if > 75% 680 if </= 75%	0
			700 if > 75% 660 if </= 75%	6
		2	700 if > 75% 680 if </= 75%	6
		3-4	680	6
	Cash-Out Refinance	1	700 if > 75% 680 if </= 75%	2
		2-4	700	6
			680	12

Reference: See the "Nontraditional Credit History" subtopic for guidance on when a borrower is relying on nontraditional credit to qualify (or if one borrower has credit scores and other borrowers do not have credit scores).

Continued on next page

Credit Requirements, Continued

Credit Score Requirements, (continued)

Non-AUS, continued

- **Representative Credit Score**
  - The representative credit score for the loan is determined based on the credit scores of each borrower and is used to determine loan eligibility and for pricing purposes (i.e., assessing LLPAs) on all loans. Follow these steps to calculate the representative credit score for a loan:

Step	Description
1	Fannie Mae recommends obtaining at least two credit scores for each borrower.
2	Select a single score for each borrower. • When two credit scores are obtained, choose the lower score. • When three credit scores are obtained, choose the middle score. (If two of the three scores are the same, choose the middle of the three scores. For example: 700, 680, 680 = 680; 700, 700, 680 = 700)
3	• If there is only one borrower, the single score for the borrower is the representative credit score for the loan. • If there are multiple borrowers, determine the applicable credit score for each individual borrower and select the lowest applicable score from the group as the representative credit score for the loan. • If there is a borrower who does not have a credit score, determine the representative credit score for the loan based on the credit scores of the other borrowers on the loan.

- **Foreign Credit Scores**
  - The use of a credit score from a foreign country is not permitted.

Continued on next page

Credit Requirements, Continued

Credit Score Requirements, (continued)

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- Credit scores are not an integral part of DU's risk assessment because DU performs its own analysis of the credit report data. However, lenders must request credit scores for each borrower from each of the three credit repositories when they order the three in-file merged credit report. If one or two of the credit repositories do not contain any credit information for the borrowers who have traditional credit, the credit report is still acceptable as long as:
  - credit data is available from one repository,
  - a credit score is obtained from that repository, and
  - the lender requested a three in-file merged report.

  Notes:
  - When a loan casefile is submitted to DU for a borrower with a credit score, but only medical tradelines are reported on the credit report, the loan casefile will receive an Out of Scope recommendation and must be manually underwritten.
  - If the transaction does not meet the above requirements, refer to the "Nontraditional Credit History" subtopic, subsequently presented in this topic, for underwriting and eligibility requirements for DU loans when at least one borrower has no credit score and another borrower has a credit score.

- For standard Agency, Agency Plus, and Agency Plus Select transactions, at least one borrower on the transaction must have a credit score.
- For all DU loans, the representative credit score must be used to determine if the minimum credit score requirement has been met for the loan transaction.
- For Agency and Agency Plus transactions, the minimum representative credit score requirement is 640, with the following exception:
  - If the borrower is financing a second home or investment property, and the borrower will have seven to ten financed properties, the minimum representative credit score requirement is 720.
- For Agency Plus Select transactions, the minimum representative credit score requirement is 720.
- The use of a credit score from a foreign country is not permitted.

References:

- See the "Nontraditional Credit History" subtopic, subsequently presented in this topic, for underwriting and eligibility requirements for DU loans when at least one borrower has no credit score and another borrower has a credit score.
- See the "Cash Reserve Requirements" subtopic subsequently presented in this document for requirements related to minimum reserves.

Continued on next page

Credit Requirements, Continued

Credit Score Requirements, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For Loan Product Advisor® mortgages, credit scores are obtained by Loan Product Advisor and provided with the merged credit report(s).

  Notes:
  - The ***Underwriting Score*** is the one credit score selected from all usable credit scores obtained for an individual borrower that quantifies the credit reputation risk for that individual borrower.
  - The ***Indicator Score*** is the one Underwriting Score identified to represent the eligibility of the mortgage for the product offering.
  - The Underwriting and Indicator Scores are located in the Credit Report Details section of the Full Feedback Certificate.

- The use of a credit score from a foreign country is not permitted.
- For standard Agency transactions, at least one borrower on the transaction must have a credit score.
- For Agency Plus and Agency Plus Select transactions, Freddie Mac requires that at least one borrower on the transaction must have a usable credit score, as determined by Loan Product Advisor.
- For Agency and Agency Plus transactions, the minimum credit score is 640.
- For Agency Plus Select transactions, the minimum credit score is 720.

Reference: For standard Agency, Agency Plus, and Agency Plus Select transactions, see the "Nontraditional Credit History" subtopic, subsequently presented in this topic, for underwriting and eligibility requirements for LPA loans when at least one borrower has a usable credit score but not all borrowers have a usable credit score.

Continued on next page

Credit Utilization

Non-AUS

- When manually underwriting a loan, the lender must review the borrower's credit report to evaluate his or her use of revolving credit by comparing the current balance on each open account to the amount of credit that is available to determine whether the borrower has a pattern of using revolving accounts up to (or approaching) the credit limit. Patterns of revolving credit spending are credit risk indicative.
- Credit histories that include revolving accounts with a low balances-to-limits ratio generally represent a lower credit risk, while those that include accounts with a high balances-to-limits ratio represent a higher credit risk.
- A credit history that includes recently opened accounts that are at or near their limits may indicate that the borrower is overextended or overly reliant on the use of revolving credit—and, when this is combined with a delinquent payment history, it is generally an indication that the borrower has not managed his or her credit successfully.

Note: Lenders are not required to analyze trended credit data in the credit report. See the "Credit Reports" subtopic previously presented in this topic for additional information.

Fannie Mae DU

Follow DU requirements, which are as follows:

- The establishment, use, and amount of revolving credit a borrower has available are important. Trended credit data is used to evaluate the borrower's ability to manage revolving accounts.
- A borrower who uses revolving accounts conservatively, meaning low revolving credit utilization or regular payoff of revolving balance, is considered lower risk. A borrower whose revolving credit utilization is high or who only makes the minimum payment each month is considered higher risk.

Note: Lenders are not required to analyze trended credit data in the credit report. See the "Credit Reports" subtopic previously provided in this topic and the "Risk Factors Evaluated by DU" section within the "Underwriting the Borrower" topic subsequently presented in this product description for additional information.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For all Accept Mortgages, Loan Product Advisor has determined that the layering of risk is acceptable. The lender does not have to make this determination.

Continued on next page

Credit Requirements, Continued

Inquiries

Non-AUS

- The credit report must generate an inquiry that will appear on future credit reports and must list all inquiries that were made in the previous 90 days.
- The lender must review the section of the borrower's credit report that indicates the presence of creditor inquiries to determine the number and recency of the inquiries.
- Recent inquiries may indicate that the borrower has been actively seeking new credit accounts. The presence of a large number of unrelated inquiries represents higher credit risk (whether or not the borrower actually obtained credit as a result of the inquiry). The presence of many recent inquiries in combination with a significant number of recently opened accounts or delinquent accounts represents a high credit risk.
- When the credit report indicates that recent inquiries took place, the lender must confirm that the borrower has not obtained any additional credit that is not reflected in the credit report or the mortgage application. If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as outlined below:

- The lender should examine inquiries to determine whether they represent potential sources of undisclosed credit. If new debt was obtained, the lender may need to correct the loan application and resubmit it.
- See "Inquiries" within the "Risk Factors Evaluated by DU" section in the "Underwriting the Borrower" topic subsequently presented in this product description for additional guidance.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Inquiries on the credit report generally reflect the borrower's requests for new or additional credit. Inquiries made for other purposes, such as general solicitations not initiated by the borrower or monitoring inquiries by current creditors, typically are not shown on the credit report.
- When the credit report indicates that a creditor has made an inquiry within the previous 90-day period, the lender must determine if additional credit was granted. If additional credit was granted, the lender must:
  - Obtain verification of the debt; and
  - Include it when qualifying the borrower (subject to the requirements outlined in the "Liabilities and Qualifying Ratios" topic previously presented in this document for the monthly debt payment-to-income ratio).

Continued on next page

Credit Requirements, Continued

Judgments and/or Liens

Non-AUS

- Delinquent credit—including taxes, judgments, tax liens, mechanics' or materialmen's liens, and liens that have the potential to affect Fannie Mae's lien position or diminish the borrower's equity—must be paid off at or prior to closing.
- Delinquent federal income taxes that are approved to be paid by a monthly installment agreement with the IRS must be paid in full or prior to closing if there is any indication that a Notice of Federal Tax Lien has been recorded against the borrower in the county in which the subject property is located.

  Note: For details regarding delinquent federal income taxes that the IRS has approved to be paid through an installment agreement that can be included as a monthly debt obligation, rather than being paid in full, see the "Federal Tax Installment Plans" subtopic previously presented in the "Liabilities and Qualifying Ratios" topic.

Fannie Mae DU

Follow DU requirements, which are as follows:

- Open judgments and all outstanding liens that are in the Public Records section of the credit report will be identified in the Underwriting Findings report, and must be paid off at or prior to closing.

  Note: For details regarding delinquent federal income taxes that the IRS has approved to be paid through an installment agreement that can be included as a monthly debt obligation, rather than being paid in full, see the "Federal Tax Installment Plans" subtopic previously presented in the "Liabilities and Qualifying Ratios" topic.

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

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For Accept Mortgages, Loan Product Advisor has evaluated the borrower's credit reputation, and determined that the credit reputation is acceptable.

Continued on next page

Mortgage Payment History

Non-AUS

- **Documenting Previous Mortgage History**
  - The lender must review the borrower's credit report to determine the status of all mortgage accounts. If a borrower had previous mortgages, the lender does not have to independently verify the mortgage's payment history provided the credit report includes a reference to the mortgage (or mortgages) and reflects 12 months of the most recent payment activity.
  - If adequate mortgage payment history is not included in the borrower's credit report, the lender must use the following to verify the borrower's payment history on a previous mortgage(s):
    - a standard mortgage verification;
    - loan payment history from the servicer;
    - the borrower's canceled checks for the last 12 months; or
    - the borrower's year-end mortgage account statement, provided the statement includes a payment receipt history, and, if applicable, canceled checks for the months elapsed since the year-end mortgage account statement was issued.

- **Standard Mortgage Verifications from Servicers**
  - When a lender relies on standard mortgage verifications from servicers or holders, it must ensure that the verifications include:
    - the unpaid principal balance of the mortgage and monthly payment amount;
    - the present status of the mortgage, such as current, 30 days' delinquent, etc.; and
    - the borrower's payment history.
  - When a servicer fails to provide all of the requested information, the lender must rely on information provided through the borrower's canceled checks. The checks must:
    - be legible,
    - identify the mortgage servicer or mortgage holder as the payee,
    - indicate that the servicer or holder endorsed the check for deposit, and
    - indicate the date the servicer or holder deposited the check.

- **Existing Mortgage Payment Requirements**
  - On the date of the loan application, the borrower's existing mortgage must be current, which means that no more than 45 days may have elapsed since the last paid installment date.

- **Excessive Mortgage Delinquency**
  - The lender must review the borrower's credit history to determine previous mortgage delinquency, severity (e.g., 30, 60, or 90 days), and recency of the delinquency. Loans with excessive prior mortgage delinquencies are not eligible for delivery to Fannie Mae. Excessive prior mortgage delinquency is defined as any mortgage tradeline that has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date.

Note: For purposes of complying with the requirements in this topic, timeshare accounts identified as mortgage tradelines are not required to meet the requirements described above, and are considered to be installment accounts.

Continued on next page

Mortgage Payment History (continued)

Fannie Mae DU

Follow DU requirements, which are as follows:

- DU applies the following requirements to the processing of loans with mortgage delinquencies:
  - If any borrower's credit report contains a mortgage tradeline that is 60 or more days past due when the account was last reported by the creditor and the account was reported within the 12 months prior to the credit report date, the loan casefile will receive an Ineligible recommendation and will be ineligible for delivery to Fannie Mae.
  - If there is a mortgage that is disclosed on the loan application but not reported on the credit report, or the mortgage is on the credit report with an outstanding balance but the payment history has not been reported in the last six months, DU will issue a message requiring the lender to confirm that the account is not two or more payments past due as of the date of the application and that it has not been past due by two or more payments in the last 12 months. If the lender determines that the borrower does have a mortgage that is past due by two or more payments or has been past due by two or more payments in the last 12 months, then the loan casefile is not eligible for delivery to Fannie Mae.
  - Borrowers may not bring past-due mortgage accounts current prior to closing in order to circumvent Fannie Mae's requirements regarding past-due mortgages. However, the lender may apply some discretion with regard to the application of these requirements if it determines and documents that the past-due account status was not the fault of the borrower—for example, if the servicer misapplied or lost the borrower's payment.
  - Loan casefiles will receive an Ineligible recommendation due to excessive prior mortgage delinquency if the borrower has a mortgage tradeline on their credit report that has one or more 60-, 90-, 120-, or 150-day delinquency reported within the 12 months prior to the credit report date.
- The above requirements will apply to all mortgage tradelines, including first liens, second liens, home improvement loans, HELOCs, and manufactured home loans.
- ***Underwriting when the Credit Report Contains Inaccurate Mortgage Delinquency Information***
  - When DU identifies a mortgage delinquency on the credit report, and the information is inaccurate, the lender may instruct DU to disregard the mortgage delinquency information on the credit report. This is done by entering "Confirmed Mtg Del Incorrect" in the online loan application and resubmitting the loan casefile to DU. When the loan casefile is resubmitted to DU, the mortgage delinquency information on the credit report will not be used.
  - If the lender enters "Confirmed Mtg Del Incorrect", the lender must document that the mortgage is not currently 60 days or more past due, and has not been 60 days or more past due in the last 12 months.

Truist Note: For mortgage debt not included on the borrower's credit report, prudent underwriting may require that the lender obtains sufficient documentation to consider the obligation in the overall qualifying and risk assessment.

Continued on next page

Credit Requirements, Continued

Mortgage Payment History (continued)

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- Direct verification of mortgage debt that is not listed on the credit reports are typically not required for Accept mortgages.

Truist Note: For mortgage debt not included on the borrower's credit report, prudent underwriting may require that the lender obtains sufficient documentation to consider the obligation in the overall qualifying and risk assessment.

Privately Held Mortgages

The following table shows information on privately held mortgages.

Non-AUS Loans	Fannie Mae DU "Approve/Eligible" Loans	Freddie Mac LP "Accept/Eligible" Loans
• A "privately held mortgage" is a mortgage or trust deed which is granted to a borrower with private monies and is between an individual investor, partnership, LLC, trust, etc., who has interest in the property and/or the person who purchased the property. • Standard mortgage payment history requirements apply for privately held mortgages. See the Mortgage/Rental Histories subtopic previously presented in this section for additional information.	Non-AUS requirements apply.	Non-AUS requirements apply.

Continued on next page

Credit Requirements, Continued

Rental/Other Payment History

Note: For information about mortgage payment history, see the "Mortgage Payment History" subtopic.

Non-AUS

- The lender must review the borrower's credit report to determine the current status of each credit account, the timeliness of payments, and the frequency, recency, and severity of any delinquent payments.

  Truist Note: For debt not included on the borrower's credit report, prudent underwriting may require that the lender obtain sufficient documentation to consider the obligation in the overall qualifying and risk assessment.

- Credit histories that include no late payments, collection or charged-off accounts, foreclosures, deeds-in-lieu, bankruptcies, or other public records information represent a lower credit risk.
- Credit histories that include recent late payments represent a higher credit risk than those with late payments that occurred more than 24 months ago. When there are payments that were 30, 60, or 90 days (or longer) past due, the lender must determine whether the late payments represent isolated incidences or frequent occurrences. Delinquent payments must be evaluated in the context of the borrower's overall credit history, including the number and age of accounts, credit utilization, and recent attempts to obtain new credit. For example, a credit history that includes delinquent payments along with recent inquiries and a high balances-to-limits ratio indicates a high credit risk.
- Credit histories that include foreclosures, deeds-in-lieu, and public records information (such as bankruptcies, judgments, and liens) represent a higher credit risk. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Direct verification of debts that are not listed on the credit reports are typically not required for Accept mortgages.

Truist Note: For debt not included on the borrower's credit report, prudent underwriting may require that the lender obtain sufficient documentation to consider the obligation in the overall qualifying and risk assessment.

Continued on next page

Credit Requirements, Continued

Traditional Credit History

Non-AUS
- The lender must review the borrower's credit report to determine whether he or she has an older established credit history or a newly established credit history, and whether there are a significant number of recently opened accounts or a mix of new accounts and older accounts.
- Credit histories that include older, established accounts generally represent lower credit risk. However, an older, established credit history that includes a significant number of recently opened accounts may indicate that the borrower is overextended, and thus will represent a higher credit risk.
- A newly established credit history does not automatically represent a higher credit risk, since making payments as agreed on newly opened accounts represents less of a risk than not making payments as agreed on older, established accounts.

Fannie Mae DU
See "Risk Factors Evaluated by DU" in the "Underwriting the Borrower" topic for guidance.

Freddie Mac LPA
See the "Underwriting the Borrower" topic presented in this document for guidance.

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Authorized User Accounts

Non-AUS

- When a credit account owner permits another person, typically a family member who is managing credit for the first time, 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.
- For manually underwritten loans, credit report tradelines that list a borrower as an authorized user cannot be considered in the underwriting decision, except as outlined below.
- An authorized user tradeline may be considered if:
  - another borrower in the mortgage transaction is the owner of the tradeline; or
  - the borrower can provide written documentation (e.g., canceled checks, payment receipts, etc.) that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.
- If written documentation of the borrower's monthly payments on the authorized user tradeline is provided, then the payment history (particularly any late payments that are indicated) must be considered in the credit analysis and the monthly payment obligation must be included in the debt-to-income ratio.
- An authorized user tradeline must be considered if the owner of the tradeline is the borrower's spouse and the spouse is not a borrower in the mortgage transaction.

  Reference: See the Traditional Credit History section subsequently presented in this document.

Fannie Mae DU

- Follow DU requirements which are noted below:
  - DU takes credit report tradelines designated as authorized user tradelines into consideration as part of the DU credit risk assessment. However, the lender must review credit report tradelines in which the applicant has been designated as an authorized user in order to ensure the tradelines are an accurate reflection of the borrower's credit history. If the lender believes the authorized user tradelines are not an accurate reflection of the borrower's credit history, the lender should evaluate the borrower's credit history without the benefit of these tradelines and use prudent underwriting judgment when making its final underwriting decision. In order to assist the lender in its review of authorized user tradelines, DU issues a message providing the name of the creditor and account number for each authorized user tradeline identified.
  - When ensuring tradelines are an accurate reflection of the borrower's credit history, as a general guide, if the borrower has several authorized user accounts but only has a few accounts of his/her own, the lender should establish:
    - the relationship of the borrower to the owner of the account,
    - if the borrower uses the account, and
    - if the borrower makes the payments on the account.

Continued on next page

Authorized User Accounts, (continued)

Fannie Mae DU, continued

- If the authorized user tradeline belongs to another borrower on the mortgage loan, no additional investigation is needed. On the other hand, if the borrower has several tradelines in good standing and only a minor number of authorized user accounts, the lender could make the determination that:
  - the authorized user accounts had minimal, if any, impact on the borrower's overall credit profile; and
  - the information reported on the credit report is an accurate reflection of the borrower's credit history.
- The lender is not required to review an authorized user tradelines that belongs to the borrower's spouse when the spouse is not on the mortgage transaction.

Freddie Mac LPA

- Follow LPA requirements, which are as follows:
  - For Accept mortgages, when a borrower's credit report contains tradelines for accounts for which the borrower is not the primary account holder but is listed as an authorized user, Loan Product Advisor will return a feedback message when additional documentation is required.
  - If the lender is unable to document as required below when the feedback message is returned, the lender must consider the Loan Product Advisor decision invalid (i.e., not eligible for LPA).
  - When the message is included on the Last Feedback Certificate, for each account the borrower is listed as an authorized user, the mortgage file must include documentation of one of the following:
    - The account is owned by another borrower on the mortgage
    - The account is owned by the borrower's spouse
    - The borrower has been making the payments on the account for the last 12 months and the monthly payment, as reported on the borrower's credit report, is included in the monthly debt payment-to-income ratio

    Exception: When the lender is unable to document one of the three as required above, the mortgage file must include a written determination by the lender that:
    - The information on the credit report is representative of the borrower's own credit reputation, and
    - The account has an insignificant impact on the borrower's overall credit history. When there are multiple authorized user accounts, all accounts collectively must be considered.

    The written determination should be based on the number of the borrower's own tradelines, as well as their age, type, size, and the payment history, as compared to the authorized user accounts.

Continued on next page

Nontraditional Credit History

Non-AUS

- **Overview**
  - If one or more borrowers do not have a credit score due to insufficient credit, the lender must establish an acceptable nontraditional credit history. The lender must first check all three major credit repositories to verify the borrower's credit history and confirm that the borrower does not have a credit score.
  - The credit report will indicate if a credit score could not be produced due to insufficient credit. Lenders must ensure that the credit report accurately reflects the borrower's information, such as the name, social security number, and current residence of the borrower to confirm that the lack of traditional credit was not erroneously reported because incorrect information was used to order the credit report.

    Note: For certain loan transactions, one or more borrower(s) are required to have traditional credit as evidenced by a credit score. See below for additional information.

    Reference: See the "Homeownership Education and Housing Counseling" section previously presented in this document for additional guidance if all borrowers on the loan are relying solely on nontraditional credit to qualify.

- **Unacceptable Uses**
  - The establishment of a nontraditional credit history is not acceptable for the following scenarios:
    - The lender is able to obtain a credit score for the borrower despite the borrower's limited use of credit.
    - The borrower has a sufficient amount of credit to obtain a credit score and the representative credit score is less than the minimum required.
    - The borrower's traditional credit history indicates significant derogatory references, such as a prior bankruptcy or foreclosure. In these cases, the borrower must have re-established credit in accordance with the requirements outlined in the "Requirements for Re-establishing Credit" section within the "Bankruptcies, Foreclosures, Deeds-in-Lieu, Short Sales, and Mortgage Charge-Offs" subtopic, including the establishment of traditional credit and a credit score.

Continued on next page

Credit Requirements, Continued

Nontraditional Credit History, continued

Non-AUS, continued

- **Manual Underwriting: At Least One Borrower Has No Credit Score**
  - If one or more borrowers on the loan does not have a credit score and is relying on nontraditional credit to qualify, the following requirements apply:
    - The property must be a one-unit, primary residence.
    - Non-occupant co-borrowers are permitted, provided non-occupant co-borrower requirements are met in addition to the eligibility requirements described herein.
    - The transaction must be a purchase or limited cash-out refinance.
    - The loan amount must meet the general loan limits.
    - The maximum debt-to-income ratio is 36%.
    - There is no minimum reserve requirement if at least one borrower can document a housing payment history as one nontraditional credit reference. Otherwise, a minimum of 12 months reserves is required. See the “Number of Nontraditional Credit References” and “Eligible Types of Nontraditional Credit References” sections below for additional information.
    - A nontraditional credit history must be documented for each borrower without a credit score. See the “Documentation and Assessment of a Nontraditional Credit History” section below for additional information.

- **Number of Nontraditional Credit References Required**
  - The number of nontraditional credit references that must be documented for a borrower without a credit score is as follows:
    - Four credit references for each borrower without a credit score

- **Eligible Types of Nontraditional Credit References**
  - The types of credit references that can be used to develop a nontraditional credit history are those that require the borrower to make periodic payments on a regular basis with intervals that are no longer than every three months.

    Note: There is an exception to allow a longer interval for the payment of real estate taxes on the borrower’s primary residence as described below.

  - The lender should consider whether the borrower has any eligible housing expenses and then review other nontraditional credit references. The lender must conduct an informational interview with the borrower to identify all credit references covering the most recent consecutive 12 months. If the lender is requesting a nontraditional mortgage credit report from a consumer reporting agency, the agency will conduct the borrower interview and obtain the list of available nontraditional credit references.
  - In all cases, the payment history for each credit reference must be documented for the most recent consecutive 12-month period. All credit references must be included, not just those that reflect acceptable performance.

Continued on next page

Nontraditional Credit History, continued

Non-AUS, continued

- **Eligible Types of Nontraditional Credit References**, continued
  - **Acceptable Housing Payments**
    - Loans underwritten manually are not required to have a housing payment as one reference of nontraditional credit. However, if no borrower on the loan has a housing history, a minimum of 12 months' reserves must be documented.
    - The following are examples of acceptable housing payments:
      - **Rent**: payments made to a landlord or property management company;
      - **Privately Held Mortgage Loan**: housing payments not reported to the credit bureaus, such as contract for deed payments and other similar arrangements, provided the payments are related to the borrower's primary residence; and
      - **Real Estate Taxes**: payments made on the primary residence, regardless of payment frequency (for homes owned free and clear).
  - **Other Nontraditional Credit References**
    - In addition to a housing payment, the following other nontraditional credit references may be used to further develop additional nontraditional credit history for the borrower:
      - Utilities, such as electricity, gas, water, telephone service, television, and internet service providers. If utilities are included in the housing payment, they cannot be considered a separate nontraditional credit reference. Utilities can be considered a credit reference only if the payment history can be separately documented.
      - Medical insurance coverage (excluding payroll deductions)
      - Automobile insurance payments
      - Cell phone payments
      - Life insurance policies (excluding payroll deductions)
      - Payments for property or renter's insurance
      - Payments to local stores, such as department stores, furniture stores, appliance stores
      - Rental (or lease) payments for durable goods, such as automobiles
      - Payment of medical bills
      - Payment of school tuition
      - Payments for childcare
      - A loan obtained from an individual, provided the repayment terms can be documented in a written agreement
      - Checking account, savings account, voluntary payments made to a payroll savings plan or contributions to a stock purchase plan, provided the records reflect an increasing balance as a result of periodic deposits over at least the most recent 12 months. Contributions must have been made no less than quarterly.
      - Wire remittance statements demonstrating a consistent amount of funds remitted over the most recent 12-month period.

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Nontraditional Credit History, continued

Non-AUS, continued

- **Documentation and Assessment of a Nontraditional Credit History**
  - **General Documentation Requirements**
    - The lender can document the borrower's nontraditional credit history directly from the borrower or the creditor, or by obtaining a nontraditional mortgage credit report from a consumer reporting agency.

  - **Housing Payment History**
    - The borrower's housing payment history must be documented for the most recent consecutive 12-month period. The following documentation is acceptable:
      - Canceled checks can be provided. In lieu of canceled checks, the lender may use the borrower's bank statements, copies of money orders, or other reasonable methods for documenting the timely housing payments. The documentation must clearly indicate the payee and amount being paid, and reflect that payments were made on a consistent basis.
      - Direct verification of the payment of rent from the landlord. Direct landlord verification is acceptable whether the landlord is an individual or a professional management company.
    - If at least one borrower on the loan can document a housing payment as a nontraditional credit reference, the loan has met the housing payment history requirement. The lender is not required to obtain documentation of a housing payment history for other nontraditional credit borrowers on the loan. However, the lender must still document the minimum number of nontraditional credit references required for each nontraditional credit borrower.
    - If two or more borrowers on a loan share the housing-related reference (for example, they are both named on the lease for the property in which they are living), that documentation counts as one nontraditional credit reference for each borrower, even if only one borrower has been making the payments.

      Note: If the credit report contains a housing payment reference and it includes the required information, including payment history, then the lender may use that housing payment reference as an acceptable nontraditional credit reference.

    - For examples of acceptable housing payments to fulfill this housing payment history requirement, see "Acceptable Housing Payments" previously presented in this subtopic.

Continued on next page

Credit Requirements, Continued

Nontraditional Credit History, continued

Non-AUS, continued

- **Documentation and Assessment of a Nontraditional Credit History,** continued
  - **Standards for Individual Credit References Obtained Directly from a Creditor**
    - Individual credit references (other than housing payments) from a creditor must include the following:
      - the creditor's name,
      - the name of the individual providing the reference,
      - the date the account was opened,
      - the amount of highest credit,
      - the current status of the account,
      - the required payment amount,
      - the unpaid balance, and
      - the payment history.
    - The historical status of each account must be stated in a "number of times past due" format using "0 X 30, 0 X 60, 0 X 90" days late.

      Note: Vague statements such as "current," "satisfactory," or "pays as agreed" are not acceptable by themselves.

  - **Standards for Documenting a Nontraditional Payment History Obtained From the Borrower**
    - For documentation obtained directly from the borrower, the following standards must be met:
      - documentation that describes the terms of the debt repayment or contract together with canceled checks or copies of bills marked "paid" that reflect the borrower's payment history over the most recent consecutive 12 months.
      - withdrawals or debits on the borrower's bank statements that show the payee information clearly listed for the creditor and that payments were made on a consistent basis over the most recent consecutive 12 months.

  - **Verification of Bank Accounts and Wire Remittance Statements**
    - Account statements can be used to document a nontraditional credit history, provided they are from the borrower's checking account, savings account, voluntary payments made to a payroll savings plan, or contributions to a stock purchase plan. The account statements must reflect an increasing balance as a result of periodic deposits over at least the most recent consecutive 12-month period, with contributions being made no less than quarterly. If the account statements demonstrate overdraft activity, that information suggests a weakness in the borrower's ability to meet financial obligations. The lender must assess the significance of this information relative to the borrower's overall credit risk.
    - Wire remittance statements can be used to document a nontraditional credit history, provided they demonstrate a consistent amount of funds being remitted over the most recent consecutive 12-month period.

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Nontraditional Credit History, continued

Non-AUS, continued

- **Documentation and Assessment of a Non-traditional Credit History,** continued
    - **Borrowers with Disabilities**
        - If a borrower with disabilities does not have a credit score and a nontraditional credit history is being developed, the lender may use documentation provided by a court-appointed guardian, a Social Security Administration representative payee, or a parent, provided that this party:
            - manages the borrower's financial transactions,
            - maintains records on the borrower's behalf, and
            - uses credit accounts held jointly in the name of the person with disabilities to pay financial obligations.
        - The lender can use the documentation provided either to request a nontraditional mortgage credit report from a consumer reporting agency, or to establish a nontraditional credit history for the borrower, as described in this topic.

    - **Non-U.S. Citizen Borrowers**
        - If a non-U.S. citizen lacks sufficient credit references in the United States to satisfy Fannie Mae requirements, the lender must use credit references from foreign countries to achieve the required number of nontraditional credit references and establish a nontraditional credit profile.

    - **Assessment of the Payment History for Nontraditional Credit References**
        - For each nontraditional credit reference, the following requirements must be met:
            - There cannot be any delinquency on housing payments within the past 12 months.
            - Only one account, excluding housing payments, can have a 30-day delinquency in the past 12 months.
            - No collections (other than medical collections) or judgments have been filed in the past 24 months.
            - Judgments, liens, collections, and charge-offs of non-mortgage accounts must be satisfied in accordance with the requirements for such, as outlined in this document.

          Note: A borrower may lack sufficient credit to obtain a credit score. However, the lender must still consider any derogatory credit references that appear on the credit report.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements except as follows:

- **DU Loan Casefiles: No Borrower Has a Credit Score**
    - Not eligible. At least one borrower on the transaction must have a credit score.

Continued on next page

Nontraditional Credit History, continued

Fannie Mae DU, continued

- **DU Loan Casefiles: At Least One Borrower Has No Credit Score and Another Borrower Has a Credit Score**
  - Lenders may submit loan casefiles to DU when one (or more) borrower(s) has a credit score and at least one borrower does not have a credit score. The following documentation requirements apply:
    - If the borrower(s) with a credit score is contributing more than 50% of the qualifying income, the lender is not required to document a nontraditional credit history for the borrower(s) without a credit score.
    - If the borrower(s) with a credit score is contributing 50% or less of the qualifying income, the lender must document a nontraditional credit history for each borrower without a credit score. The lender can complete this manually or may rely on the DU message indicating that the 12-month asset verification report satisfies this requirement when DU completes a cash flow assessment. See the "Documentation and Assessment of a Nontraditional Credit History" sections in this subtopic and "Cash Flow Assessment" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional information.

- **Number of Nontraditional Credit References Required**
  - The number of nontraditional credit references that must be documented for a borrower without a credit score are as follows:
    - If the borrower(s) with a credit score contributes:
      - 50% or less of qualifying income, at least two credit references for each borrower without a credit score.
      - more than 50% of qualifying income, then no nontraditional credit history is required for the borrower(s) without a credit score.

- **Eligible Types of Nontraditional Credit References**
  - **Acceptable Housing Payments**
    - Loans underwritten through DU where a nontraditional credit history is required must include housing payments as one reference of nontraditional credit.

- **Documentation and Assessment of a Nontraditional Credit History**
  - **Verification of Bank Accounts and Wire Remittance Statements**
    - Account statements can be used to document a nontraditional credit history, provided they are from the borrower's checking account, savings account, voluntary payments made to a payroll savings plan, or contributions to a stock purchase plan. The account statements must reflect an increasing balance as a result of periodic deposits over at least the most recent consecutive 12-month period, with contributions being made no less than quarterly. If the account statements demonstrate overdraft activity, that information suggests a weakness in the borrower's ability to meet financial obligations. The lender must assess the significance of this information relative to the borrower's overall credit risk.

      Note: If a cash flow assessment is conducted using a third-party asset verification report, different requirements may apply. See "Cash Flow Assessment" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional information.

    - Wire remittance statements can be used to document a nontraditional credit history, provided they demonstrate a consistent amount of funds being remitted over the most recent consecutive 12-month period.

Continued on next page

Nontraditional Credit History, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Mortgages Where Not All Borrowers Have a Usable Credit Score**
  - For mortgages where not all borrowers have a usable credit score, Loan Product Advisor will apply the following requirements:
    - At least one borrower must have a usable credit score, as determined by Loan Product Advisor
    - The transaction must be a purchase or "no cash-out" refinance mortgage
    - The mortgaged premises must be a 1-unit property, occupied by all borrowers as their primary residence
  - If the borrower(s) without a usable credit score contributes 50% or more of the total monthly income, the lender must determine that the following additional requirements are met:
    - Each borrower without a usable credit score must have at least two payment references in the United States comprised of noncredit payment references and/or tradelines not appearing on the credit report that meet the requirements outlined in this document related to the following:
      - Written verifications
      - Age of documentation
      - Documentation of tradelines and noncredit payment references

        Reference: See "Documentation of Tradelines and Noncredit Payment References" subsequently presented in this section for guidance.

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

    - Each payment reference must have existed for at least the most recent 12 months
    - At least one borrower without a usable credit score must have a **housing payment history** as one of the payment references and all housing payment histories must have no 30-day or greater delinquencies in the most recent 12 months
      - In the event more than one borrower without a usable credit score has a housing payment history, then all such housing payment histories for the most recent 12 months (or length of housing payment history if less than 12 months) must be verified
    - For all payment references **other than housing**, in the most recent 12 months there must be:
      - No more than one 30-day delinquency; and
      - No 60-day or greater delinquencies
    - Each borrower without a usable credit score must have no collections (other than medical), judgments or tax liens filed in the most recent 24 months

Continued on next page

Nontraditional Credit History, continued

Freddie Mac LPA, continued

- **Mortgages Where Not All Borrowers Have a Usable Credit Score**, continued
    - **Documentation of Tradelines and Noncredit Payment References**
        - Tradelines (e.g., installment loans, revolving charge accounts, and mortgages and noncredit payment references (e.g., rent, utilities and insurance) may be obtained by the lender through a direct verification from the creditor or other acceptable documentation of payment history meeting the requirements of this section.
        - If the verification of a noncredit payment reference on the direct verification is provided by a source other than a professional business, the mortgage file must also include other documentation supporting the payment history, for example, canceled checks, depository statements, documentation from a third-party money transfer application or service, or receipts issued by the creditor, subject to requirements below.
            - **Direct Verification**
                - A direct verification may be either a completed verification form or a computer-generated payment history obtained by the lender directly from the creditor and signed by the individual providing the verification.
                - Direct verifications must contain sufficient information to establish the following:
                    - The name and address of the creditor
                    - The name of the payor
                    - The name and title of the individual providing the credit reference
                    - The telephone number of the creditor
                    - The account number, if applicable
                    - The nature of the obligation (rent, utilities, payment for purchases, insurance, etc.)
                    - The highest credit balance, if applicable
                    - The amount of the payment due
                    - The outstanding balance
                    - The current and historical status of the account. The completed verification form must indicate the number of times and duration of times past due. The historical account status format should be "0 x 30, 0 x 60, 0 x 90 days" late. However, alternative formats are acceptable as long as the meaning is clear. Statements such as "current," "as agreed," or "satisfactory" are not acceptable by themselves because they are too vague.
                    - For a housing payment history, age of the reference if the length of housing payment history is less than 12 months
                - General reference letters without the above information are not sufficient documentation for establishing an acceptable credit reputation.

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Nontraditional Credit History, continued

Freddie Mac LPA, continued

- **Mortgages Where Not All Borrowers Have a Usable Credit Score**, continued
    - **Other Acceptable Documentation**
        - In lieu of a direct verification from the creditor, the lender may obtain canceled checks, receipts issued by the creditor in accordance with the requirements of the "Special Requirements for Receipts" subsection below, documentation from a third-party money transfer application or service, or depository account statements from the borrower. The mortgage file must also contain documentation that substantiates the terms of the debt repayment (e.g., a copy of a fully executed lease agreement for a rental verification).
        - For rental verification, if the lender obtains a copy of a fully executed lease agreement and either canceled checks, depository account statements, documentation from a third-party money transfer application or service, or receipts from the creditor for payments in cash in accordance with the requirements of the "Special Requirements for Receipts" subsection below, and the lender confirms that the borrower has made timely payments in accordance with the terms of the lease for the most recent 12 months, the documentation requirements of this subsection are met.
        - The obtained documentation must contain sufficient information to establish the following:
            - The name and address of the creditor
            - The name of the payor
            - The nature of the obligation (rent, utilities, payment for purchases, insurance, etc.)
            - The highest credit balance, if applicable
            - The amount of the payment due
            - The outstanding balance
            - The current and historical status of the account, including number of times past due and how many days past due
            - For a housing payment history, age of the reference if the length of housing payment history is less than 12 months
        - Documented payments of a voluntary nature, such as deposits to a savings account, contributions to a payroll savings plan or contributions to a stock purchase plan of at least 12 months may be included as one of the noncredit payment references if the history shows periodic deposits (at least quarterly) resulting in a growing balance over the year. If a savings history is used as one of the noncredit payment references, the mortgage file must contain documentation, such as depository account statements that meet the "General Asset Documentation Requirements" outlined in the "Cash Requirements" topic subsequently presented in this document.

Continued on next page

Credit Requirements, Continued

Nontraditional Credit History, continued

Freddie Mac LPA, continued

- **Mortgages Where Not All Borrowers Have a Usable Credit Score**, continued
  - **Special Requirements for Receipts**
    - Receipts from the creditor are acceptable documentation only if the payments being verified were made in cash and there is no evidence in the mortgage file that the payments were made by checks or direct bank transfers.
- **Mortgages Where No Borrower Has a Credit Score**
  - Not eligible. At least one borrower on the transaction must have a usable credit score.

Out of Country Addresses

The following table shows information on out of country addresses.

Non-AUS Loans	Fannie Mae DU "Approve/Eligible" Loans	Freddie Mac LP "Accept/Eligible" Loans
There are no restrictions on borrowers who have out of the country addresses.	• If a borrower's current address is outside of the United States, DU will issues an "Out of Scope" recommendation. • In all cases, the loan must be traditionally documented and underwritten.	• If a borrower's current address is outside of the United States, LP will not accept the loan. • In all cases, the loan must be traditionally documented and underwritten.

Past Due Accounts

The following table shows information on past due accounts.

Non-AUS Loans	Fannie Mae DU "Approve/Eligible" Loans	Freddie Mac LP "Accept/Eligible" Loans
All past due accounts must be brought current at or prior to closing and funds sufficient to settle these items must be verified and documented.	Non-AUS requirements apply.	• The LP Feedback Certificate will not identify specific messages concerning past due accounts and/or collection accounts. • It is the discretion of underwriting as to whether or not these accounts must be paid by closing, factoring any effect that this may have on the borrower's ability to make future mortgage payments.

Continued on next page

Cash Requirements

General Asset Information

Non-AUS

- All assets disclosed on the final loan application must be verified.
- See the applicable asset subtopic subsequently presented in this "Cash Requirements" topic for eligibility and documentation requirements related to assets that may be used as funds for closing (closing costs and prepaids), down payment, and/or reserves.

  Note: Closing costs are defined as amounts paid in connection with the closing, typically itemized under "Closing Cost Details" on the Closing Disclosure. These generally include (a) loan-related amounts such as origination fees, discount points, title exam, lender's title insurance, appraisal fees, and prepaid items such as taxes and insurance escrow payments; and (b) other costs, such as owner's title insurance, real estate agent commissions, inspections, and transfer taxes.

Fannie Mae DU

Follow DU requirements, which are as follows:

- **Liquid Assets**
  - DU analyzes the value of liquid assets entered in the loan application in its risk assessment. Assets may be excluded from the loan application if the borrower can qualify without them.
  - DU considers the following assets liquid assets: Bonds, Bridge Loan Proceeds, Cash Value of Life Insurance, Certificate of Deposit, Checking, Gift (not deposited), Gift of Equity, Grant (not deposited), Individual Development Account, Money Market, Mutual Fund, Net Equity, Other Liquid Asset, Proceeds from Real Estate Property to be sold on or before closing, Proceeds from Sale of Non-Real Estate Asset, Retirement, Savings, Secured Borrowed Funds, Stocks, Stock Options (vested), and Trust Account.

- **Non-Liquid Assets**
  - DU does not consider the amount of non-liquid assets. Non-liquid assets do not have to be verified, and will not be identified in a verification message.
  - DU considers the following assets non-liquid assets: Cash Deposit on Sales, Net Worth of Business, Other Non-Liquid Asset, and Unsecured Borrowed Funds.

- **Reserve Requirements**
  - For loan casefiles underwritten with DU, DU will determine the reserve requirements based on the overall risk assessment of the loan casefile and the minimum reserves that may be required for the transaction. Reserves may be considered a compensating factor in DU's risk analysis, and may serve to improve the underwriting recommendation.
  - See the "Cash Reserve Requirements" subtopic subsequently presented in this topic for additional requirements related to minimum reserves.

Continued on next page

General Asset Information (continued)

Fannie Mae DU, continued

- **Asset Values in the DU Underwriting Findings Report**
  - The DU Underwriting Findings report will identify the following values:
    - Total Available Assets: the total of all borrower(s)' liquid assets entered into DU;
    - Funds Required to Close: includes the cash needed to complete the transaction plus any debts marked paid by closing on purchase or limited cash-out refinance transactions, other than subject property mortgage(s);
    - Reserves Required to be Verified: the amount of reserves that must be verified;
    - Total Funds to be Verified: the sum of the Funds Required to Close and Reserves Required to be Verified; and
    - Excess Available Assets, not required to be verified by DU: liquid assets that DU is not requiring the lender to verify.
  - The Excess Available Assets, not required to be verified by DU (Excess Available Assets), amount represents the amount of assets remaining after subtracting the Total Funds to be Verified from the Total Available Assets. Excess Available Assets do not generally need to be verified.

  Note: Closing costs are defined as amounts paid in connection with the closing, typically itemized under "Closing Cost Details" on the Closing Disclosure. These generally include (a) loan-related amounts such as origination fees, discount points, title exam, lender's title insurance, appraisal fees, and prepaid items such as taxes and insurance escrow payments; and (b) other costs, such as owner's title insurance, real estate agent commissions, inspections, and transfer taxes.

- **Non-Occupant Borrower Asset Requirements**
  See the "Non-Occupant Borrower Asset Requirements" subtopic subsequently presented in this topic for guidance.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Funds Required for the Mortgage Transaction**
  - The lender must verify that the borrower has sufficient funds to qualify for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves) except as follows:
    - The transaction is a refinance transaction, and
    - Funds required to be paid by the borrower are $500 or less, and
    - No reserves are required for the transaction , and
    - The mortgage is submitted to Loan Product Advisor and receives a Risk Class of Accept
  - All funds used to qualify the borrower for the mortgage transaction, including, but not limited to, funds for down payment, closing costs and reserves, must come from the eligible sources described in the "Asset Eligibility Requirements" section subsequently outlined in this subtopic.
  - When an interested party is contributing to the mortgage transaction, the requirements in the "Interested Party Contributions (IPCs)" topic must be met.

Continued on next page

General Asset Information (continued)

Freddie Mac LPA, continued

- Prorated real estate tax credits contributed by the property seller in areas where real estate taxes are paid in arrears may not be considered when determining the funds required to be verified for the mortgage transaction, except when the Settlement/Closing Disclosure statement indicates that an escrow account is established and includes the portion of real estate taxes owed by the property seller for the period they owned the property. In such cases, a prorated tax credit from the property seller offsets that portion of the charge for the establishment of the escrow account.
- When lender credit is being used for the mortgage transaction, the requirements in the "Lender Credit" topic outlined in the applicable first mortgage product description must be met.

- **Asset Eligibility Requirements**
  - This section describes eligibility requirements for sources of funds used to qualify the borrower for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves). Eligible sources of funds are listed in the "Eligible Asset Types for Borrower Personal Funds" and "Special Requirements for Other Eligible Sources of Funds" sections below.

  - **Special Requirements for Borrower Personal Funds**
    - For a purchase transaction mortgage, the borrower must make a minimum contribution from borrower personal funds when specifically required in the product standards. See "Minimum Borrower Contribution Requirements" in the "Cash Requirements" topic of the applicable first mortgage product description for the minimum contribution required from the borrower's personal funds.

    - **Eligible Asset Types for Borrower Personal Funds**
      - Asset types that are considered borrower personal funds are described below. See the "General Asset Documentation Requirements" and the applicable asset subtopic, subsequently presented in this topic for documentation requirements. The eligibility and documentation requirements apply to all funds used to qualify the borrower for the mortgage transaction, including reserves. Any limitations on the use of an asset type are specified in the applicable asset subtopic.
      - All accounts held in financial institutions must be owned by the borrower and the borrower must have access to the funds. Funds in accounts that are owned jointly by the borrower and a non-borrower are considered borrower personal funds Accounts held in the name of a living trust are considered to be owned by the borrower when the borrower is the settlor of the living trust. When the borrower is a living trust, the underwritten settlor is considered to be the owner of accounts held in the name of the trust.
      - The documentation level shown on the Feedback Certificate indicates the minimum level of documentation acceptable for a Loan Product Advisor mortgage. The lender must provide the documentation required in this topic for the documentation level returned.

Continued on next page

General Asset Information (continued)

Freddie Mac LPA, continued

- Eligible asset types for borrower personal funds include the following:
  - Depository accounts used to deposit and withdraw cash such as: checking, savings, money market, certificate of deposit (CD), and other depository accounts
  - Securities that are traded on an exchange or marketplace, generally available to the public such as: stocks, vested stock options, bonds, mutual funds, United States government securities, and other securities

Note: Stock with limitations on its accessibility (e.g., restricted stock which has not vested and been distributed to the recipient) is not eligible.

- **Eligible Asset Types for Borrower Personal Funds**, continued
  - Independent retirement accounts and Internal Revenue Service (IRS)-qualified employer retirement plan accounts such as: 401K, 403b, IRAs (traditional and Roth), SEP-IRA, SIMPLE-IRA, KEOGH, State retirement savings plans, other independent and IRS-qualified employer retirement plan accounts
  - Government bonds (federal, state or municipal)
  - Proceeds from a loan fully secured by the borrower's assets other than real property
  - Proceeds from the sale or refinance of the borrower's real property (including proceeds from a 1031 exchange or a bridge loan)
  - Proceeds from the sale of the borrower's assets other than real property or exchange-traded securities
  - Borrower's real estate commission
  - Funds from a trust
  - Individual Development Account (IDA) – Agency matching funds not subject to recapture
  - Community Savings System Accounts – Borrower contributions
  - Pooled funds
  - Borrower's revolving credit card (charges/cash advances) or unsecured line of credit
  - Cash value of a life insurance policy (not the face value)
  - Rent credits
  - Trade equity: net proceeds of the trade-in of the borrower's previously owned residence

  Notes:
  - Truist clarifies that a 529 plan is also an acceptable asset type for down payment, closing costs, and reserves.
  - See the applicable asset subtopic, subsequently presented in this topic, for additional information and documentation requirements.

- **Earnest Money Deposit (EMD)**
  - See the "Deposit on Sales Contract" subtopic subsequently presented in this topic for additional information and requirements on verifying an earnest money deposit for a purchase transaction mortgage.

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General Asset Information (continued)

Freddie Mac LPA, continued

- **Business Assets**
  - See the "Business Assets" subtopic subsequently presented in this topic for guidance.

- **Source of Funds from Outside the United States and its Territories**
  - When the source of funds needed for closing is, or otherwise originates from, asset(s) located outside the United States and its territories:
    - Funds must be transferred into a United States or state regulated financial institution and verified in U.S. dollars prior to the closing of the mortgage transaction, or
    - Combined value of the assets must be at least 20% greater than the amount from these assets needed for closing
  - See "Documents of Foreign Origin and Documents in a Foreign Language" in the "General Requirements for Verifying Documents" section of the "General Asset Documentation Requirements" subtopic subsequently presented in this topic for additional requirements when funds from outside the United States and its territories are used to qualify the borrower for the mortgage transaction.

- **Special Requirements for Other Eligible Sources of Funds**
  - Other sources of funds eligible to be used to qualify the borrower for the mortgage transaction are described below. See the "General Asset Documentation Requirements" and the applicable asset subtopic, subsequently presented in this topic for documentation requirements. The eligibility and documentation requirements apply to all funds used to qualify the borrower of the mortgage transaction including reserves. Any limitations on the use of an asset type are specified in the applicable asset subtopic
  - The documentation level shown on the Feedback Certificate indicates the minimum level of documentation acceptable for a Loan Product Advisor mortgage. The lender must provide the documentation required in this topic for the documentation level returned.
  - Eligible asset types for other eligible sources of funds include the following:
    - Gift funds or a gift of equity
    - Gift funds received as a wedding gift
    - A gift or grant from an Agency
    - Individual Development Account (IDA) – Agency matching funds subject to Recapture
    - Proceeds from an unsecured loan that is an Employer Assisted Homeownership (EAH) Benefit

  Note: See the applicable asset subtopic, subsequently presented in this topic for additional information and documentation requirements.

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General Asset Documentation Requirements

Non-AUS

- **Verification of Deposits and Assets**
  - The lender can use any of the following types of documentation to verify that a borrower has sufficient funds for closing, down payment, and/or financial reserves:
    - **Request for Verification of Deposit (VOD) (Form 1006 or Form 1006(S)):** The information must be requested directly from the depository institution, and the complete, signed, and dated document must be sent directly from the depository institution.
      - When a VOD is used and depository activity is not included, the lender must verify the source of funds for:
        - accounts opened within the last 90 days of the application date, and
        - account balances that are considerably greater than the average balance reflected on the VOD.
    - **Copies of bank statements or investment portfolio statements:** All statements must:
      - clearly identify the financial institution,
      - clearly identify the borrower as the account holder,
      - include at least the last four digits of the account number,
      - include the time period covered by the statement,
      - include all deposits and withdrawal transactions (for depository accounts),
      - include all purchase and sale transactions (for financial portfolio accounts), and
      - include the ending account balance.

      Note: If the lender is the holder of the borrower's account, the lender may produce a printout or other alternative verification of the asset(s) directly from its system. The printout or alternative verification is acceptable as long as all required data (above) is supplied and documented.

    - **Copies of retirement account statements:** They must be the most recent statements, and they must identify the borrower's vested amount and the terms. (See the Retirement Funds subtopic for additional information.)

- The number of required bank or investment portfolio statements varies per transaction type as shown in the following table.

Documentation Requirements	
Purchase Transactions	The statements must cover the most recent full two-month period of account activity (60 days, or, if account information is reported on a quarterly basis, the most recent quarter).
Refinance Transactions	The statements must cover the most recent full one-month period of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter).

Continued on next page

Cash Requirements, Continued

General Asset Documentation Requirements, continued

Non-AUS, continued

- If the latest bank statement is more than 45 days earlier than the date of the loan application, the lender should ask the borrower to provide a more recent, supplemental, bank-generated form that shows at least the last four digits of the account number, balance, and date. The statements may be computer-generated forms, including online account or portfolio statements downloaded by the borrower from the Internet.
- Documents that are faxed to the lender or downloaded from the Internet must clearly identify the name of the depository or investment institution and the source of information—for example, by including that information in the Internet or fax banner at the top of the document.
- If necessary, the lender must supplement these verifications by obtaining any missing information from the borrower or the depository institution.
- Any available technology may be used to reproduce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.

- **Asset Documentation Provided by a Third-Party Asset Verification Vendor**
  - **Direct verification by a third-party asset verification vendor:** These verifications are acceptable as long as:
    - the borrower provided proper authorizations for the lender to use the verification method,
    - the verified information provided must conform with the information that would be provided on Form 1006, Form 1006(S), or on bank statements,
    - the date of the completed verification is in compliance with the allowable age of asset documents,
    - the lender has determined that the vendor maintains reasonable practices that ensure reliable and authorized verifications of deposit and asset information, and
    - the lender understands it will be held accountable for the integrity of the information obtained from this source.

- **Age of Asset Documentation**
  - For all mortgage loans (existing and new construction), asset documents must be no more than four months old on the note date.
  - When consecutive asset documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than four months old on the note date. If the asset documents are older than allowed, the lender must update them.

Reference: See the “Properties Affected by a Disaster” subtopic subsequently presented in the “Appraisal Requirements” topic for exceptions to the allowable age of credit documents for loans impacted by a natural disaster.

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Cash Requirements, Continued

General Asset Documentation Requirements, continued

Non-AUS, continued

- **Blanket Authorization Form**
  - Rather than having the applicant sign multiple forms, the lender may have the applicant sign an authorization form which gives the lender blanket authorization to request the information it needs to evaluate the applicant's creditworthiness. When the lender uses this type of blanket authorization, it must attach a copy of the authorization form to each Form 1006 or Form 1006(S) it sends to the depository institutions in which the applicant has accounts.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:
- When DU requires assets to be verified, DU will indicate the minimum verification documentation requirements necessary for the lender to process the loan application. This level of documentation may not be adequate for every borrower and every situation. The lender must determine whether additional documentation is warranted.
- DU will not require documentation of assets for refinance transactions when the total funds to be verified are $500 or less.
- In addition, loans with assets validated by DU must comply with all requirements pertaining to the DU Validation Service. Compliance with the DU messages satisfies the requirement for documenting assets. This documentation may differ from the General Documentation Requirements described above. See "DU Validation Service" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- **General Requirements for Verifying Documents**
  - **Written Verifications**
    - Written verifications must meet all of the following requirements:
      - Standard verification forms, such as the original Verification of Deposit (VOD), must be sent directly from the originator to the depository and, upon completion, returned directly from that entity to the originator.
      - Facsimile verification forms are acceptable if it is clear from the document that the information was sent by facsimile transmission directly from the source to the originator and are considered to be originals. The original documents must not contain any alterations, erasures, correction fluid or correction tape.
      - The lender's mortgage file contains legible copies of the originals.
      - The copies must have been made by the originator or the applicant directly from the originals. Copies provided by any other source, such as the agent or builder, are not acceptable.
      - An electronic verification is a computer-generated document, accessed and printed from an intranet or internet, that may be used to verify information such as the borrower's funds on deposit. This includes on-line bank statements and investment account statements. The borrower may provide the verification directly, or the originator may obtain it directly from the depository or other institution.

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General Asset Documentation Requirements, continued

Freddie Mac LPA, continued

- **General Requirements for Verifying Documents,** continued
  - **Written Verifications,** continued
    - The borrower may provide verification of assets in the form of a photocopy (including a picture of a document), facsimile or electronic verification. If the borrower has provided electronic verifications, photocopies or facsimiles of other verifications, where the originator did not view and copy the original documents directly, the lender is strongly encouraged to reverify the information through the quality control process.

  - **Documents of Foreign Origin and Documents in a Foreign Language**
    - All documents in the mortgage file related to the origination of the mortgage must be in English or must be translated into English by the document originator or an unaffiliated third-party translation service. Such translations must be attached to each non-English document, and the lender represents and warrants to Freddie Mac that the translation is complete and accurate.
    - All foreign currency amounts must be converted to U.S. dollars. See "Source of Funds from Outside the United States and its Territories" outlined in the "Special Requirements for Borrower Personal Funds" section in the "General Asset Information" subtopic previously presented in this topic for requirements when the source of funds needed for closing costs is, or otherwise originates from, asset(s) located outside the United States and its territories.

- **Asset Documentation Requirements**
  - This section describes documentation requirements for sources of funds used to qualify the borrower for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves). Eligible sources of funds are listed in the "Eligible Asset Types for Borrower Personal Funds" and "Special Requirements for Other Eligible Sources of Funds" sections previously presented in the "General Asset Information" subtopic.

  - **General Documentation Requirements**
    - The mortgage file must include evidence of verification of all eligible sources of funds used to qualify the borrower for the mortgage transaction.
    - All documentation of funds used to qualify the borrower for the mortgage transaction must meet the requirements of this section, the "General Requirements for Verifying Documents" section outlined above, the "Age of Documentation" section outlined below, and the requirements outlined in the applicable asset subtopic, subsequently presented in this topic.

Continued on next page

General Asset Documentation Requirements, (continued)

Freddie Mac LPA, continued

- **Asset Documentation Requirements,** continued
  - **General Documentation Requirements,** continued
    - **Requirements for Direct Account Verifications and Asset Account Statements**
      - Direct account verifications and asset account statements used to verify the borrower's accounts held in financial institutions must meet the following additional requirements:
        - Direct account verifications (i.e., verification of deposit form (VOD)) must:
          - Identify the financial institution
          - Identify the account owner(s)
          - Identify the account number, which at a minimum must include the last four digits
          - Identify the type of account
          - Identify account open date
          - Identify the current account balance
          - Identify the average balance for the previous two months
          - Identify any outstanding loans secured by the asset
          - Include the title, signature and phone number of the depository representative who completed the verification, unless the direct account verification is generated electronically by the financial institution

          For purchase transactions, when using a direct account verification, the lender must include documentation of the source of funds when an account is opened within 90 days of verification and/or when the current balance in an account exceeds the average balance by more than 50% of the sum of:
          - The total monthly qualifying income for the mortgage, and
          - The amount derived from the asset calculation for establishing the debt payment-to-income ratio in accordance with the requirements of the "Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)" subtopic previously presented in the "Income" topic, if applicable.
        - Asset account statements must:
          - Identify the financial institution
          - Identify the account owner(s)
          - Identify the account number, which at a minimum must include the last four digits
          - Show all transactions
          - Show the period covered
          - Show the ending balance
          - Show any outstanding loans secured by the asset

Continued on next page

Cash Requirements, Continued

General Asset Documentation Requirements, (continued)

Freddie Mac LPA, continued

- **Asset Documentation Requirements,** continued
  - **General Documentation Requirements,** continued
    - **Requirements for Direct Account Verifications and Asset Account Statements**, continued

      A transaction history that is computer-generated and downloaded by the borrower from the internet or by a financial institution representative from the institution's system is acceptable. The transaction history must identify the name of the institution and the source, and include the information required above for asset account statements, unless:
      - It is used in combination with other asset verifications containing the missing information, and
      - It can clearly establish that the transaction history pertains to the same account

    - **Third-Party Asset Verifications**
      - Asset verifications obtained through third-party verification service providers are acceptable. The verifications must be received by the originator directly from the third-party verification service provider and must contain the same information as required for direct account verifications or asset account statements above except as follows for verifications that are generated electronically and are not completed or provided by a representative of the employer or the depository institution, as applicable:
        - The representative's information is not required
        - The verification may identify the account with a minimum of the last two digits of the account number
      - If any required information is missing, the lender must obtain additional documentation to supplement the third-party verification. The lender is responsible for ensuring the accuracy and integrity of the information provided by the third-party verification services.
      - In lieu of the requirements above for third-party asset verifications, see "Verification Reports" in the "Automated Asset Assessment with Loan Product Advisor® Using Account Data" subsection in the "Freddie Mac LPA Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for requirements for mortgages using automated asset assessment with Loan Product Advisor® using account data that receive a result of "Eligible for Asset Representation and Warranty Relief" or "Eligible for Partial Asset Representation and Warranty Relief" on the Last Feedback Certificate.

Continued on next page

General Asset Documentation Requirements, continued

Freddie Mac LPA, continued

- **Asset Documentation Requirements,** continued
  - **General Documentation Requirements,** continued
    - **Evaluation of Deposits in the Borrower's Accounts**
      - **Deposits Requiring Verification**
        - Except as stated below, the lender is not required to document the sources of unverified deposits for purchase or refinance transactions. However, when qualifying the borrower, the lender must consider any liabilities resulting from all borrowed funds.
        - For all transactions, when an unverified deposit is used to pay off or pay down an existing debt in order to qualify for the mortgage, the source of funds must be documented.
        - For purchase transactions, when evaluating deposits in the borrower's accounts, the lender must document the source of funds for any "large deposit" if the deposit is needed to qualify the borrower for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves). See the "Large Deposits" subtopic subsequently presented in this topic for requirements that apply when evaluating large deposits in the borrower's accounts.
      - **Acceptable Sources of Deposit**
        - When a deposit requires verification as stated above, the lender must determine:
          - Whether the source of the deposit is acceptable, as described below,
          - That the funds belong to the borrower, and
          - That the funds are eligible for the transaction
        - The only acceptable sources of deposit are the following:
          - The borrower's income
          - Funds awarded to the borrower (e.g., disaster relief funds, lottery winnings, court-awarded settlement) provided the source is not an interested party to the real estate or mortgage transaction
          - Funds derived from eligible asset types stated in the "Special Requirements for Borrower Personal Funds" and "Special Requirements for Other Eligible Sources of Funds" sections outlined in the "General Asset Information" subtopic previously presented in this topic.

Continued on next page

Cash Requirements, Continued

General Asset Documentation Requirements, continued

Freddie Mac LPA, continued

- **Age of Documentation**
  - **Age of Verifications**
    - Verifications of information used to evaluate the borrower's creditworthiness must be dated no more than 120 calendar days before the note date. Verifications subject to this requirement include verification of source of funds
  - **Age of Documentation when Data Used for Loan Product Advisor Assessments**
    - For mortgages when data is used for the Loan Product Advisor assessment and a verification report is obtained, the expiration of the verification report reflected in feedback messaging on the Last Feedback Certificate complies with the “Age of Verifications” requirements above. Refer to the following sections in the “Freddie Mac LPA Loans” subtopic subsequently presented in the “Underwriting the Borrower” topic for additional guidance related to the verification report requirements for mortgages using automated assessment:
      - “Automated Asset Assessment with Loan Product Advisor Using Account Data”
      - “Automated Income Assessment with Loan Product Advisor Using Account Data”
      - “Automated Employment Assessment with Loan Product Advisor Using Account Data”
      - Rent Payment History Included in Loan Product Advisor's Assessment
      - Borrower Cash Flow Included in Loan Product Advisor's Assessment

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**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Cash Requirements, Continued

Minimum Borrower Contribution Requirements

Non-AUS

- Minimum borrower contribution requirements are outlined in the table below.

LTV, TLTV, or HTLTV Ratio	Occupancy Type	Minimum Borrower Contribution Requirement from Borrower's Own Funds
80% or less	1-4 Unit Primary Residences	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift, grant, employer assistance, or Community Seconds loan.
Greater than 80%	1 Unit Primary Residences	A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift, grant, employer assistance, or Community Seconds loan.
	2-4 Unit Primary Residences	The borrower must make a 5% minimum contribution from their own funds. After the minimum borrower contribution has been met:, • a gift, grant, or employer assistance can be used to supplement the down payment, closing costs, and reserves (except for unsecured loans, which may not be applied to reserves) • a Community Seconds loan can be used as described in the "Acceptable Uses" section outlined in the "Community Seconds® (Fannie Mae)" requirements, previously presented in this document **Notes:** • If the borrower receives a gift from an acceptable donor who has lived with the borrower for the last 12 months, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their primary residence. • If the income of a co-signor, guarantor, or non-occupant borrower is used for qualifying purposes, the occupying borrower(s) must make the first 5% of the down payment from their own funds.

Continued on next page

Cash Requirements, Continued

Minimum Borrower Contribution Requirements, (continued)

Fannie Mae DU

Follow DU requirements, which are as follows:

- Minimum borrower contribution requirements are outlined in the table below.

<table>
<tr><th>LTV, TLTV, or HTLTV Ratio</th><th>Occupancy Type</th><th>Minimum Borrower Contribution Requirement from Borrower's Own Funds</th></tr>
<tr><td rowspan="2">80% or less</td><td>1-4 Unit Primary Residences</td><td>A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift, grant, employer assistance, or Community Seconds loan.</td></tr>
<tr><td>1 Unit Second Homes</td><td>A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift.</td></tr>
<tr><td rowspan="3">Greater than 80%</td><td>1 Unit Primary Residences</td><td>A minimum borrower contribution from the borrower's own funds is not required. All funds needed to complete the transaction can come from a gift, grant, employer assistance, or Community Seconds loan.</td></tr>
<tr><td>2-4 Unit Primary Residences</td><td rowspan="2">The borrower must make a 5% minimum contribution from their own funds.
For 2-4 unit primary residence transactions, after the minimum borrower contribution has been met:
a gift, grant, or employer assistance can be used to supplement the down payment, closing costs, and reserves (except for unsecured loans, which may not be applied to reserves)
a Community Seconds loan can be used as described in the "Acceptable Uses" section outlined in the "Community Seconds® (Fannie Mae)" requirements, previously presented in this document
For second home transactions, after the minimum borrower contribution has been met, a gift can be used to supplement the down payment, closing costs, and reserves.
Notes:
If the borrower receives a gift from an acceptable donor who has lived with the borrower for the last 12 months, the gift is considered the borrower's own funds and may be used to satisfy the minimum borrower contribution requirement as long as both individuals will use the home being purchased as their primary residence.
For 2-4 unit primary residence transactions with a LTV/TLTV/HTLTV ratio greater than 80%, if the income of a co-signer, guarantor, or non-occupant borrower is used for qualifying purposes, the occupying borrower(s) is not required to make the first 5% of the down payment from their own funds. Funds for the required 5% may come from the occupant and non-occupant borrowers' own funds.</td></tr>
<tr><td>1 Unit Second Homes</td></tr>
<tr><td>All LTV/TLTV/HTLTVs</td><td>1-4 Unit Investment Properties</td><td>All funds needed to meet the down payment, closing cost, and reserve requirements must come from the borrower's own funds. Gifts are not permitted.</td></tr>
</table>

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Minimum Borrower Contribution Requirements, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For a purchase transaction mortgage, the borrower must make a minimum contribution from borrower personal funds when specifically required in the requirements outlined in this document, as summarized in the table below.

Minimum Contribution from Borrower Personal Funds		
Mortgage Type	**Mortgages with LTV/TLTV/HTLTV Ratios </= 80%**	**Mortgages with LTV/TLTV/HTLTV Ratios > 80%**
Mortgage secured by a 1-and 2-unit Primary Residence	None	None
Mortgage secured by a 3-and 4-unit Primary Residence	None	N/A
Mortgage secured by a second home	None	5% of value, when gift funds or grants are used for the transaction
Mortgage secured by an Investment Property	All funds used for the transaction must be borrower personal funds	All funds used for the transaction must be borrower personal funds

529 Plans

Non-AUS

- A 529 Plan is a plan operated by a state or educational institution, with tax advantages and potentially other incentives to make it easier to save for college and other post-secondary training for a designated beneficiary, such as a child or grandchild.
- Truist clarifies that a 529 Plan is an eligible asset type for down payment, closing costs, and reserves. Follow the IRA requirements outlined in the "Retirement Funds" subtopic subsequently presented in this topic.

Fannie Mae DU

Non-AUS requirements apply.

Freddie Mac LP

- A 529 Plan is a plan operated by a state or educational institution, with tax advantages and potentially other incentives to make it easier to save for college and other post-secondary training for a designated beneficiary, such as a child or grandchild.
- Truist clarifies that a 529 Plan is an eligible asset type for down payment closing costs, and reserves. Follow the LP IRA requirements outlined in the "Retirement Funds" subtopic subsequently presented in this topic.

Continued on next page

Cash Requirements, Continued

1031 Tax Exchange (Also Known As a Like Kind Exchange)

Non-AUS
Assets for the down payment from a "like-kind exchange," also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP
Assets for the down payment from a "like-kind exchange," also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

Borrower's Real Estate Commission

Non-AUS
- Earned real estate commission refers to the borrower's portion of a real estate commission earned from the sale of the subject property being purchased when the borrower is acting as their own real estate agent. Lenders may use the borrower's earned real estate commission as an eligible source of funds for down payment and closing costs provided the borrower is a licensed real estate agent and will receive a sales commission from the purchase of the subject property.

Documentation Requirements
- The lender must document the following:
  - the settlement statement must reflect the commission earned by the borrower, and
  - the earned commission amount must be credited towards the mortgage loan.

  Note: For DU loan casefiles, earned real estate commission must be entered as a Credit Type of "Other" in Section 2b of the online loan application.

Fannie Mae DU
Non-AUS requirements apply.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- Borrower's real estate commission is an eligible source of funds for down payment and/or closing costs when the borrower is a licensed real estate agent that is due to receive a sales commission from their purchase of the subject property.
- Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements
The Settlement/Closing Disclosure Statement must reflect the commission earned by the borrower and credited towards the mortgage transaction.

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Continued on next page

Cash Requirements, Continued

Bridge Loans in Second Lien Position

Non-AUS

- A bridge (or swing) loan is an acceptable source of funds provided the following requirements are met:
    - The bridge loan cannot be cross-collateralized against the new property.
    - The lender must document the borrower's ability to successfully carry the payments for the new home, the current home, the bridge loan, and other obligations.
- Fannie Mae does not have a specified limitation on the term of bridge loans. See the "Liabilities" topic for more information about how to treat the resulting contingent liability.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP

Follow standard Agency LP secondary financing and liability requirements.

Continued on next page

Business Assets

Non-AUS

- Business assets may be an acceptable source of funds for the down payment, closing costs, and financial reserves.
- The borrower must be listed as an owner of the account and the account must be verified.
- If the borrower is also using self-employment income from this business to qualify, see "Use of Business Assets" in the "Self-Employment Income" subtopic previously presented in this document, for additional information on the analysis of a self-employed borrower.

Truist Note: When self-employment income is not being used to qualify, but business assets are being used for the down payment, closing costs, and/or financial reserves, the lender is not required to perform a business cash flow analysis.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements ,which are as follows:

- Funds from a borrower's business account may be used to qualify the borrower for the mortgage transaction, provided they meet the requirements of this topic, except as stated below.
  - Documentation of large deposits, as described in the "Large Deposits" subtopic subsequently presented in this topic, is not required provided that the lender:
    - Reviews a minimum of the most recent two months of the business account statements, and
    - Determines the deposits are typical for the borrower's business
- The following additional requirements apply when self-employed income from the business is used for qualifying:
  - Withdrawals of assets from the business may have a negative impact on the ability of the business to continue operating. When business assets are being used for the down payment, closing costs and/or reserves, the lender must determine that the withdrawal of the funds will not have a detrimental effect on the business. In addition to a review and analysis of the personal and business tax returns, the lender may review and analyze the current financial statement and/or the last three months of the business bank statements to confirm the deposits, withdrawals and balances are supportive of a viable business and are aligned with the level and type of income and expenses reported on the business tax returns.
  - The factors contributing to the determination that the withdrawal will not negatively impact the business must be included on the lender's written analysis of the income source and amount
- The business assets must be verified in accordance with Agency LPA documentation requirements.

Continued on next page

Cash Requirements, Continued

Cash on Hand

Non-AUS
Cash on hand is not acceptable.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP
Follow LP requirements, which are the same as non-AUS requirements.

Cash Reserve Requirements

Non-AUS

- **What are Liquid Financial Reserves?**
  - Liquid financial reserves are those liquid or near liquid assets that are available to a borrower after the mortgage closes. Liquid financial reserves include cash and other assets that are easily converted to cash by the borrower by
    - drafting or withdrawing funds from an account,
    - selling an asset,
    - redeeming vested funds, or
    - obtaining a loan secured by assets from a fund administrator or an insurance company.
  - Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA) that a borrower could pay using his or her financial assets.
  - Funds to close are subtracted from available assets when considering sufficient assets for reserves.

- **Acceptable Sources of Reserves**
  - Examples of liquid financial assets that can be used for reserves include readily available funds in:
    - 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; and
    - the cash value of a vested life insurance policy.
  - Truist clarifies that a 529 plan and proceeds from a cash-out refinance on a property other than the subject property are also an acceptable source or reserves.

Continued on next page

Cash Requirements, Continued

Cash Reserve Requirements, continued

Non-AUS, continued

- **Unacceptable Sources of Reserves**
  - The following cannot be counted as part of the borrower's reserves:
    - funds that have not been vested;
    - funds that cannot be withdrawn under circumstances other than the account owner's retirement, employment termination, or death;
    - stock held in an unlisted corporation;
    - non-vested stock options and non-vested restricted stock;
    - personal unsecured loans;
    - rent-back credit;
    - interested party contributions (IPCs) (see the "Interested Party Contributions (IPCs)" topic for additional information);
    - any amount of a lender contribution (see the "Lender Contributions/Lender Credit" subtopic for additional information); and cash proceeds from a cash-out refinance transaction on the subject property.

    Note: Truist provides the following GSE clarification:
    - Any cash back from a limited cash-out refinance transaction on the subject property is also an unacceptable source of funds for reserves.

- **Supplementing Borrower Funds**
  - Funds received from acceptable sources may be used to supplement the borrower's funds to satisfy any financial reserve requirement.

    Note: Eligible gift funds (but not gifts of equity) may be used to satisfy reserve requirements.

- **Determining Required Minimum Reserves**
  - See the "Credit Score Requirements" subtopic, previously presented in this document, for the minimum cash reserves required on all loans for the applicable subject property (based on reserves AFTER closing).
  - Minimum required reserves vary depending on:
    - the transaction,
    - the occupancy status and amortization type of the subject property,
    - the number of units in the subject property, and
    - the number of other financed properties the borrower currently owns.

Continued on next page

Cash Requirements, Continued

Cash Reserve Requirements, continued

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- DU will determine the reserve requirements based on the following:
  - Two months' reserves for a second home transaction.
  - Six months' reserves for the following:
    - a two- to four-unit primary residence transaction,
    - an investment property transaction, and
    - a cash-out refinance transaction with a DTI ratio greater than 45%.

      Truist Note: Cash-out refinance transactions for borrowers with a DTI ratio exceeding 45% must have at least six months of PITIA reserves. If there are not at least six months reserves, the loan casefile will receive an Ineligible recommendation.

- Additional reserves are required when a borrower has multiple financed properties, and the subject loan is secured by a second home or investment property. See the “Calculation of Reserves for Multiple Financed Properties” and “Simultaneous Second Home or Investment Property Transactions” sections below for additional details.
- Reserves equal to the balance of 30-day accounts (reduced by the cash back received on a refinance transaction).
- Additional reserves may need to be verified based on DU's overall risk assessment.

  Note: There is no minimum reserve requirement for one-unit primary residence transactions.

- **Calculation of Reserves for Multiple Financed Properties**
  - If the borrower owns other financed properties (determined in accordance with the requirements outlined in the “Multiple Financed Properties for the Same Borrower” subtopic presented in this document), additional reserves must be calculated and documented for financed properties other than the subject property and the borrower’s primary residence. The other financed properties reserves amount must be determined by applying a specific percentage to the aggregate of the outstanding unpaid principal balance (UPB) for mortgages and HELOCs on these other financed properties. The percentages are based on the number of financed properties:
    - 2% of the aggregate UPB if the borrower has one to four financed properties,
    - 4% of the aggregate UPB if the borrower has five to six financed properties, or
    - 6% of the aggregate UPB if the borrower has seven to ten financed properties.
  - The aggregate UPB calculation does not include the mortgages and HELOCs that are on
    - the subject property,
    - the borrower’s primary residence,
    - properties that are sold or pending sale, and
    - accounts that will be paid by closing (or omitted in DU on the online loan application).

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Cash Requirements, Continued

Cash Reserve Requirements, continued

Fannie Mae DU, continued

- **Simultaneous Second Home or Investment Property Transactions**
  - If a lender is processing multiple second home or investment property applications simultaneously, the same assets may be used to satisfy the reserve requirements for both mortgage applications. Reserves are not cumulative for multiple applications.

    Example: A lender is simultaneously processing two refinance applications for two investment properties owned by the borrower. The application for property A requires reserves of $5,000. The application for property B requires reserves of $10,000. Because the reserves are covering the same properties, the lender does not have to verify $15,000 in reserves, but only those required per each application.

Continued on next page

Cash Reserve Requirements, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Calculation of Reserves**
  - Reserves are borrower's assets remaining after the mortgage closing. The source of funds used for reserves, when needed to qualify the borrower for the mortgage transaction, must meet the eligibility and documentation requirements outlined in the "General Asset Information," "General Asset Documentation Requirements," and specific asset type subtopics outlined in this topic. Reserves are measured by the number of months of the monthly payment amount for the property. The monthly payment amount is the sum of the following monthly charges:
    - Principal and interest payments on the mortgage
    - Property hazard insurance premiums
    - Real estate taxes
    - When applicable:
      - Mortgage insurance premiums
      - Leasehold payments
      - Homeowners association dues (excluding unit utility charges)
      - Payments on secondary financing
  - When calculating reserves for the subject property, the principal and interest payment of the monthly payment amount must be based, at a minimum, on the note rate. When calculating reserves for other properties, the monthly payment amount for the property must be no less than the current monthly payment amount.

- **Minimum Required Reserves**
  - The lender must verify all reserves required by Loan Product Advisor, as stated on the Feedback Certificate.
  - The amount of reserves stated on the Feedback Certificate and required to be verified for LPA mortgages secured by second homes and investment properties includes the following additional reserves:

Number of financed properties	Additional required reserves for second home or investment property mortgages
When each borrower individually, and all borrowers collectively, are obligated on **one to six** financed properties, including the subject property and the borrower's primary residence	Two months of the monthly payment amount (as described above) on each additional second home and/or 1- to 4-unit investment property that is financed and on which the borrower is obligated.
When each borrower individually, and all borrowers collectively, are obligated on **seven to ten** financed properties, including the subject property and the borrower's primary residence	Eight months of the monthly payment amount (as described above) on each additional second home and/or 1- to 4-unit investment property that is financed and on which the borrower is obligated.

Continued on next page

Cash Requirements, Continued

Cash Reserve Requirements, continued

Freddie Mac LPA, continued

Truist Note: LPA automatically calculates the additional required reserves stated in the chart above. This amount will automatically be included in the “Required Reserves” field on the Loan Product Advisor Feedback Certificate.

- When the lender is processing multiple mortgage applications for the same borrower, the same assets may be used to meet the reserve requirements for each mortgage application.
- For refinance mortgages, the cash-out proceeds from the subject cash-out refinance transaction and any cash back received on the subject “no cash-out” refinance transaction are not eligible sources of funds for reserves.

Checking, Savings Money Market, Certificates of Deposit (CD), or Other Depository Accounts

Non-AUS
- Funds held in a checking, savings, money market, certificate of deposit, or other depository accounts may be used for the down payment, closing costs, and financial reserves. The funds must be verified as described in the “General Asset Documentation Requirements” subtopic previously presented in this topic. Unverified funds are not acceptable for the down payment, closing costs, or financial reserves.
- The lender must investigate any indications of borrowed funds. These must be identified differently based upon how the asset account was verified.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements. The following additional guidance applies:
- For depository assets (checking and savings accounts, money market funds, and certificates of deposit), DU will require the following:
  - two consecutive monthly bank statements (60 days of account activity) for all purchase transactions, or
  - one monthly statement (30 days of account activity) for all limited cash-out and cash-out refinance transactions.
- Monthly bank statements must be dated within 45 days of the initial loan application date.
- Quarterly bank statements must be dated within 90 days of the initial loan application date, and the lender must confirm that the funds in the account have not been transferred to another asset account that is verified with more current documentation.
- A *Verification of Deposit* (Form 1006 or Form 1006(S)) can be obtained in place of bank statements.
- When DU validates assets, DU issues a message indicating the acceptable documentation. Compliance with the DU message satisfies the requirement for documenting assets. This documentation may differ from the General Documentation Requirements described above. See “DU Validation Service” in the “Fannie Mae DU Loans” subtopic subsequently presented in the “Underwriting the Borrower” topic for additional guidance.

Continued on next page

Checking, Savings Money Market, Certificates of Deposit (CD), or Other Depository Accounts, continued

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Depository accounts used to deposit and withdraw cash, such as the accounts listed below, are eligible asset types for borrower personal funds:
  - Checking
  - Savings
  - Money market
  - Certificate of deposit (CD)
  - Other depository accounts
- Documentation requirements are as follows:

Streamlined Accept Documentation Requirements	Standard Documentation Requirements
Provide an account statement covering a **one-month period** or a direct account verification (i.e., VOD)	Provide account statement(s) covering a **two-month period** or a direct account verification (i.e., VOD)

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Credit Cards

Non-AUS

- **Credit Card Financing**
  - Certain costs that must be paid early in the application process, such as lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees, are permitted to be charged to the borrower's credit card because these fees do not represent extraordinary amounts and the credit card debt is considered in the borrower's total monthly debt-to-income ratio. Borrowers are not required to pay off these credit card charges before closing. Under no circumstances may credit card financing be used for the down payment.
  - Lenders may allow credit card financing for the payment of common and customary fees paid outside of closing up to a maximum of 2% of the loan amount if the lender:
    - confirms that the borrower has sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and the down payment that he or she will be paying), or
    - recalculates the credit card payment, per the guidance outlined in the Revolving Debts subtopic, to account for the new charges and includes the updated payment in the qualifying ratio calculation.

Continued on next page

Credit Cards, (continued)

Non-AUS

- **Credit Card Reward Points**
  - Credit card reward points are permitted as acceptable funds for use towards closing costs, down payment and financial reserves, provided the reward points are converted to cash prior to the closing of the loan. The following requirements apply:
    - If the credit card reward points are converted to cash and deposited into the borrower's depository account (for example, checking or savings), no additional documentation is required unless the deposit is considered a large deposit. In this event, the lender must follow the requirements subsequently outlined in the Large Deposits subtopic.
    - If the credit card reward points are converted to cash, but not deposited into a borrower's depository account, the lender must provide evidence the reward points were:
      - available to the borrower prior to the conversion, including verification of the cash value (for example, credit card reward statement prior to conversion); and
      - converted to cash prior to the closing of the loan.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Credit Card Financing**
  - For DU, lenders must apply this guidance manually:
    - the fees charged to the borrower's credit card must be included as a closing cost in the loan application, and removed from any Borrower Paid Fees entered as an other credit for the fees paid outside of closing, ***or***
    - alternatively, the monthly credit card payment in the liabilities section of the loan application must be increased to include the charges if not reflected in the credit report.
- **Credit Card Reward Points**
  - For DU loan casefiles, if the reward points are not already converted to cash and deposited into a depository account, lenders must enter the cash value of the reward points as an Asset with an Account Type of "Other" and a description of "Other Liquid".

Continued on next page

Cash Requirements, Continued

Credit Cards, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Credit Card Financing**
  - Borrower's revolving credit card (charges/cash advances) or unsecured line of credit used to pay fees associated with the mortgage application process (e.g., origination fees, commitment fees, lock-in fees, appraisal, credit report and flood certifications) are an eligible asset type for borrower personal funds, subject to the following requirements:
    - The maximum amount charged or advanced may not exceed the greater of 2% of the mortgage amount or $1,500.
      AND
    - The borrower must have sufficient verified funds to pay these fees in addition to the funds needed to qualify for the mortgage transaction; however, the borrower is not required to pay off these charges at closing;
      OR
    - The amount charged or advanced must be included in the borrower's total outstanding debt and the repayment of such amount must be included when determining the borrower's monthly debt payment-to-income ratio.

    Reference: See "Special Income and Asset Requirements" / "Borrower's Revolving Credit Card (Charges/Cash Advances) or Unsecured Line of Credit" in the "Relocation Mortgages" subtopic (previously presented in the "Eligible Transactions" topic within this document) for guidance when the borrower uses a revolving credit card or unsecured line of credit to pay fees that will be reimbursed pursuant to an employee relocation program.

  - Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements
Provide the following: • A copy of the 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 monthly debt payment-to-income ratio

  - See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Continued on next page

Credit Cards, continued

Freddie Mac LPA, continued

- **Credit Card Reward Points**
  - The reward points must be redeemed for cash. Provide the following for reward points that are not yet deposited in the borrower's account:
    - Evidence of the borrower's ownership of the reward points and their cash value, and
    - Evidence that the reward points are redeemed for cash prior to closing, which may include a direct transfer of the cash to the settlement or closing agent
  - For reward points redeemed for cash and deposited in the borrower's account, standard LPA asset documentation requirements for funds held in a depository account (i.e., checking, savings, etc.), including requirements for a large deposit (if applicable), apply. Refer to the requirements for evaluation of deposits in the borrower's accounts in the "Large Deposits" subtopic in "Cash Requirements" topic presented in this document.

Continued on next page

Cash Requirements, Continued

Deposit on Sales Contract

Non-AUS

- **Sales Contract Deposit**
  - The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs. See the "Virtual Currency (Fannie Mae Terminology) / Cryptocurrency (Freddie Mac Terminology)" subtopic subsequently presented in this "Cash Requirements" topic for additional information.

- **Verification of Source of Funds**
  - If the deposit is being used as part of the borrower's minimum contribution requirement, the lender must verify that the funds are from an acceptable source.
  - A *Request for Verification of Deposit* (Form 1006 or Form 1006(S)) must indicate that the average balance for the past two months was large enough to support the amount of the deposit.
  - Bank statements must evidence that the average balance for the past two months was large enough to support the amount of the deposit. If a copy of the cancelled deposit check is used to document the source of funds, the bank statements must cover the period up to (and including) the date the check cleared the bank account.
  - If it cannot be determined that these funds were withdrawn from the borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the real estate agent, the escrow agent, or the settlement attorney should be provided. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

- **Documentation for Receipt of the Deposit**
  - Receipt of the deposit must be verified by either a copy of the borrower's canceled check or a written statement from the holder of the deposit.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements. The following additional guidance applies:

- Earnest money is entered in Section 2b in the loan application. It is treated as a credit to the transaction and will reduce the borrower's required funds to close as reflected in Section L4. The earnest money check is assumed to have cleared the borrower's bank account and must not be reflected in the balance of an asset account.

Continued on next page

Deposit on Sales Contract, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- When an EMD for a purchase transaction is used to qualify the borrower for the mortgage transaction, the lender must obtain evidence that the EMD check cleared the borrower's account (e.g., copy of the canceled check, asset account statement or written statement from the EMD holder verifying receipt of the funds).
- When the EMD is needed to meet the minimum contribution from borrower personal funds, the lender must:
  - Verify that the source of the EMD is an eligible asset type and document it in accordance with the applicable requirements in this topic
  - Provide account statement(s) (based on Streamlined Accept or Standard documentation requirements, as applicable) or a direct account verification (i.e., VOD) that covers the period up to and including the date the EMD funds cleared the account
- The EMD must not be counted twice in the evaluation of the mortgage (i.e., deducted from the funds to close and counted in assets).
- If the source of the borrower's EMD is gift funds, see the "Gift Funds" subtopic subsequently presented in this topic, for additional information.

Truist Note: See the "Virtual Currency (Fannie Mae Terminology) / Cryptocurrency (Freddie Mac Terminology)" subtopic subsequently presented in this "Cash Requirements" topic for additional information.

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Cash Requirements, Continued

Donations From Entities - Grants

Non-AUS

- **Overview**
  - Borrowers of a loan secured by a primary residence may use funds donated from acceptable entities for all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements. These funds are referred to as a grant.
  - Grants must be funded by one of the following entities, provided they are not the property seller or other interested party in the transaction;
    - a federal agency, state, county, or similar political subdivision of a state:
    - any city, town, village, or borough of a state that:
      - has a local government and that has been created by a special legislative act,
      - has been otherwise individually incorporated or chartered pursuant to state law, or
      - is recognized as such under the constitution or by the laws of the state in which it is located,
    - a housing finance agency as defined in 24 C.F.R. §266.5;
    - a nonprofit organization exempt from taxation under Section 501©(3) of the Internal Revenue Code;
    - a regional Federal Home Loan Bank under one of its affordable housing programs;
    - an employer where the borrower is an employee (see the “Employer Assistance” subtopic subsequently presented in this topic for additional information about grants from employers); or
    - an Indian tribe on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. §5131
  - Down payment assistance may not be funded in any way through the first lien mortgage, such as premium pricing.
  - Grant funds may also be applied towards energy-related improvements if:
    - the program under which the funds are made available allows such a use, and
    - the minimum borrower contribution requirements are met.

- **Minimum Borrower Contribution Requirements**
  - See the Minimum Borrower Contribution Requirements section in the applicable product description for minimum borrower contribution requirements for transactions that contain grants.

- **Donation Requirements**
  - The grant must be documented with either a copy of the letter awarding the gift or grant to the borrower or a copy of the legal agreement that specifies the terms and conditions of the grant. The document must include language indicating that repayment of the grant is not expected, and how the funds will be transferred to the borrower, lender, or closing agent.
  - The transfer of grants must be documented with a copy of the donor’s canceled check, a copy of the settlement statement showing receipt of the check, or similar evidence. The documentation must be included in the individual mortgage file.

Continued on next page

Cash Requirements, Continued

Donations From Entities – Grants, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements. The following additional requirements apply:

- **Form 1003 1/2021**
  - Grants (and gifts) are entered in Section 4d and identified as being deposited or not deposited. Grants that are deposited have been received by the borrower and the value should be included in another asset account. The amount of the grant is not included in available funds.
  - Grants that are not deposited are not included in another asset account. The amount of the grant is included in available funds.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- A gift or grant from an Agency that does not have to be repaid is an eligible source of funds provided that:
  - The gift or grant is given pursuant to an established program,
  - The Agency is not an interested party (as described in the "Interested Party Contributions (IPCs)" topic subsequently presented in this document),

    Reference: See the "Note" at the end of this section for Freddie Mac's definition of "Agency."

  - The funds were not obtained from an interested party either directly or through a third party, and
  - With respect to the subject mortgage, the Agency must not:
    - Be the lender or have participated in any aspect of the mortgage origination process
    - Be affiliated with, under contract to, or financed (directly or indirectly) by the lender or any party that participated in the mortgage origination process

    Notes:
    - For these purposes, "affiliated with" means that the Agency and the lender or other party are related to each other as a consequence of one entity directly or indirectly controlling the other party, being controlled by the other party or being under common control with that party.
    - If the source of funds is an Employer Assisted Homeownership (EAH) Benefit, see the "Employer Assistance" subtopic subsequently presented in this topic for the permitted exceptions to the above guidance.

- Gifts and grants from Agencies are not eligible sources of funds for second home and investment property mortgages.

Continued on next page

Cash Requirements, Continued

Donations From Entities – Grants, continued

Freddie Mac LPA, continued

- Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements
Provide documentation supporting a gift or grant from an Agency. Examples of acceptable documentation include copies of grant program materials, award letters or terms and conditions provided to the borrower. The documentation must: • Establish that the funds were provided by an Agency • Establish that the organization has an established gift or grant program • Establish that the funds are a gift or grant that does not have to be repaid • Provide evidence that the funds were received by the borrower or by the lender on the borrower's behalf • Identify the donor's mailing address

See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Note: Freddie Mac's defines "Agency" as follows:

- The sponsor or provider of financial assistance through an agency gift or grant, Affordable Second®, Individual Development Account (IDA), or unsecured loan (Home Possible Mortgages only), as applicable. An Agency must be one of the following:
  - A municipality which includes any duly authorized authority or agency of the federal, state, local or municipal government
  - A non-profit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code
  - An employer where the borrower is an employee
  - A regional Federal Home Loan Bank under one of its affordable housing programs
  - A Native American Tribe as defined below:
    - A federally recognized Indian tribe of the United States that is included in the U.S. Department of the Interior Bureau of Indian Affairs (BIA's) most recent publication of the notice titled "Indian Entities Recognized by and Eligible To Receive Services From the United States Bureau of Indian Affairs".

      Note: An entity created or partially or wholly owned by a Native American Tribe that does not qualify as a Tribally Designated Housing Entity (TDHE) cannot be considered an Agency.

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Employer Assistance

Non-AUS

- **Forms of Employer Assistance**
  - The employer assistance may be in the form of:
    - a grant,
    - a direct, fully repayable second mortgage or unsecured loan,
    - a forgivable second mortgage or unsecured loan, or
    - a deferred-payment second mortgage or unsecured loan.
  - A borrower of a mortgage loan secured by a primary residence may use funds provided by an employer to fund all or part of the down payment or closing costs subject to the minimum borrower contribution requirements. Employer assistance can also be used for financial reserves for all types of assistance with the exception of unsecured loans (which may only be used for the down payment and closing costs). Employer assistance funds are not allowed on a second home or an investment property.
  - See the "Minimum Borrower Contribution Requirements" subtopic in the applicable product description for minimum borrower contribution requirements for transactions that contain employer assistance.
  - Funds must come directly from the employer, including through an employer-affiliated credit union.
  - When employer assistance is extended as a secured second mortgage, the transaction may be structured as a Community Seconds or it must satisfy the eligibility criteria for mortgages that are subject to subordinate financing.
  - If the secured second mortgage or unsecured loan does not require regular payments of either principal and interest or interest only, the lender does not need to calculate an equivalent payment for consideration as part of the borrower's monthly debt. If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.
  - ***Special Feature Code Requirement***: SFC D25 is required for delivery to the GSE.

- **Documentation Requirements**
  - The lender must document:
    - that the program is an established company program, not just an accommodation developed for an individual employee.
    - 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).

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Cash Requirements, Continued

Employer Assistance, (continued)

Non-AUS, continued

- **Eligible Repayment Terms for Employer Subordinate Financing**
  - If the subordinate financing is from the borrower's employer, it does not have to require regular payments of either principal and interest or interest only. Employer subordinate financing may be structured in any of the following ways:
    - fully amortizing level monthly payments,
    - deferred payments for some period before changing to fully amortizing level payments,
    - deferred payments over the entire term, or
    - 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 (either voluntarily or involuntarily) before the maturity date of the subordinate financing.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **General Requirements**
  - An Employer Assisted Homeownership (EAH) Benefit may be used as a source of funds to qualify the borrower for the mortgage transaction if the terms of the EAH Benefit comply with the following:
    - The EAH Benefit is provided to an employee from the employer pursuant to an established, ongoing and documented employer benefit program, provided:
      - the employer is not an interested party (as described in the "Interested Party Contributions (IPCs)" topic subsequently presented in this document), and
      - the funds were not obtained from an interested party either directly or through a third party
    - The mortgage is secured by a 1- to 4-unit primary residence

- **Types of Benefits**
  - The EAH Benefit may be any of the following structures meeting the applicable requirements:

Type of Benefit	Requirements
Grant	See requirements for gift or grant from an Agency in the "Donations from Entities - Grants" subtopic previously presented in this topic **Note:** With respect to the subject mortgage, the requirement that the Agency must not be the lender or have participated in any aspect of the mortgage origination process, and must not be affiliated with, under contract to, or financed (directly or indirectly) by the lender or any party that participated in the mortgage origination process, does not apply.

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Cash Requirements, Continued

Employer Assistance, (continued)

Freddie Mac LPA, continued

- **Types of Benefits,** continued

Type of Benefit	Requirements
Individual Development Account (IDA)	See requirements for matching funds for IDAs in the "Individual Development Accounts (IDAs)" subtopic subsequently presented in this topic **Note:** With respect to the subject mortgage, the requirement that the Agency must not be the lender or have participated in any aspect of the mortgage origination process, and must not be affiliated with, under contract to, or financed (directly or indirectly) by the lender or any party that participated in the mortgage origination process, does not apply.

Unsecured Loan	• An unsecured loan may be fully repayable, deferred payment or forgivable. The source, terms and conditions must be documented on Form 65, Uniform Residential Loan Application.
	• The proceeds from an unsecured loan that is an EAH Benefit may be used to fund all or part of the down payment or closing costs. The terms of the EAH Benefit 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
	• If the EAH Benefit is fully repayable, the required monthly payment must be included when calculating the monthly debt payment-to-income ratio. If the monthly payment of principal and interest or interest only begins on or after the 61st monthly payment under the first lien mortgage or if repayment of the loan is due only upon sale or default, the amount of the monthly payment may be excluded from the monthly debt payment-to-income ratio.
	
	Reference: See "Special Income and Asset Requirements" / "Employer Assisted Homeownership (EAH) Benefit" in the "Relocation Mortgages" subtopic (previously presented in the "Eligible Transactions" topic within this document) for requirements when an EAH Benefit is used as a source of funds to qualify for a mortgage made pursuant to an employee relocation program.

Secondary Financing	• Secondary financing may be fully repayable, deferred payment or forgivable, and must meet the requirements in the "Secondary Financing" topic previously presented in this document

Continued on next page

Cash Requirements, Continued

Employer Assistance, (continued)

Freddie Mac LPA, continued

Type of Benefit	Requirements

Secondary Financing, continued	• The terms of the EAH Benefit 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
	• If the monthly payment of principal and interest or interest only begins on or after the 61st monthly payment under the first lien mortgage or if repayment of the loan is due only upon sale or default, the amount of the monthly payment may be excluded from the monthly debt payment-to-income ratio; otherwise, the required monthly payments must be included in calculating the monthly housing expense-to-income ratio.
	
	Reference: See “Special Income and Asset Requirements” / “Employer Assisted Homeownership (EAH) Benefit” in the “Relocation Mortgages” subtopic (previously presented in the “Eligible Transactions” topic within this document) for requirements when an EAH Benefit is used as a source of funds to qualify for a mortgage made pursuant to an employee relocation program.

Affordable Second	• An Affordable Second may be fully repayable, deferred payment or forgivable, and must meet the requirements outlined in the “Affordable Seconds® (Freddie Mac)” subtopic previously presented in the “Secondary Financing “ topic within this document
	
	Note: With respect to the subject mortgage, the requirement that the Agency must not be the lender or have participated in any aspect of the mortgage origination process, and must not be affiliated with, under contract to, or financed (directly or indirectly) by the lender or any party that participated in the mortgage origination process, does not apply.
	
	• The terms of, the EAH Benefit 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
	• If the monthly payment of principal and interest or interest only begins on or after the 61st monthly payment under the first lien mortgage or if repayment of the loan is due only upon sale or default, the amount of the monthly payment may be excluded from the monthly debt payment-to-income ratio; otherwise, the required monthly payments must be included in calculating the monthly housing expense-to-income ratio.

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Cash Requirements, Continued

Employer Assistance, (continued)

Freddie Mac LPA, continued

- **Documentation Requirements**
  - In addition to the documentation requirements for specific benefit types, the following requirements must be met:
    - EAH Benefits must be documented with a copy of the employer benefit program that provides the amount of the benefit and the terms of the program
    - Evidence of receipt of the EAH Benefit must be provided (e.g., funds on deposit in borrower's account or funds reflected on the Settlement/Closing Disclosure Statement)

- **Special Feature Code Requirement**
  - Use SFC D25 to identify a mortgage using employer assisted homeownership benefits.

Foreign Assets

Non-AUS

- The lender must document all sources of funds used for down payments, closing costs and financial reserves. All documents of a foreign origin must be completed in English, or the originator must provide a translation, attached to each document, and ensure the translation is complete and accurate.
- When the source of those funds originates from assets located outside of the U.S. and its territories, those assets require:
  - documented evidence of the foreign assets exchanged into U.S. dollars and held in a U.S. or state regulated financial institution, and
  - verification of the funds in U.S. dollars prior to the loan closing.
- The lender must evaluate large deposits in accordance with the requirements outlined in the “Large Deposits” subtopic subsequently presented in this topic.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Reference: See “Source of Funds from Outside the United States and its Territories” in the “General Asset Information” subtopic, previously presented in this topic, for guidance.

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Funds Dispersed from a Trust

Non-AUS

- Funds disbursed from a borrower's trust account are an acceptable source for the down payment, closing costs, and reserves provided the borrower has immediate access to the funds.
- To document trust account funds, the lender must:
  - obtain written documentation of the value of the trust account from either the trust manager or the trustee, and
  - document the conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The borrower must be the beneficiary and have access to the funds as of the date of the loan closing.
- The borrower's portion of undistributed trust funds may be used as reserves only.
- Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements

• Provide a copy of the trust agreement or a signed statement from the trustee or trust manager that documents the following information:
  • Identifies the borrower as the beneficiary
  • Confirms that the borrower has access to all or a certain specific amount of the funds
  • Confirms that the trust has sufficient assets to disburse funds needed by the borrower
• When trust funds are needed for closing, evidence of receipt of the disbursed funds from the trust is required.

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Continued on next page

Gift Funds

Non-AUS

- **Gift Funds**
  - A borrower of a mortgage loan secured by a primary residence may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements.

    Note: A gift of equity may not be used for financial reserves. For additional information, see the "Gift of Equity" subtopic subsequently presented in this document.

    Reference: See the "Minimum Borrower Contribution Requirements" subtopic in the applicable product description for minimum borrower contribution requirements for transactions that contain gifts.

- **Acceptable Donors**
  - A gift can be provided by:
    - A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption or legal guardianship; or
    - a non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent.
  - The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

    Note: Gift funds from the seller who is also an acceptable donor and not affiliated with any other interested party to the transaction are allowed. The donor of a gift of equity is not considered an interested party to the transaction.

- **Documentation Requirements**
  - Gifts must be evidenced by a letter signed by the donor, called a gift letter. The gift letter must:
    - Specify the actual or the maximum dollar amount of the gift;
    - Include the donor's statement that no repayment is expected; and
    - Indicate the donor's name, address, telephone number, and relationship to the borrower.

    Note: If the actual amount of the gift received is different than the amount used to underwrite the loan, the lender must verify the borrower has sufficient funds for closing, down payment and/or financial reserves.

  - When a gift from an acceptable donor is being pooled with the borrower's funds to make up the required minimum cash down payment, the following items must also be included:
    - A certification from the donor stating that they have lived with the borrower for the past 12 months and will continue to do so in the new primary residence.
    - Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

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Gift Funds, continued

- **Verifying Donor Availability of Funds and Transfer of Gift Funds**
  - The lender must verify that sufficient funds to cover the gift are either in the donor's account (such as a checking, savings, or investment account owned by the donor) or have been transferred to the borrower's account. Acceptable documentation includes the following:
    - a copy of the donor's check and the borrower's deposit slip,
    - a copy of the donor's withdrawal slip and the borrower's deposit slip,
    - evidence of the electronic transfer of funds from the donor's account to the borrower's account or to the closing agent;
    - a copy of the donor's check to the closing agent, or
    - a settlement statement showing receipt of the donor's check.
  - When the funds are not transferred prior to settlement, the lender must document that the donor gave the closing agent the gift funds in the form of an electronic transfer, a certified check, a cashier's check, or other official check.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- A borrower of a mortgage loan secured by a primary residence or second home may use funds received as a personal gift from an acceptable donor. Gift funds may fund all or part of the down payment, closing costs, or financial reserves subject to the minimum borrower contribution requirements. Gifts are not allowed on an investment property.

  Note: A gift of equity may not be used for financial reserves. For additional information, see the "Gift of Equity" subtopic subsequently presented in this document.

  Reference: See the "Minimum Borrower Contribution Requirements" subtopic in the applicable product description for minimum borrower contribution requirements for transactions that contain gifts.

- It is important that the gift amount is identified separately as a gift even if the funds have already been deposited in a liquid asset account owned by the borrower (such as checking or savings account). The balance of the liquid asset account entered in the loan application must be adjusted accordingly to prevent duplicate entry of funds.
- Gifts are entered in Section 4d of the loan application and identified as being deposited or not deposited. Gifts that are deposited have been received by the borrower and the value should be included in another asset account. The amount of the gift is not included in available funds.
- Gifts that are not deposited are not included in another asset account. The amount of the gift is included in available funds.

Note: If the actual amount of the gift received is different than the amount used to underwrite the loan casefile in DU, the lender may need to resubmit the loan casefile to DU in accordance with "Ensuring DU Data and Delivery Information Accuracy / DU Tolerances" guidance subsequently presented in the "Underwriting the Borrower" topic within this document.

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Cash Requirements, Continued

Gift Funds (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Eligibility and documentation requirements are as follows:

Asset Type	Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
Gift Funds or a Gift of Equity	• Gift funds or a gift of equity is an eligible source of funds for a mortgage secured by a primary residence or second home provided that funds do not have to be repaid and the donor is: ◦ A related person, or ◦ A trust established by a related person, or ◦ The estate of a related person • When a mortgage is secured by a second home and the LTV/TLTV/HTLTV ratio is greater than 80%, the gift is permitted only if the borrower has made a down payment of at least 5% from borrower personal funds as described in the "Special Requirements for Borrower Personal Funds" section of the "General Asset Information" subtopic previously presented in this topic. • Gift funds or a gift of equity are not an eligible source of funds for investment property mortgages. • Except as stated below for earnest money deposits, gift funds must be transferred directly from the donor's account in a financial institution to the borrower's account or to the settlement or closing agent.	• Provide a gift letter signed by the donor. When the gift is provided by a trust or an estate, the gift letter must be signed by the trustee or the authorized representative of the estate, as applicable. • Information provided in the gift letter must: ◦ State the donor's name and that the funds are given by a related person, a trust established by a related person, or the estate of a related person, as applicable. ◦ Include the donor's mailing address and telephone number. When the donor is a trust or an estate, provide the mailing address and telephone number of the trustee or authorized representative, as applicable. ◦ State the actual or the maximum amount of the gift funds or gift of equity ◦ Establish that the gift funds or gift of equity are a gift that does not have to be repaid • **Gift Funds**: The lender must provide evidence of one of the following: ◦ Transfer of funds from the donor's account in a financial institution to the borrower's account. For example, copies of bank statements from both the donor and the borrower's account, a copy of a canceled gift check or a copy of a donor's withdrawal slip and the borrower's deposit slip, or ◦ Transfer of the funds from a donor's account in a financial institution to the settlement or closing agent. For example, a copy of a cashier's check or wire transfer confirmation. ◦ For an earnest money deposit paid by the donor directly to the builder or real estate agent, transfer of funds from the donor's account in a financial institution to the earnest money deposit holder. For example, a copy of a canceled gift check, a copy of a cashier's check or wire transfer confirmation. **Note:** Funds transferred using a third-party money transfer application or service are acceptable only when the documentation included in the mortgage file evidences

Continued on next page

Cash Requirements, Continued

Gift Funds, (continued)

Freddie Mac LPA, continued

Asset Type	Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
Gift Funds or a Gift of Equity (continued)	• For earnest money deposits, the donor may also provide the gift funds directly to a builder or real estate agent.	that the funds were transferred using the application or service directly from the donor's bank account to the borrower's bank account or to the settlement or closing agent. • **Gift of Equity**: A gift of equity must be reflected on the Settlement/Closing Disclosure Statement.
Gift Funds Received as a Wedding Gift	• Gift funds received as a wedding gift from unrelated persons and/or related persons is an eligible source of funds for a mortgage secured by a primary residence. • The gift funds must be on deposit in the borrower's depository account within 90 days of the date of the marriage license or certificate.	Provide the following: • A copy of the marriage license or certificate • A verification of the gift funds in the borrower's depository account
Gift Funds Received as a Graduation Gift	Gift funds received as a graduation gift from unrelated persons and/or related persons are an eligible source of funds for a mortgage secured by a primary residence. The gift funds must be on deposit in the borrower's depository account within 90 days of the date of graduation.	Provide the following: • Evidence of graduation from an educational institution (e.g., diploma or transcripts) that supports the date of graduation • A verification of the gift funds in the borrower's depository account

Note: A related person is a person that is any of the following:

- The borrower's spouse, child or dependent
- An individual related to the borrower by blood, marriage or adoption
- A guardian of the borrower
- A person for whom the borrower is a guardian
- The borrower's fiancée or fiancé
- The borrower's domestic partner
- An unrelated individual with close, family-like ties to the borrower

- Truist clarifies that it is important that the gift amount is identified separately as a gift even if the funds have already been deposited in a liquid asset account owned by the borrower (such as checking or savings account). The balance of the liquid asset account entered in the loan application must be adjusted accordingly to prevent duplicate entry of funds.
- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Continued on next page

Cash Requirements, Continued

Gift of Equity

Non-AUS

- A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property, and is transferred to the buyer as a credit in the transaction. A gift of equity is permitted for primary residence and second home purchase transactions.
- A gift of equity:
  - 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); and
  - cannot be used towards financial reserves.
- The acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity. See the "Gift Funds" subtopic previously presented in this document for additional information.
  - When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and the gift of equity is not subject to Fannie Mae's interested party contribution requirements.

- **Documentation Requirements:**
  - The following documents must be retained in the loan file:
    - a signed gift letter, and
    - the settlement statement listing the gift of equity.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements. The following additional requirement applies:

- Enter a gift of equity in the loan application.

Freddie Mac LPA

See the "Gift Funds" subtopic previously presented in this topic for guidance.

Continued on next page

Cash Requirements, Continued

Individual Development Accounts (IDAs)

Non-AUS

- 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 homebuyer's savings account,
  - separately designated matching funds within a single agency account via accounting processes to allocate matching funds to a particular homebuyer, and
  - the use of a trustee account that contains both the homebuyer's funds and the agency's matching funds.
- When a homebuyer 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 homebuyer's account, the matching funds need not be commingled with the homebuyer's funds prior to disbursement to the closing agent. It is acceptable to allow the separate disbursement of funds from the agency and from the homebuyer, as long as the terms of the IDA program are met.
- Funds that the borrower deposited into an IDA may be used for either the closing costs or the down payment. Depending on the repayment terms of the IDA program, the borrower may or may not be required to meet the minimum down payment requirements from his or her own funds, as outlined below:

IDA Repayment Terms	Allowable Use of Matching Funds

The nonprofit agency
• requires repayment of the matching funds,
• agrees to defer or forgive repayment provided that certain conditions are met, or
• files a lien against the property
	• The borrower may use the matching funds to supplement the down payment provided he or she has met the minimum borrower contribution requirements.
	• The minimum borrower contribution must come from the borrower's own funds unless:
	  ◦ The LTV or TLTV ratio is less than or equal to 80%, or
	  ◦ The borrower is purchasing a one-unit primary residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contributions.

The nonprofit agency • does not require repayment of the matching funds, and • does not file a lien against the property.	• The borrower may use the matching funds 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.

Continued on next page

Cash Requirements, Continued

Individual Development Accounts (IDAs), continued

Non-AUS, continued

- The lender must ensure that all of the following requirements for the IDA are satisfied:
  - Document how the nonprofit agency's IDA program operates.
  - Verify the rate at which the agency matches borrower deposits into the account.
  - Determine that the borrower satisfied the program's vesting requirements.
  - Document the borrower's regular payments into the account and the agency's regular deposits of matching funds into the account.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- An individual development account (IDA) is a savings account designated by the borrower for the purpose of purchasing a residence and into which the borrower has regularly deposited funds which are matched by funds from an Agency. If the Agency matching funds are to be used as a source of funds, the objective for which the IDA was established and the vesting requirements must be satisfied.

  Reference: See the "Note" at the end of the "Donations From Entities – Grants" subtopic previously presented in this topic for Freddie Mac's definition of "Agency."

Continued on next page

Cash Requirements, Continued

Individual Development Accounts (IDAs), continued

Freddie Mac LPA,continued

- Eligibility and documentation requirements are as follows:

Asset Type	Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
Individual Development Account (IDA) - Agency Matching Funds Not Subject to Recapture	• With respect to the subject mortgage, the Agency must not: ◦ Be the lender or have participated in any aspect of the mortgage origination process ◦ Be affiliated with, under contract to, or financed (directly or indirectly) by the lender or any party that participated in the mortgage origination process **Notes:** ◦ For these purposes, “affiliated with” means that the Agency and the lender or other party are related to each other as a consequence of one entity directly or indirectly controlling the other party, being controlled by the other party or being under common control with that party. ◦ If the source of funds is an Employer Assisted Homeownership (EAH) Benefit, see the “Employer Assistance” subtopic previously presented in this topic for the permitted exceptions to the above guidance. • Any matching funds may be considered borrower personal funds • A maximum of a 4 to 1 match by an Agency's funds is permitted • The borrower must satisfy any vesting requirements of the matching IDA program	Provide documentation of the IDA program verifying: • The matching funds are not subject to recapture • The ratio of matching funds by the Agency • Regular payments made to the IDA by the borrower and the matching organization • The vested balance or the percentage of vesting

Continued on next page

Individual Development Accounts (IDAs), continued

Freddie Mac LPA, continued

Asset Type	Eligibility Requirements	Streamlined Accept and Standard Documentation Requirements
Individual Development Account (IDA) - Agency Matching Funds Subject to Recapture	Agency matching funds subject to recapture are an eligible source of funds provided that: • The matching funds must be considered a gift or grant from an Agency as described in this topic • A maximum of a 3-to-1 match by an Agency's funds is permitted The borrower must satisfy any vesting requirements of the matching IDA program	Provide documentation of the IDA program verifying: • The matching funds are subject to recapture • The ratio of matching funds by the Agency • Regular payments made by the borrower and the matching organization • The vested balance or the percentage of vesting Documentation of matching funds subject to a recapture provision must also meet the requirements for a gift or grant from an Agency, except that the lender does not have to establish that the funds do not have to be repaid. See the "Donations From Entities - Grants" subtopic previously presented in this topic for guidance.

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

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Cash Requirements, Continued

Large Deposits

Non-AUS

- A large deposit is defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. When bank statements (typically covering the most recent two months) are used, the lender must evaluate large deposits. See the "Virtual Currency (Fannie Mae Terminology) / Cryptocurrency (Freddie Mac Terminology)" subtopic subsequently presented in this "Cash Requirements" topic for additional information when a large deposit may be from virtual currency that was liquidated into U.S. dollars.
- Requirements for evaluating large deposits vary based on the transaction type, as shown in the table below.

Transaction Type	Evaluation Requirements
Refinance transactions	• Documentation or explanation for large deposits is **not** required; however, the lender remains responsible for ensuring that any borrowed funds, including any related liability, are considered.
Purchase transactions	• If funds from a large deposit are needed to complete the purchase transaction (that is, are used for the down payment, closing costs, or financial reserves), the lender must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the lender must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The lender must place in the loan file written documentation of the rationale for using the funds. • Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the lender must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the lender uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes. **Note**: When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit.

Continued on next page

Large Deposits, continued

Non-AUS, continued

Transaction Type	Evaluation Requirements
Purchase transactions	**Examples** • **Scenario 1**: Borrower has monthly income of $4,000 and an account at ABC Bank with a balance of $20,000. A deposit of $3,000 is identified, but $2,500 of that deposit is documented as coming from the borrower's federal income tax refund. Only the unsourced $500 [the deposit of $3,000 minus the documented $2,500] must be considered in calculating whether it meets the large deposit definition. The unsourced $500 is 12.5% of the borrower's $4,000 monthly income, falling short of the 50% definition of a large deposit. Therefore, it is not considered a large deposit and the entire $20,000 balance in the ABC Bank account can be used for underwriting purposes. • **Scenario 2**: Using the same borrower example, a deposit of $3,000 is identified, but only $500 is documented as coming from the borrower's federal income tax refund, leaving $2,500 unsourced. In this instance, the unsourced $2,500 is 63% of the borrower's $4,000 monthly income, which does meet the definition of a large deposit. Therefore, the unsourced $2,500 must be subtracted from the account balance of $20,000 and only the remaining $17,500 may be used for underwriting purposes.

Notes:
- If the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation.
- However, if the source of the deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed, the lender should obtain additional documentation.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, in addition to the following:
- When the lender uses a reduced asset amount, net of the unsourced amount of a large deposit, that reduced amount must be entered in DU for underwriting purposes.
- The DU validation service automates the assessment of large deposits. When assets are validated, DU issues a message indicating which large deposits require documentation. Compliance with the DU messages satisfies the requirement for documenting large deposits. See "DU Validation Service" in the "Fannie Mae DU Loans" subtopic subsequently presented in the "Underwriting the Borrower" topic for additional guidance.

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Large Deposits, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Deposits Requiring Verification**
  - Except as stated below, the lender is not required to document the sources of unverified deposits for purchase or refinance transactions. However, when qualifying the borrower, the lender must consider any liabilities resulting from all borrowed funds.
  - For all transactions, when an unverified deposit is used to pay off or pay down an existing debt in order to qualify for the mortgage, the source of funds must be documented.
  - For purchase transactions, when evaluating deposits in the borrower's accounts, the following requirements apply:
    - The lender must document the source of funds for any "large deposit," as described below, if the deposit is needed to qualify the borrower for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves).

      A "large deposit" is any single deposit exceeding 50% of the sum of:
      - The total monthly qualifying income for the mortgage, and
      - The amount derived from the asset calculation for establishing the debt payment-to-income ratio, if applicable. See the "Asset Calculation for Establishing the Debt Payment-to-Income Ratio" guidance outlined in the “Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)” subtopic subsequently presented in this document for additional guidance.

      Truist Note: See the “Virtual Currency (Fannie Mae Terminology) / Cryptocurrency (Freddie Mac Terminology)” subtopic subsequently presented in this “Cash Requirements” topic for additional information when a large deposit may be from cryptocurrency that was liquidated into U.S. dollars.

    - When a single deposit consists of both verified and unverified portions, the lender may use just the unverified amount when determining whether the deposit is a large deposit as described above
    - When a large deposit is not verified and is not needed to qualify the borrower for the mortgage transaction, (i.e., any funds required to be paid by the borrower and borrower reserves), the lender must reduce the funds used for qualification purposes by the amount of the unverified deposit. The lender must enter the reduced amount of the asset into Loan Product Advisor.
    - When the source of funds can be clearly identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset source in the mortgage file (e.g., tax refund amounts appearing on the tax returns in the file), the lender is not required to obtain additional documentation.

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Large Deposits, continued

Freddie Mac LPA, continued

- **Acceptable Sources of Deposit**
  - When a deposit requires verification as stated above, the lender must determine:
    - Whether the source of the deposit is acceptable, as described below,
    - That the funds belong to the borrower, and
    - That the funds are eligible for the transaction
  - The only acceptable sources of deposit are the following:
    - The borrower's income
    - Funds awarded to the borrower (e.g., disaster relief funds, lottery winnings, court-awarded settlement) provided the source is not an interested party to the real estate or mortgage transaction
    - Funds derived from eligible asset types stated in the “Special Requirements for Borrower Personal Funds” and “Special Requirements for Other Eligible Sources of Funds” sections outlined in the “General Asset Information” subtopic previously presented in this topic.

Lender Contributions / Lender Credit

Non-AUS

- The lender may provide the borrower with a contribution to fund borrower-paid closing costs and prepaid fees in the following cases:
  - The lender credit is derived from premium pricing. Premium pricing refers to situations when a borrower selects a higher interest rate on a loan in exchange for a lender credit. The lender credit cannot be used to fund any portion of the borrower’s down payment, and should not exceed the amount needed to offset the borrower’s closing costs.
  - The lender credit is sourced directly from lender funds with no expectation for repayment or financial obligation apart from the subject mortgage. Funds passed to the lender from a third party, for the purpose of providing a lender credit, are not eligible as a lender contribution.
- The amount of the lender contribution should not exceed the amount of borrower-paid closing costs and prepaid fees and may not be used to fund any portion of the down payment or financial reserve requirements. Lender contributions are not considered grants.
- When the lender is an interested party to a purchase transaction, any amount of a lender contribution not derived from premium pricing, must be considered as an IPC when calculating the maximum IPC limit for eligibility purposes.
- Any excess lender credit required to be returned to the borrower in accordance with applicable regulatory requirements is considered an overpayment of fees and charges, and may be applied as a principal curtailment or returned in cash to the borrower.

Reference: See the following sections outlined in this document for additional details on lender credits derived from premium pricing.

- “Cash Reserve Requirements”
- “Interested Party Contributions (IPCs)”
- “Donations from Entities - Grants”
- “Community Seconds® (Fannie Mae)”

Continued on next page

Lender Contributions / Lender Credit, continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Lender Credit**
  - Lender credit may be used for the mortgage transaction provided it meets all of the following requirements:
    - The amount of lender credit must:
      - Be derived from an increase in the interest rate (i.e., 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. In the event the lender credit exceeds the amount of the borrower's closing costs, the following requirements apply:
      - The lender credit must be reduced so it does not exceed the amount of the borrower's closing costs, or
      - The amount of the lender credit that exceeds the borrower's closing costs must be applied as a principal curtailment to the mortgage, and must be clearly reflected on the Settlement/Closing Disclosure Statement.
    - Lender credit derived from an increase in the interest rate must not be used as a credit towards funding a temporary subsidy buydown plan on a "no cash-out" refinance mortgage

  Reference: See the "Interested Party Contributions (IPCs)" topic subsequently presented in this document for additional information.

- **Lender Incentives**
  - The lender may provide the borrower with a cash or a cash-like (e.g., a gift card) incentive that is not lender credit toward the mortgage transaction as described in the "Lender Credit" section above, provided that:
    - The amount of the incentive does not exceed $500.00
    - No repayment is required, and
    - The amount is documented in the mortgage file
  - The incentive is not considered cash out to the borrower and does not have to be included in the calculation of the mortgage proceeds, including the calculation of cash back to the borrower.
  - These requirements apply regardless of whether the incentive is provided before, at or after the mortgage closing.

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Life Insurance Cash Value

Non-AUS

- Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs, and reserves.
- The lender must assess repayment or additional obligation considerations to determine the impact on borrower qualification or reserves.
  - If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy do not have to be considered in the total debt-to-income ratio.
  - If additional obligations are indicated, the obligation amount must be factored into the total debt-to-income ratio, or subtracted from the borrower's financial reserves.
- If the funds from are needed for the down payment or closing costs, lenders must document the borrower's receipt of the funds from the insurance company by obtaining either a copy of the check from the insurer or a copy of the payout statement issued by the insurer.
- 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 and received by the borrower.

Fannie Mae DU

Follow DU, which is the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The cash value of a life insurance policy (not the face value) is an eligible asset type for borrower personal funds. The borrower must be the owner of the policy and not the beneficiary.
- Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements

• Provide documentation from the life insurance company verifying the following information:
  • Policy owner(s)
  • Period covered and current cash value, and
  • Any outstanding loans
• When cash value of the life insurance policy is needed for closing, evidence of liquidation is required.

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

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Cash Requirements, Continued

Loans / Borrowed Funds Secured by an Asset

Non-AUS

- Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity.

  Note: Truist provides the following GSE clarification:
  - The cash proceeds from a cash-out refinance transaction on the subject property and any cash back from a limited cash-out refinance transaction on the subject property are not acceptable sources of funds for reserves.

- Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts.
- When qualifying the borrower, the lender must consider monthly payments for secured loans as a debt.
  - If a secured loan does not require monthly payments, the lender must calculate an equivalent amount and consider that amount as a recurring debt. See the Liabilities topic subsequently presented in this document for additional guidance.
  - When loans are secured by the borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt.
    - If the borrower uses the same financial asset as part of his or her financial reserves, the lender must reduce the value of the asset by the amount of proceeds and related fees for the secured loan.
- The lender must document the following:
  - the terms of the secured loan,
  - evidence that the party providing the secured loan is not a party to the sale, and
  - evidence that the funds have been transferred to the borrower.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Cash Requirements, Continued

Loans / Borrowed Funds Secured by an Asset, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Proceeds from a loan fully secured by the borrower's assets other than real property are an eligible asset type for borrower personal funds.

  Reference: See the "Sale of Real Property / Sale of Real Property or Proceeds from a Loan Secured by Real Property" subtopic subsequently presented in this topic for guidance related to proceeds from a loan fully secured by the borrower's real property.

- The loan must not be provided by an interested party to the real estate or mortgage transaction. When the loan is secured by a financial asset used to qualify the borrower for the mortgage transaction, the value of the asset must be reduced by the amount of the loan proceeds and any associated fees.

  Reference: See "Loans Secured by Financial Assets" previously presented in the "Liabilities and Qualifying Ratios" topic for guidance related to when the monthly payment on a loan secured by the borrower's financial asset may be excluded from the monthly debt payment-to-income ratio.

- Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements
Provide the following: • Documentation verifying the value and ownership of the asset and which supports that the loan is secured by that asset • Evidence of receipt of the loan proceeds

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

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Cash Requirements, Continued

Non-Occupant Borrower Asset Requirements	

Non-Occupant Borrower Asset Requirements

Non-AUS
Follow standard Agency Non-AUS Asset requirements.

Fannie Mae DU
Follow DU requirements, which are as follows:

- DU analyzes the risk factors in the loan casefile for all borrowers on the mortgage loan. Regardless of whether an individual borrower will be occupying the property as his or her primary residence, DU will consider the assets of that borrower.
- Assets that are owned by a non-occupant borrower can be included in the 5% minimum borrower contribution requirement (when applicable), and those funds must be entered in the loan application. Total liquid assets for the occupying borrower and non-occupant borrower are included in DU's calculation of total available assets.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Standard Agency LPA Asset requirements apply including:
    - The funds used to qualify for the mortgage may come from the occupant and/or the non-occupant Borrower.

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Pooled Funds / Community Savings System Accounts

Non-AUS

- Funds from a community savings account or any other type of pooled savings 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.
- 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 debt-to-income ratio.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Eligible asset types for borrower personal funds include:
  - Funds on deposit in a Community Savings System that are deposited by the borrower

    Note: A non-profit community organization must administer the savings system.

  - Pooled funds
- Pooled funds are funds on deposit provided by the borrower and other member(s) of a group of related persons who:
  - Have resided together for at least one year, and
  - Will continue residing together in the new residence, and
  - Are "pooling" their funds to buy a home.

  Note: Funds provided by related persons who do not reside with the borrower are subject to the requirements for gift funds.

- Documentation requirements are as follows:

Asset Type	Streamlined Accept and Standard Documentation Requirements
Community Savings Systems Accounts – Borrower Contributions	Provide Community Savings Systems account statements or a direct account verification identifying the non-profit community organization as the administrator and showing all borrower contributions.

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Cash Requirements, Continued

Pooled Funds – Community Savings System Accounts, (continued)

Freddie Mac LPA, continued

- Documentation requirements are as follows: (continued)

Asset Type	Streamlined Accept and Standard Documentation Requirements (continued)

Pooled Funds	Provide the following:
	• Evidence that the borrower and the related person have resided together for at least one year
	• Documentation verifying the pooled funds per the requirements for the applicable asset type
	• A written statement, in the form of a signed letter or an e-mail directly from the borrower, executed at application attesting to all of the following:
	  • The source of pooled funds
	  • The fact that the pooled funds were not borrowed by the contributing related person
	  • The relationship between the contributing related person and the borrower. (For example, the affidavit might state that the related person is the borrower's uncle or that the related person is the cousin of the borrower's spouse.)
	  • That the related person has resided with the borrower for the past year and intends to continue residing with the borrower in the new residence for the foreseeable future
	
	Note: The written statement need not be notarized or acknowledged but must be kept in the mortgage file.

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

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Cash Requirements, Continued

Rent-Related Credits

Non-AUS

- **Rent Credit with Option to Purchase**
    - Rent credit with an option to purchase is the portion of rental payments (also referred to as lease payments) paid by the borrower that can be credited towards the down payment or minimum borrower contribution under a documented rental or purchase agreement. Borrowers are not required to make a minimum borrower contribution from their own funds for the rental payments to be credited toward the down payment. The rent credit is not considered an interested party contribution.
    - The rent credit from the seller for the down payment is determined by calculating the difference between the market rent and the actual rent paid by the borrower. The market rent is determined by the appraiser in the appraisal for the subject property and the credit may be no more than the difference between the market rent and the actual rent paid.
    - **Documentation Requirements**
        - The lender must obtain the following documentation:
            - A copy of the rental/lease with an option to purchase agreement that evidences the following:
                - an original term of at least 12 months,
                - the total number of months of the agreement,
                - the monthly rental amount, and
                - the amount of the monthly rent credit.
            - Copies of the borrower's canceled checks, bank statements, money order receipts or other reasonable methods evidencing the rental payments over the term of the agreement. The documentation must clearly indicate the payee and the amount being paid.
            - The appraisal of the subject property reflecting the market rent amount.
- **Rent-Back Credit**
    - A rent-back credit is an amount paid by the property seller to the borrower in exchange for allowing the seller to stay in the home for a specified period of time after closing. While rent-back credit to the borrower paid by the seller is permissible as part of the sale; it cannot be used as an eligible source of funds for closing costs, down payment, or reserves when qualifying the borrower.
    - A rent-back credit may appear on the Settlement/Closing Disclosure Statement as a credit to the borrower. In all cases, the lender must underwrite the loan without any consideration of the rent-back credit and must document that the borrower has sufficient funds for the transaction from eligible sources.

  Note: For loans secured by the borrower's primary residence, the borrower must continue to meet any occupancy requirements as outlined in the security instrument.

Continued on next page

Cash Requirements, Continued

Rent-Related Credits, continued

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- A rent-back credit may appear on the Settlement/Closing Disclosure Statement as a credit to the borrower. In all cases, the lender must underwrite the loan without any consideration of the rent-back credit (e.g., it must not be entered in the DU loan application data) and must document that the borrower has sufficient funds for the transaction from eligible sources.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Rent Credit with Option to Purchase**
  - The portion of rental payments paid by the borrower credited towards the down payment and/or closing costs under a documented rental/purchase agreement is an eligible asset type for borrower personal funds. The credit must not exceed the difference between the market rent and actual rent paid. The rental/purchase agreement must have an original term of at least 12 months and the rent must be based on a minimum of 12 months rental payments.
  - Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements
Provide the following: • A copy of the rental/purchase agreement • Evidence of rental payments • Appraiser's determination of the market rent for the subject property

  - See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

- **Rent-Back Credit**
  - Truist clarifies the following:
    - A rent-back credit is an amount paid by the property seller to the borrower in exchange for allowing the seller to stay in the home for a specified period of time after closing. While rent-back credit to the borrower paid by the seller is permissible as part of the sale; it cannot be used as an eligible source of funds for closing costs, down payment, or reserves when qualifying the borrower.
    - A rent-back credit may appear on the Settlement/Closing Disclosure Statement as a credit to the borrower. In all cases, the lender must underwrite the loan without any consideration of the rent-back credit (e.g., it must not be entered in the LPA loan application data) and must document that the borrower has sufficient funds for the transaction from eligible sources.

  Note: For loans secured by the borrower's primary residence, the borrower must continue to meet any occupancy requirements as outlined in the security instrument.

Continued on next page

Cash Requirements, Continued

Retirement Funds

Non-AUS

- Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for down payment, closing costs, and reserves.

  Note: Truist provides the following GSE clarification:
  - 403b accounts are also acceptable retirement accounts and must comply with individual retirement accounts and tax-favored retirement savings accounts guidance outlined in this subtopic.

- The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of the current employment status.
- If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements of that applicable asset type, for determining value and whether documentation of the borrower's actual receipt of funds is required when used for down payment and closing costs. When funds from the retirement accounts are used for reserves, Fannie Mae does not require the funds to be withdrawn from the account(s).

  References: See the "Stocks, Stock Options, Bonds, and Mutual Funds" subtopic for further guidance.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Eligible asset types for borrower personal funds include independent retirement accounts and Internal Revenue Service (IRS)-qualified employer retirement plan accounts such as:
  - 401K
  - 403b
  - IRAs (traditional and Roth)
  - SEP-IRA
  - SIMPLE-IRA
  - KEOGH
  - State retirement savings plans
  - Other independent and IRS-qualified employer retirement plan accounts

Continued on next page

Cash Requirements, Continued

Retirement Funds, (continued)

Freddie Mac LPA, continued

- Documentation requirements are as follows:

Streamlined Accept Documentation Requirements	Standard Documentation Requirements

• Provide an account statement covering a **one-month period** or a direct account verification (i.e., VOD)
• See below for when evidence of liquidation is required.
• When evidence of liquidation is not obtained:
   • In order to use the vested amount of an IRS-qualified employer retirement account to qualify the borrower for the mortgage transaction, the mortgage file must include documentation confirming that the borrower is permitted to make withdrawals, and severance from the borrower's current employment is not required.
	• Provide account statement(s) covering a **two-month period** or a direct account verification (i.e., VOD)
	• See below for when evidence of liquidation is required.
	• When evidence of liquidation is not obtained:
	   • In order to use the vested amount of an IRS-qualified employer retirement account to qualify the borrower for the mortgage transaction, the mortgage file must include documentation confirming that the borrower is permitted to make withdrawals, and severance from the borrower's current employment is not required.

- **Evidence of Liquidation Requirements**
  - For Streamlined Accept and Standard Documentation, when assets that are invested in stocks, bonds, mutual funds, U.S. government securities, retirement accounts or other securities are needed for closing, evidence of liquidation is required unless the combined value of the assets is at least 20% greater than the amount from these assets needed for closing. Any amount of cryptocurrency must be liquidated into U.S. dollars if it will be used as a source of funds for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves).
- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Continued on next page

Sale of Personal Assets

Non-AUS

- Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves provided the individual purchasing the asset is not a party to the property sale transaction or the mortgage financing transaction.
- The lender must document the following:
  - The borrower's ownership of the asset for all asset types that are titled assets, for example 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 lender must use the lesser of the estimated value (as determined by the independent source) or actual sales price when determining the amount of funds for the transaction. 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.
  - The transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
  - The borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, copies of the purchaser's canceled check, or an equivalent payment source.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Proceeds from the sale of the borrower's assets other than real property or exchange-traded securities are an eligible asset type for borrower personal funds.
- The purchaser of the borrower's asset must not be an interested party to the real estate or mortgage transaction.
- Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements
Provide the following: • A signed bill of sale documenting the asset and transfer of ownership • Evidence of receipt of the proceeds

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Continued on next page

Sale of Real Property / Sale of Real Property or Proceeds from a Loan Secured by Real Property

Non-AUS

- **Anticipated Sales Proceeds**
  - If the borrower's currently owned home is listed for sale but has not been sold, the lender may qualify the borrower on the basis of anticipated sales proceeds. The lender must document the actual proceeds received by the borrower.

- **Determining the Amount of Net Proceeds**

Sales Price Established?	Net Proceeds Calculation
Yes	Sales Price – (Sales Costs + All Liens) = Estimated Proceeds
No	90% of Listing Price – All Liens = Estimated Proceeds **Note**: The 10% adjustment factor that is applied to the listing price must be changed depending on market conditions.

- **Sales Proceeds Needed for Down Payment and Closing Costs**
  - If the proceeds from the sale of a currently owned home are needed for the down payment and closing costs on the new house, the lender must verify the source of funds by obtaining a copy of the Settlement/Closing Disclosure Statement on the existing home before, or simultaneously with, the settlement on the new home, showing sufficient net cash proceeds to consummate the purchase of the new home.

- **Employee Relocation**
  - When the borrower's employer assume responsibility for paying off the existing mortgage in connection with a relocation plan, the lender must obtain a copy of the executed buy-out agreement to document the source of funds. A photocopy of a sales contract or a listing agreement is not considered an acceptable source of verification of proceeds from the sale.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Sale of Real Property / Sale of Real Property or Proceeds from a Loan Secured by Real Property, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Proceeds from the sale of the borrower's real property or proceeds from a loan secured by the borrower's real property (including proceeds from a 1031 exchange, a Home Equity Line of Credit (HELOC), or a bridge loan) are an eligible asset type for borrower personal funds.

  Reference: See the "1031 Tax Exchange (also Known as a Like Kind Exchange)" subtopic previously referenced in this topic for additional information.

- For refinance mortgages, the cash-out proceeds from the subject cash-out refinance transaction and any cash back received on the subject "no cash-out" refinance transaction are not eligible sources of funds for reserves.
- Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements

Provide the following:
• The Settlement/Closing Disclosure Statement or an alternative form required by law verifying the proceeds from the sale or refinance of the borrower's real property, and/or
• An executed buy-out agreement that is part of an employer relocation plan that takes responsibility for the outstanding mortgage(s)
• For HELOCs, provide the following:
    • Evidence the HELOC is secured by the borrower's real property, and
    • Evidence of the borrower's receipt of the disbursed HELOC proceeds

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

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Stocks, Stock Options, Bonds, and Mutual Funds

Non-AUS

- Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified.
- The lender must verify the borrower's ownership of the account or asset.
- The value of the asset and any related documentation must meet the requirements outlined in the table below.

Asset Type	Determining the Value of the Asset
Stocks and mutual funds	The lender must determine the value of the asset (net of any margin accounts) by obtaining either: • the most recent monthly or quarterly statement from the depository or investment firm; or • a copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.
Stock options	The value of vested stock options can be documented by: • a statement that lists the number of options and the option price, and • using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock. **Note:** Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves.
Government Bonds	The value of government bonds must be based on their purchase price unless the redemption value can be documented.

- When used for the down payment or closing costs, if the value of the asset (as determined above) is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented.
- When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

Reference: See the "Retirement Funds" subtopic previously presented in this topic, for the requirements pertaining to the use of retirement accounts for the down payment, closing costs, or reserves.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Cash Requirements, Continued

Stocks, Stock Options Bonds, and Mutual Funds, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Eligible asset types for borrower personal funds include:
  - Securities that are traded on an exchange or marketplace, generally available to the public such as:
    - Stocks
    - Vested stock options
    - Bonds
    - Mutual funds
    - United States government securities
    - Other securities

    Notes:
    - Value must not include margin accounts.
    - Stock with limitations on its accessibility (e.g., restricted stock which has not vested and been distributed to the recipient) is not eligible.
  - Government bonds (federal, state or municipal)

    Note: The value used must be based on the lower of the purchase price or current redeemable value.
- Documentation requirements are as follows:

Asset Type	Streamlined Accept Documentation Requirements	Standard Documentation Requirements

Stocks, Vested stock options, Bonds, Mutual funds, United States government securities, Other securities	• Provide an account statement covering a **one-month period** or a direct account verification (i.e., VOD)
	• If the borrower does not receive a stock/security account statement:
	  ◦ Provide evidence the security is owned by the borrower, and
	  ◦ Verify value using current stock prices from a financial publication or web site
	• See below for when evidence of liquidation is required.
		• Provide account statement(s) covering a **two-month period** or a direct account verification (i.e., VOD)
		• If the borrower does not receive a stock/security account statement:
		  ◦ Provide evidence the security is owned by the borrower, and
		  ◦ Verify value using current stock prices from a financial publication or web site
		• See below for when evidence of liquidation is required.

Government Bonds (federal, state or municipal)	• Provide documentation verifying the ownership and the value. • See below for when evidence of liquidation is required.	• Provide documentation verifying the ownership and the value. • See below for when evidence of liquidation is required.

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Cash Requirements, Continued

Stocks, Stock Options Bonds, and Mutual Funds (continued)

Freddie Mac LPA, continued

- **Evidence of Liquidation Requirements**
  - For Streamlined Accept and Standard Documentation, when assets that are invested in stocks, bonds, mutual funds, U.S. government securities, retirement accounts or other securities are needed for closing, evidence of liquidation is required unless the combined value of the assets is at least 20% greater than the amount from these assets needed for closing. Any amount of cryptocurrency must be liquidated into U.S. dollars if it will be used as a source of funds for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves).
- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Sweat Equity

Non-AUS
Sweat equity is not acceptable.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LP
Follow LP requirements, which are the same as non-AUS requirements.

Continued on next page

Cash Requirements, Continued

Trade Equity

Non-AUS

- Trade equity is the equity that results from a property purchaser giving his or her existing real property as trade as all or part of the down payment for the property that is being purchased.
- Trade equity is an acceptable source of funds to supplement the borrower's minimum borrower contribution provided the following requirements are met:
  - The seller's equity contribution for the traded property must be a true-value consideration supported by a current appraisal.
  - The borrower must make the minimum required contribution from his or her own funds unless:
    - the LTV or TLTV ratio is less than or equal to 80%, or
    - the borrower is purchasing a one-unit primary residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution.
- These requirements apply to all transactions that involve property trades, including those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract.
- The equity contribution is determined by subtracting the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of either the property's appraised value or the trade-in value agreed to by both parties.
- Documentation requirements are as follows:
  - For real property, the transfer deed must be recorded.
  - In addition, lenders must obtain the following:
    - A search of the land records to verify the ownership of the property and to determine whether there are any existing liens on the property.
    - Proof of title transfer and satisfaction of any existing mortgage liens for which the borrower was liable.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The net proceeds of the trade-in of the borrower's previously-owned residence are an eligible asset type for borrower personal funds.
- The borrower's equity in the previously owned residence is determined by subtracting any outstanding liens on the previously owned residence, plus any transfer costs, from the lesser of the appraised value of the previously owned residence or its trade-in price as shown in the trade-in contract.
- Documentation requirements are as follows:

Streamlined Accept and Standard Documentation Requirements
Provide the following: • The appraisal of the borrower's previously-owned residence • A copy of the trade-in contract

- See the "General Asset Information" and "General Asset Documentation Requirements" subtopics, previously presented in this topic, for additional information.

Continued on next page

Cash Requirements, Continued

Unsecured Loans

Non-AUS

- Personal unsecured loans are not an acceptable source of funds for the down payment, closing costs, or financial reserves. Examples of personal unsecured loans include signature loans, lines of credit on credit cards, and overdraft protection on checking accounts.
- Unsecured loans are eligible in conjunction with employer assisted housing programs ONLY.

  Reference: See Employer Assistance subtopic for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For standard Agency, Agency Plus, and Agency Plus Select purchase transactions, proceeds from an unsecured loan that is an employer assisted homeownership (EAH) benefit are an eligible asset type for other eligible sources of funds provided the requirements outlined in the "Employer Assistance" subtopic are met. See the "Employer Assistance" subtopic previously presented in this topic for additional information.

Virtual Currency (Fannie Mae Terminology) / Cryptocurrency (Freddie Mac Terminology)

Non-AUS

- Virtual currency, such as cryptocurrencies, that has been liquidated into U.S. dollars is acceptable for the down payment, closing costs, and financial reserves provided the following requirements are met:
  - there is documented evidence that the virtual currency has been liquidated into U.S. dollars and is held in a U.S. or state regulated financial institution, and
  - the funds are verified in U.S. dollars prior to the loan closing.
- Truist clarifies that liquidation must be into an eligible source of funds.
- Virtual currency must be from a regulated exchange (CoinBase, Robinhood, Kraken, etc.) as listed on the Financial Crimes Enforcement Network MSB Registrant List under their legal or DBA name. If the exchange is not listed within the registrant list, the virtual currency will not be allowed.
- Borrower(s) must provide proof of ownership of the virtual currency for at least 12 months prior to the note date or if owned less than 12 months, must provide proof funds used to purchase the virtual currency came from an eligible source of funds. Screenshots from the exchange account are acceptable documentation.
- A large deposit may be from virtual currency that was liquidated into U.S. dollars. The lender must obtain sufficient documentation to verify the funds originated from the borrower's virtual currency account in accordance with the guidance above.
- Virtual currency may not be used for the deposit on the sales contract (earnest money) for the purchase of the subject property.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Cash Requirements, Continued

Virtual Currency (Fannie Mae Terminology) / Cryptocurrency (Freddie Mac Terminology), continued	**Freddie Mac LPA** Follow LPA requirements, which are as follows: • Any amount of cryptocurrency must be liquidated into U.S. dollars if it will be used as a source of funds for the mortgage transaction (i.e., any funds required to be paid by the borrower and borrower reserves). • Truist clarifies that liquidation must be into an eligible source of funds prior to loan closing. • Cryptocurrency must be from a regulated exchange (CoinBase, Robinhood, Kraken, etc.) as listed on the Financial Crimes Enforcement Network MSB Registrant List under their legal or DBA name. If the exchange is not listed within the registrant list, the cryptocurrency will not be allowed. • Borrower(s) must provide proof of ownership of the cryptocurrency for at least 12 months prior to the note date or if owned less than 12 months, must provide proof funds used to purchase the cryptocurrency came from an eligible source of funds. Screenshots from the exchange account are acceptable documentation. • Truist clarifies that a large deposit may be from cryptocurrency that was liquidated into U.S. dollars. The lender must obtain sufficient documentation to verify the funds originated from the borrower's cryptocurrency currency account in accordance with the guidance above.

Financed Permanent Interest Rate Buydowns

Financed Permanent Interest Rate Buydowns

Non-AUS
Truist clarifies that mortgages with a financed permanent buydown are permitted, as long as LTV/TLTV/HTLTV requirements are met.

Truist Note: A financed permanent buydown mortgage is a mortgage for which the borrower has permanently reduced the interest rate by financing discount points in the loan amount.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- For the purposes of this section, the following definitions apply:
  - A financed permanent buydown mortgage is a mortgage for which the borrower has permanently reduced the interest rate by financing discount points in the loan amount.
  - **Base Mortgage Amount**: The mortgage amount without the financed discount points.
  - **Gross loan-to-value (LTV), total LTV (TLTV) and Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratios**: The LTV, TLTV or HTLTV ratio calculated using the mortgage amount, which includes the financed discount points.
- Financed permanent buydown mortgages are permitted, except as follows:
  - Standard Agency mortgages with an LTV, TLTV, and/or HTLTV greater than 95%, are not permitted
  - Temporary subsidy buydowns are not permitted
  - The mortgage must not be secured by property subject to income-based resale restrictions that terminate upon foreclosure (or expiration of any applicable redemption period) or recordation of a deed-in-lieu of foreclosure, where the property value must be determined in accordance with the "Appraisal Requirements for Properties with Resale Restrictions" subsection outlined in the "Properties with Resale Restrictions" subtopic.
- Eligible property types include 1-4 unit primary residences (including condos and PUDs), second homes, and 1-4 unit investment properties.
- Purchase, "no cash-out" refinance, and cash-out refinance transactions are eligible.
- Eligibility of financed permanent buydown mortgages is determined using the gross LTV, TLTV, and HTLTV ratios.

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Financed Permanent Interest Rate Buydowns, Continued

Financed Permanent Interest Rate Buydowns, continued

Freddie Mac LPA, continued

- Financed permanent buydown mortgages must comply with the following requirements:
  - The gross LTV, TLTV and HTLTV ratios must not exceed the LTV, TLTV, or HTLTV ratios per the transaction type.
  - The amount of the mortgage insurance coverage must meet the coverage level requirements, using the gross LTV ratio
  - The maximum amount a borrower can finance for a permanent buydown is three discount points, calculated based upon the base mortgage amount.
  - For fixed-rate mortgages, borrower qualification is based on the monthly housing expense-to-income ratio calculated using the monthly payment at the permanent bought down note rate. For ARMs, borrower qualification is based on monthly payments calculated in accordance with the guidance previously outlined in the "Qualifying Ratios" subtopic.
  - For ARMs, the permanent buydown is in effect for the initial note rate and each note rate adjustment for the entire term of the mortgage. The lifetime ceiling will be calculated using the permanent bought down initial note rate. The permanent buydown does not affect the margin, initial cap or periodic cap.

Interested Party Contributions (IPCs)

Interested Party Contributions (IPCs)

Non-AUS

- **Overview**
  - Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser 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 a transaction include, but are not limited to, the property seller, the builder/developer, the real estate agent or broker, or an affiliate who may benefit from the sale of the property and/or the sale of the property at the highest price possible. 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. (For Fannie Mae's purposes, 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 over both the lender and the interested party. A typical ongoing business relationship — for example, the relationship between a builder and a lender that serves as its financial institution — does not constitute an affiliation.)
  - IPCs are either financing concessions or sales concessions. Fannie Mae considers the following to be 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 provides the money to pay some or all of the closing costs for a specific transaction.
  - A lender credit derived from premium pricing is not considered an IPC even if the lender is an interested party to the transaction.
  - Fannie Mae does not permit IPCs to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

Note: See the "Gift Funds" subtopic previously presented in this document for an exception when the seller of the subject property is also an acceptable donor.

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Interested Party Contributions (IPCs), Continued

Interested Party Contributions (IPCs), continued

Non-AUS, continued

- **IPC Limits**
  - The table below provides IPC limits for conventional mortgages.

Occupancy Type	LTV/TLTV Ratio	Maximum IPC
Primary Residence or Second Home	Greater than 90%	3%
	75.01 – 90%	6%
	75% or less	9%
Investment Property	All TLTV Ratios	2%

  Truist Note: The IPC limits are to mitigate the risk of the sales price being inflated to cover borrower costs, Fannie Mae has confirmed that only the sales price should be used to calculate the IPC percentage. Manual validation may be needed if the sales price is higher than the appraised value.

  - IPCs that exceed the limits outlined above are considered sales concessions. The property's sales price must be adjusted downward to reflect the amount of contribution that exceeds the maximum, and the maximum LTV/TLTV ratios must be recalculated using the reduced sales price or appraised value.

- **Lender Checklist for IPCs**
  - The lender must ensure that all of the following requirements for an IPC are satisfied.
    - Ensure that any and all IPCs have been identified and taken into consideration.
    - Provide the appraiser with all appropriate financing data and IPCs for the subject property granted by anyone associated with the transaction.
    - Ensure that the property value is adequately supported.
    - Ensure that the LTV and TLTV ratios, after any IPCs are taken into consideration, remain within the eligibility limits for the particular product.
    - Ensure that mortgage insurance coverage, if applicable, has been obtained, based on the LTV ratio after any IPC adjustments have been made.
    - Scrutinize all loan and sales contract documents, including but not limited to the sales contract, the Loan Estimate, the loan application, the appraisal report, and the Settlement Statement.
    - Ensure that all elements of the Settlement Statement were taken into consideration during the underwriting process.
    - Ensure that fees and expenses are consistent between all documents. Analyze any differences and review any discrepancies.

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Interested Party Contributions (IPCs), Continued

Interested Party Contributions (IPCs), continued

Non-AUS, continued

- **Lender Incentives for Borrowers**
  - **Cash or Cash-like Incentives for all Transaction Types:**
    - The lender may provide the borrower with a cash or cash-like (e.g., a gift card) incentive that is not reflected on the Settlement Statement provided that
      - the amount of the incentive does not exceed $500, and
      - no repayment is required.
    - Because the lender is not typically a party to the sales transaction, these types of lender incentives are not considered IPCs and, as a result, are not included in the IPC limit calculation. Furthermore, these incentives are not considered cash out to the borrower and do not have to be included in the cash back to borrower at closing calculation.

      Note: Documentation of compliance with these requirements will not be required at the loan level. However, the lender must establish policies and/or procedures to ensure that the loans with these types of incentives that it delivers to Fannie Mae, whether or not the loans were originated by the lender, are in compliance with these requirements.

- **Types of Interested Party Contributions (IPCs)**
  - **Undisclosed IPCs**
    - Mortgages with undisclosed IPCs are not eligible for delivery to Fannie Mae. Examples of these types of contributions include, but are not limited to, moving expenses, payment of various fees on the borrower's behalf, "silent" second mortgages held by the property seller, and other contributions that are given to the borrower outside of closing and are not disclosed on the Settlement Statement.

  - **Down Payment Assistance Programs**
    - Funds that are donated to third parties which are then applied toward some or all of the borrower's closing costs for a specific transaction are sometimes referred to as Down Payment Assistance Programs (DAPs). As long as the DAP allows such uses, these funds may also be used to pay for energy-related improvements that meet the requirements described in the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties" requirements within the "Eligible Transactions" topic.
    - IPC funds that flow through a DAP may be used for allowable closing costs, prepaids, and energy-related expenses in compliance with Fannie Mae's IPC limits.

Continued on next page

Interested Party Contributions (IPCs), Continued

Interested Party Contributions (IPCs), continued

Non-AUS, continued

- **Types of Interested Party Contributions (IPCs),** continued
  - **Financing Concessions**
    - Financing concessions that are paid on the borrower's behalf are subject to Fannie Mae's IPC limits. Financing concessions are:
      - financial contributions from interested parties that provide a benefit to the borrower in the financing transaction;
      - payments or credits related to acquiring the property; and
      - payments or credits for financing terms, including prepaids.
    - 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 Fannie Mae IPC limits. Payoff of a PACE loan by a seller is not subject to Fannie Mae IPC limits because it is not a financing concession. Financing concessions that exceed the maximum limits are considered sales concessions and are subject to Fannie Mae IPC limits.
    - Financing concessions typically include origination fees, discount points, commitment fees, appraisal costs, transfer taxes, stamps, attorneys' fees, survey charges, title insurance premiums or charges, real estate tax service fees, and funds to subsidize a temporary or permanent interest rate buydown (if these fees are not considered common and customary fees or costs based on local custom, as described above). Financing concessions can also include prepaid items, such as:
      - interest charges (limited to no more than 30 days of interest);
      - real estate taxes covering any period after the settlement date (only if the taxes are being impounded by the servicer for future payment);
      - property insurance premiums (limited to no more than 14 months);
      - homeowner association (HOA) assessments covering any period after the settlement date (limited to no more than 12 months);
      - initial and/or renewal mortgage insurance premiums; and
      - escrow accruals required for renewal of borrower-purchased mortgage insurance coverage.
    - 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 Fannie Mae IPC limits.

  - **Sales Concessions**
    - Sales concessions are IPCs that take the form of non-realty items. They include cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways, as well as financing concessions that exceed Fannie Mae limits. Consequently, the value of sales concessions must be deducted from the sales price when calculating LTV and combined LTV ratios for underwriting and eligibility purposes.

Continued on next page

Interested Party Contributions (IPCs), Continued

Interested Party Contributions (IPCs), continued

Non-AUS, continued

- **Types of Interested Party Contributions (IPCs),** continued
  - **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 interested party or a lender affiliated with an interested party.
    - The lender must determine if the cost of the subsidy meets allowable IPC limits. This can be accomplished by confirming the current market interest rate—in other words, the rate that is offered without the payment of any discount points—and the discount points being charged to obtain the interest rate being offered with the buydown.

      Truist Note: Fees for standby commitments (also known as forward commitments) that a builder pays to a lender before entering into a sales contract with a borrower are not subject to IPC limits because they are not attributable to the specific loan transaction. A loan with a reduced interest rate due to a standby commitment must be delivered with SFC 887.

  - **Payment Abatements**
    - A payment abatement is considered to be a financing concession since it 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 (PITIA). These funds are provided to the lender or a third party to be distributed over the term of the abatement period or credited against the borrower's future obligations.
    - Loans with payment abatements of any type are not eligible for delivery to Fannie Mae regardless of whether they are disclosed on the Settlement/Closing Disclosure Statement. This prohibition 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.

      Note: The payment of HOA fees is not considered an abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Interested Party Contributions (IPCs), Continued

Interested Party Contributions (IPCs), continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Types of Interested Party Contributions and Eligibility Requirements**
  - Interested parties include, but are not limited to:
    - Builder

      Truist Note: Fees for standby commitments (also known as forward commitments) that a builder pays to a lender before entering into a sales contract with a borrower are not subject to IPC limits because they are not attributable to the specific loan transaction. A loan with a reduced interest rate due to a standby commitment must be delivered with SFC J70.

    - Developer
    - Seller of the property
    - Real estate agent
  - Interested party contributions may include either financing and/or sales concessions. Freddie Mac considers the following to be interested party contributions:
    - Funds from the selling or originating lender, an employer, a municipality, a non-profit organization, and a related person, are subject to the interested party contributions requirements if the contributing party is affiliated with any of the interested parties as stated in the paragraph above, except as stated below for gifts from a related person and lender credit.
    - Funds from an interested party that flow through a third-party organization or a non-profit agency to the borrower
    - Funds from an interested party, including a third-party organization or a non-profit agency, used to pay costs associated with the mortgage transaction on the borrower's behalf
    - Funds that are donated to a third party, which in turn provides the funds to pay some or all of the borrower's closing costs
  - Gift funds or gift of equity from a related person who is also the seller of the subject property is not subject to the requirements of this section, provided that:
    - The donor has no affiliation with the builder, real estate agent or any other interested party to the transaction and
    - All of the requirements pertaining to gift funds or gift of equity from a related person as stated in the "Gift Funds" and "Gift of Equity" subtopics previously presented in this document are met.
  - When a selling or originating lender is affiliated with an interested party to the transaction, a lender credit is not considered an interested party contribution when it is derived from an increase in the interest rate.

Continued on next page

Interested Party Contributions (IPCs), Continued

Interested Party Contributions (IPCs), continued

Freddie Mac LPA, continued

- **Types of Interested Party Contributions and Eligibility Requirements**, continued
  - Mortgages with abatements (that are funds provided to a lender or third party by an interested party to pay or reimburse in whole or in part a certain number of monthly payments of principal, interest, taxes, insurance and/or other assessments on the borrower's behalf in excess of prepaid/escrows associated with the mortgage closing) are not eligible for sale to Freddie Mac.
  - The payment of no more than 12 months of homeowners association (HOA) dues by an interested party is not considered an abatement but is considered an interested party contribution, 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 Settlement/Closing Disclosure Statement.

- **Financing Concessions**
  - **Acceptable Use of Financing Concessions**
    - Financing concessions are funds that originate from an interested party to the transaction, as described above, that are used to:
      - Reduce permanently the interest rate on the mortgage
      - Fund a buydown plan to temporarily subsidize the borrower's monthly payment on the mortgage
      - Make contributions in any way related to the borrower's closing costs, including up to 12 months of HOA dues

  - **Maximum Limit**
    - Based on "value," as defined in the "Calculation of LTV/TLTV/HTLTV Ratios" subtopic previously presented in the "Eligible Transactions" topic, the maximum permitted financing concessions are as follows:

Occupancy	LTV/TLTV Ratios > 90%	LTV/TLTV Ratios > 75% and </= 90%	LTV/TLTV Ratios </= 75%
Primary Residences and Second Homes	3%	6%	9%
Investment Properties	2%	2%	2%

    - The amount of any financing concessions in excess of the limitations set forth above will be considered a sales concession. In all cases, financing concessions must be used as described in the "Acceptable Use of Financing Concessions" section above.

Truist Note: The above requirement applies for financing concessions paid by Freddie Mac, as the property seller, for transactions involving the sale of Freddie Mac REO properties.

Continued on next page

Interested Party Contributions (IPCs), Continued

Interested Party Contributions (IPCs), continued

Freddie Mac LPA, continued

- **Financing Concessions**, continued
  - **Maximum Limit**, continued
    - Funds paid by the property seller that are fees or costs customarily paid by the property seller according to local convention are not subject to the maximum financing concession limitations above.
    - In areas where real estate taxes are paid in arrears, prorated real estate tax credits contributed by the property seller are not considered interested party contributions and are not subject to the financing concession limits stated above.

- **Sales Concessions**
  - Sales concessions include:
    - Financing concessions in excess of the maximum financing concession limitations
    - Any contributions such as vacations, furniture, automobiles, securities or other giveaways granted by any interested party to the transaction
    - Interested party contributions used to reimburse the borrower for payment of fees charged to process or negotiate a short sale (commonly referred to as short sale processing fees, short sale negotiation fees, buyer discount fees, or short sale buyer fees)
  - For purposes of determining the value of the mortgaged premises, the dollar amount of any excess financing concessions, the value of any contributions and/or the dollar amount of any short sale fee reimbursements granted by an interested party to the transaction must be deducted from the purchase price. The LTV ratio is then calculated using the lower of the reduced purchase price (after the reduction for all sales concessions has been made) or the appraised value of the mortgaged premises.

- **Special documentation requirements**
  - The amount and the source of all interested party contributions must be documented in the mortgage file and be clearly shown on the Settlement/Closing Disclosure Statement.
  - Mortgages with interested party contributions paid outside of closing and not disclosed on the Settlement/Closing Disclosure Statement are not eligible for sale to Freddie Mac.
  - The lender must ensure that the data submitted to Loan Product Advisor accurately reflects the presence of any financing and sales concessions.

Continued on next page

Interested Party Contributions (IPCs), Continued

Temporary Interest Rate Buydowns

Non-AUS

- **Provisions for Temporary Interest Rate Buydown Plans**
  - The table below provides the general requirements under which Fannie Mae purchases or securitizes loans subject to temporary interest rate buydown plans.

General Requirements for Loans with Temporary Interest Rate Buydown Plans
Temporary interest rate buydowns are allowed on fixed-rate mortgages and certain ARM plans for primary residences only provided the rate reduction does not exceed 2%, and the rate increase will not exceed 1% per year for 2 years.
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 Truist, the mortgage insurer, and the property appraiser.
The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event may the buydown plan change the terms of the mortgage note.

- **Buydown Funds Provided by Interested Parties to the Transaction**
  - When the source of the buydown funds is an interested party to the property sale or purchase transaction, interested-party contribution limits apply.

- **Lender-Funded Buydowns**
  - Correspondent Lenders may provide a temporary buydown or use the ARM Alternative, Truist's Lender-Funded buydown program. See Section 2.02: ARM Alternative Standard of the *Correspondent Seller Guide* for details on Truist's Lender-Funded buydown programs.

- **Buydown Agreements**
  - The buydown agreement must provide that the borrower is not relieved of the obligation to make the mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available.
  - The buydown agreement may include an option for the buydown funds to be returned to the borrower or to the lender, if it funded the buydown, if the mortgage is paid off before all the funds have been applied.
  - A copy of the buydown agreement must be included in the delivery documentation for the mortgage. The lender may use the *Buydown Agreement* (COR 0011) form or another type of buydown agreement form meeting the requirements stated above.

Continued on next page

Interested Party Contributions (IPCs), Continued

Temporary Interest Rate Buydowns, continued

Non-AUS, continued

- **Eligible Transaction Types**
  - The following table lists the transaction types that are eligible and ineligible for temporary buydowns:

Transaction Type	Eligibility
Primary Residence	Eligible
Second homes	Ineligible
Investment Properties	Ineligible
Cash-out Refinances	Ineligible
ARMs	Eligible with Primary Residences

- **Qualifying the Borrower**
  - When underwriting loans that have a temporary interest rate buydown, the lender must qualify the borrower based on the note rate without consideration of the bought-down rate.
  - For qualifying requirements, see the "Qualifying Rates" subtopic previously presented in this document.

- **Terms of the Buydown**
  - Fannie Mae does not place a limit on the total dollar amount of an interest rate buydown.
  - The total dollar amount of an interest rate buydown must be consistent with the terms of the buydown period.
  - An interest rate buydown plan must provide for:
    - a buydown period not greater than 24 months, and
    - increases of not more than 1% in the portion of the interest rate paid by the borrower in each 12-month interval.

  Note: More frequent changes are not permitted.

  - Transactions can be structured as a 2-1 or 1-0 buydown (or other allowable structures per the requirements outlined in this section).

Continued on next page

Interested Party Contributions (IPCs), Continued

Temporary Interest Rate Buydowns, continued

Non-AUS, continued

- **Buydown Funds**
  - The table below provides Fannie Mae requirements for treatment of buydown funds.

Requirement
Buydown accounts must be established and fully funded by the time the lender submits the mortgage to Truist for purchase.
Funds for buydown accounts must be deposited into custodial bank accounts. **Note**: Buydown funds cannot be included in accounts with the lender's other corporate funds.
The borrower's only interest in buydown funds is to have them applied towards payments as they come due under the note.
Buydown funds are not refundable unless the mortgage is paid off before all the funds have been applied.
Buydown funds cannot be used to pay past-due payments.
Buydown funds cannot be used to reduce the mortgage amount for purposes of determining the LTV ratio.

- **Special Feature Code (SFC) Requirement**
  - Use SFC 009 to identify a loan with a temporary interest rate buydown.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Provisions for Temporary Interest Rate Buydown Plans**
  - The table below provides the general requirements under which Fannie Mae purchases or securitizes loans subject to temporary interest rate buydown plans.

General Requirements for Loans with Temporary Interest Rate Buydown Plans
Temporary interest rate buydowns are allowed on fixed-rate mortgages and certain ARM plans for primary residences or second homes provided the rate reduction does not exceed 2%, and the rate increase will not exceed 1% per year for 2 years.
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 Truist, the mortgage insurer, and the property appraiser.
The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan. In no event may the buydown plan change the terms of the mortgage note.

Continued on next page

Interested Party Contributions (IPCs), Continued

Temporary Interest Rate Buydowns, continued

Fannie Mae DU, continued

- **Eligible Transaction Types**
  - The following table lists the transaction types that are eligible and ineligible for temporary buydowns:

Transaction Type	Eligibility
Primary Residence	Eligible
Second homes	Eligible
Investment Properties	Ineligible
Cash-out Refinances	Ineligible
ARMs	Eligible with Primary Residences and Second Homes

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Eligibility**
  - Buydown plans are not permitted for mortgages with the following characteristics:
    - Cash-out refinance mortgages
    - "No cash-out" refinance mortgages with a buydown plan funded from lender credit derived from an increase in the interest rate

      Reference: See Section 2.02: ARM Alternative Standard of the *Correspondent Seller Guide* for details on Truist's Lender-Funded buydown programs.

    - Investment property mortgages
  - For any mortgage with a buydown plan, the initial interest rate may not be more than two percentage points below the note rate. Also, the buydown plan may not extend for more than two years after the first scheduled payment date.

Continued on next page

Interested Party Contributions (IPCs), Continued

Temporary Interest Rate Buydowns, continued

Freddie Mac LPA, continued

- **Special Underwriting Requirements for Limited Buydown Mortgages**
  - For a limited buydown mortgage, the initial interest rate is:
    - Temporarily reduced to no more than two percentage points below the note rate
    - Increased by no more than one percentage point annually for no more than two years

Property Type	Fixed-Rate, 7/6-Month, and 10/6-Month ARMs	5/6-Month ARM
1-unit Primary Residence and Second Home	Yes	Yes
2-unit Primary Residence	Yes	Yes
3- to 4-Unit Primary Residence	Yes	No

  - See the "Qualifying Rates" subtopic previously presented in this document for further guidance on qualifying rates for loans with temporary buydowns.

- **Special Underwriting Requirements for Extended Buydown Mortgages**
  - Extended Buydown Mortgages are currently not eligible.

- **Special Documentation Requirements for Mortgages with Temporary Buydown Plans:**
  - **Application of Buydown Funds**
    - The borrower must agree in writing that the buydown funds in the buydown account will be automatically applied each month to reduce the monthly payment of principal and interest to the extent provided under the subsidy buydown agreement. The buydown agreement must provide that the borrower will not be relieved of the obligation to make the full monthly mortgage payments required by the terms of the mortgage note if, for any reason, the buydown funds are not available or the buydown funds are not paid.
    - The mortgage file must contain a copy of the executed buydown agreement and must clearly show the calculations of the total cost of the temporary subsidy buydown, any interested party contribution and the annual percentage increase in the borrower's monthly principal and interest payment. The lender may use the *Buydown Agreement* (COR 0011) form or another type of buydown agreement form meeting the requirements stated above.

Continued on next page

Interested Party Contributions (IPCs), Continued

Temporary Interest Rate Buydowns, continued

Freddie Mac LPA, continued

- **Special Documentation Requirements for Mortgages with Temporary Subsidy Buydown Plans:** continued
  - **Custodial Account Requirements for Buydowns**
    - Each subsidy buydown must be fully funded at origination.
    - The buydown agreement must state that the borrower will not assign, transfer or close the account, or withdraw buydown funds, except as permitted by the terms of the buydown agreement.
  - **References**
    - No references to the buydown plan are permitted in the Note and Security Instruments.
  - **Interest Rate and Monthly Payments**
    - The interest rate and monthly payments shown in the Note must be calculated without reference to the temporary buydown subsidy. In no event may the temporary subsidy buydown agreement change the terms of the Note or Mortgage.
- **Special Feature Code (SFC) Requirement**
  - Use SFC 009 to identify a loan with a temporary interest rate buydown.

Mortgage Insurance

General

Non-AUS

- **General Requirements**
  - The lender must obtain a primary mortgage insurance policy for a conventional first mortgage loan that has an LTV ratio greater than 80%.
  - For a purchase money loan, the value used in determining the LTV ratio is the lower of the sales price or the appraised value of the security property.

    Note: Truist provides the following GSE clarification:
    - For a purchase transaction involving a newly constructed home, multiple contracts may not be combined to determine the purchase price for the mortgage transaction (for example, a new home purchase contract combined with a new swimming pool contract).

  - For a refinance loan, the value used in originating the loan can be derived from an appraisal or other acceptable method.
  - The following mortgage insurers are eligible:

MI Company	MI Company Website
Enact Mortgage Insurance Corporation *(formerly Genworth Mortgage Insurance Corporation)*	www.enactmi.com
MGIC (Mortgage Guaranty Insurance Corporation)	www.mgic.com
Radian (Radian Guaranty, Inc).	www.radianmi.com
Essent (Essent Guaranty, Inc.)	www.essent.us
Arch MI (formerly CMG/UGI/AIG)	https://mi.archcapgroup.com
National Mortgage Insurance Corporation (NMI)	www.nationalmi.com

  Truist Note: Lenders are required to obtain their own mortgage insurance approval.

- **LTV Ratio Determination in New York State**
  - Under a New York statute, a mortgage insurer must issue mortgage insurance based on a determination of the "fair market value" of the property. The term "fair market value" is not defined in the statute, but has been defined by the New York insurance regulator as being the "appraised value."
  - As a result, the determination of value for properties in New York is different from the standard definition of value that is used to calculate the LTV ratio. The following table identifies the value calculation that is to be used for mortgage loans secured by properties in New York for requirements that are based on the LTV ratio.

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**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Mortgage Insurance, Continued

General, continued

Non-AUS, continued

- **LTV Ratio Determination in New York State**, continued

LTV Ratio Calculation	Requirements
LTV ratio based on the appraised value	• Lenders must base their determination of when mortgage insurance is required solely on the appraised value of the property. If the appraised value of the property exceeds the sales price, this determination may result in mortgage insurance not being placed on a mortgage loan as would otherwise be required using the standard definition of value.
LTV ratio based on the lower of the sales price or appraised value (standard LTV ratio calculation)	• Irrespective of the use of appraised value for determining whether mortgage insurance is required, this standard LTV ratio calculation must be used to determine the level of mortgage insurance coverage that is required on the mortgage loan.

- **Payment of Mortgage Insurance Premiums**
  - Premium plans for mortgage insurance may be:
    - monthly plans – monthly premiums from accumulated escrow deposits (with no initial payment at closing),
    - annual plans – an initial payment at closing to cover the first year's premium and annual renewal premiums thereafter paid from accumulated escrow deposits, or
    - single-premium plans – lump-sum premium at closing to purchase life-of-the-mortgage coverage.
  - <u>Truist does not offer a split-premium plan option.</u>

- **Mortgage Insurability**
  - Each loan delivered to Truist must be insurable. A mortgage is insurable if a mortgage insurer would not decline to insure it by reason of any fraud, misrepresentation, negligence, or dishonest, criminal, or knowingly wrongful act in origination or servicing, and would not be entitled to deny a claim by reason of any of the foregoing.

- **Mortgage Insurance Coverage Requirements**
  - The table below shows mortgage insurance coverage requirements.

Standard Agency			
LTV	Fixed-rate, term </= 20 years	Fixed-rate, term > 20 years	ARMs (all terms)
	Standard Coverage Requirements		
90.01 – 95%	25%	30%	30%
85.01 – 90%	12%	25%	25%
80.01 – 85%	6%	12%	12%

Continued on next page

General, continued

Non-AUS, continued

- **Lender-Purchased Mortgage Insurance (LPMI)**
  - When providing lender-purchased mortgage insurance, the lender must:
    - make any and all disclosures to the borrower that are either required by law, including the Homeowners Protection Act of 1998, or are otherwise appropriate for lender-purchased mortgage insurance coverage;
    - pay for the mortgage insurance coverage as a corporate obligation; and
    - keep the mortgage insurance coverage in effect until the mortgage is paid in full.
  - Truist only offers a single premium option. Monthly and annual premiums are not eligible.

  Truist Note: Lenders are responsible for negotiating their own LPMI premiums with their MI Partners; Truist will not price this option on the rate sheet.

- **Financed Borrower-Purchased Mortgage Insurance**
  - Financed mortgage insurance transactions are defined by all of the following characteristics:
    - All or a portion of the borrower-purchased mortgage insurance premium (single-premium plans) is included in the loan amount.
    - The loan amount including the financed mortgage insurance premium cannot exceed the applicable maximum Fannie Mae loan limit.
    - The loan purpose is purchase, construction, or limited cash-out refinance.
    - The loan is secured by a one-unit property that is the borrower's primary residence.
    - The mortgage insurance coverage amount is determined based on the base (or net) LTV ratio – the LTV ratio calculated without the financed premium.
    - The gross LTV ratio – the LTV ratio calculated with the financed premium – is used to determine the maximum LTV ratio permitted for the transaction. The LTV ratio may never exceed the LTV ratio allowed per the Maximum LTV ratios allowed for the product.
    - If the loan is subject to any LLPAs, the LLPAs are based on the gross LTV ratio.
  - The following mortgage loans are not eligible for delivery to Fannie Mae if they include financed borrower-purchased mortgage insurance:
    - mortgage loans secured by two- to-four-unit properties, and
    - cash-out refinance loans.

  Note: Lender-paid mortgage insurance premiums cannot be financed into the loan amount and are therefore not considered financed mortgage insurance transactions.

Continued on next page

General, continued

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Mortgage Insurance Coverage Requirements**
  - For certain DU transactions, Fannie Mae offers two mortgage insurance coverage level options: standard coverage and minimum coverage with corresponding LLPAs. Truist requires that the standard coverage be obtained.
  - The standard minimum coverage levels apply as stated in the tables below:

Standard Agency & Agency Plus			
LTV	Fixed-rate, term </= 20 years	Fixed-rate, term > 20 years	ARMs (all terms)
	Standard Coverage Requirements		
95.01 – 97%	35%	35%	N/A
90.01 – 95%	25%	30%	30%
85.01 – 90%	12%	25%	25%
80.01 – 85%	6%	12%	12%

Agency Plus Select			
LTV	Fixed-rate, term </= 20 years	Fixed-rate, term > 20 years	ARMs (all terms)
	Standard Coverage Requirements		
85.01 – 90%	12%	25%	N/A
80.01 – 85%	6%	12%	N/A

- **Financed Borrower-Purchased Mortgage Insurance**
  - Financed mortgage insurance transactions are defined by all of the following characteristics:
    - All or a portion of the borrower-purchased mortgage insurance premium (single-premium plans) is included in the loan amount.
    - The loan amount including the financed mortgage insurance premium cannot exceed the applicable maximum Fannie Mae loan limit.
    - The loan purpose is purchase, construction, or limited cash-out refinance.
    - The loan is secured by a one-unit property that is the borrower's primary residence or second home.
    - The mortgage insurance coverage amount is determined based on the base (or net) LTV ratio – the LTV ratio calculated without the financed premium.
    - The gross LTV ratio – the LTV ratio calculated with the financed premium – is used to determine the maximum LTV ratio permitted for the transaction. The LTV ratio may never exceed the LTV ratio allowed per the Maximum LTV ratios allowed for the product.
    - If the loan is subject to any LLPAs, the LLPAs are based on the gross LTV ratio.
  - The following mortgage loans are not eligible for delivery to Fannie Mae if they include financed borrower-purchased mortgage insurance:
    - mortgage loans secured by two- to-four-unit properties,
    - mortgage loans secured by investment properties, and
    - cash-out refinance loans.

Note: Lender-paid mortgage insurance premiums cannot be financed into the loan amount and are therefore not considered financed mortgage insurance transactions.

Continued on next page

General, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **General Requirements**
  - Mortgage insurance is required for each conventional mortgage that has a loan-to-value (LTV) ratio of more than 80%.
  - The LTV ratio is obtained by dividing the original loan amount by the value, as defined below:
    - For a purchase transaction, "value" is the lesser of the appraised value of the mortgaged premises as of the appraisal report effective date or the purchase price of the mortgaged premises.
    - For a purchase transaction involving a newly constructed home, multiple contracts may be combined to determine the purchase price of the mortgaged premises (for example, a new home purchase contract and a new swimming pool contract may be added together to establish the purchase price).
    - For a refinance, "value" is the appraised value of the mortgaged premises as of the appraisal report effective date.
    - For certain Loan Product Advisor mortgage transactions, Freddie Mac may accept the "value" to be the lender-provided estimate of value or the purchase price as the basis for the underwriting of the mortgage.

      Reference: See the "Freddie Mac's LPA Automated Collateral Evaluation (ACE)" subtopic subsequently outlined in this document for additional information on Freddie Mac's LPA automated collateral evaluation.

    Note: See "Mortgaged Premises Located in the State of New York" below for an exception to the guidance outlined above for properties located in the state of New York.

Continued on next page

General, continued

Freddie Mac LPA, continued

- **General Requirements,** continued
  - **Mortgaged Properties Located in the State of New York**
    - For mortgaged premises located in the state of New York, the "value" is the appraised value of the mortgaged premises on the note date of the mortgage and is used solely for the purpose of determining whether mortgage insurance is required or should be canceled. *(This definition of the "value" of mortgaged premises located in the state of New York applies only to the above-stated mortgage insurance requirements and is not applicable for any other purposes. In particular, this definition of "value" is not applicable in determining the LTV ratios for the required percentage of mortgage insurance coverage.)*
  - **Mortgage Insurers**
    - The following mortgage insurers are eligible:

MI Company	MI Company Website
Enact Mortgage Insurance Corporation *(formerly Genworth Mortgage Insurance Corporation)*	www.enactmi.com
MGIC (Mortgage Guaranty Insurance Corporation)	www.mgic.com
Radian (Radian Guaranty, Inc).	www.radian.biz
Essent (Essent Guaranty, Inc.)	www.essent.us
Arch MI (formerly CMG/UGI/AIG)	https://mi.archcapgroup.com
National Mortgage Insurance Corporation (NMI)	www.nationalmi.com

  - **MI Master Policy**
    - Mortgage insurance coverage must continue to be carried with the MI that insured the mortgage, except as provided for in Freddie Mac's transfer of mortgage insurance coverage requirements.
    - The required mortgage insurance must be in full force and effect as of the delivery date and remain in force until canceled in accordance with MI cancellation requirements or pursuant to applicable law. Mortgage insurance coverage must not be subject to any exclusion besides those exclusions stated in the MI's master policy. Coverage must run to the benefit of Freddie Mac for a whole loan. No action may have been taken, or no action may have failed to be taken, that would impair the rights of Freddie Mac or the lender.
    - The lender warrants that the borrower has been given all disclosures required by law, including, but not limited to, the Homeowners Protection Act of 1998 (HPA), as amended, relating to the terms on which borrower-paid mortgage insurance may be canceled. This includes all disclosures required by the HPA at loan origination to describe the borrower's mortgage insurance cancellation rights under the HPA.

Continued on next page

Mortgage Insurance, Continued

General, continued

Freddie Mac LPA, continued

- **Mortgage Insurance Coverage Requirements:**
  - Freddie Mac offers two mortgage insurance coverage options: standard mortgage insurance and custom mortgage insurance. The custom mortgage insurance option provides an alternative to standard mortgage insurance coverage.
    - For standard Agency, Agency Plus, and Agency Plus Select transactions, Truist requires that the standard coverage be obtained. The custom mortgage insurance option is not permitted.
  - The standard minimum coverage levels apply as stated in the table below:

Standard Agency & Agency Plus			
LTV	Fixed-rate, term </= 20 years	Fixed-rate, term > 20 years	ARMs (all terms)
	Standard		
95.01 - 97%	35%	35%	N/A
90.01 – 95%	25%	30%	30%
85.01 – 90%	12%	25%	25%
80.01 – 85%	6%	12%	12%

Agency Plus Select			
LTV	Fixed-rate, term </= 20 years	Fixed-rate, term > 20 years	ARMs (all terms)
	Standard		
85.01 – 90%	12%	25%	N/A
80.01 – 85%	6%	12%	N/A

Continued on next page

General, continued

Freddie Mac LPA, continued

- **Mortgage Insurance Premiums**
  - Eligible mortgage insurance premiums include the following:
    - **Monthly premium**: Premiums paid monthly from accumulated escrow deposits (with no initial payment at closing)
    - **Annual premium**: An initial premium paid at closing to cover the first year's premium and annual renewal premium payments thereafter paid from accumulated escrow deposits
    - **Single-premium**: A lump-sum premium paid at closing to purchase life of mortgage coverage
  - Truist does not offer a split-premium plan option.
  - For borrower-paid mortgage insurance premiums, the borrower must pay the mortgage insurance premium by a single payment at closing or through monthly escrow payments. A mortgage that includes a borrower-paid mortgage insurance premium in the note rate is not eligible for sale to Freddie Mac.
  - See "Lender-Paid Mortgage Insurance" below for details on lender-paid mortgage insurance premiums.
  - **Borrower-Paid Financed Premiums**
    - For purposes of this section, the following definitions apply:
      - **Base LTV ratio**: The loan-to-value (LTV) ratio calculated using the mortgage amount without the financed mortgage insurance premium
      - **Gross LTV ratio**: The LTV ratio calculated using the mortgage amount which includes the financed mortgage insurance premium
    - Mortgages for which the borrower-paid mortgage insurance premium is included as part of the principal amount of the mortgage (that is, a financed premium) are eligible for purchase provided the mortgage complies with the requirements below:
      - The Base LTV ratio must not exceed the maximum LTV ratio permitted for the mortgage product or offering
      - For standard Agency mortgages with LTVs greater than 95%, the Gross LTV ratio must not exceed 97%.
      - For all other mortgages, the Gross LTV ratio must not exceed 95%.
      - The mortgaged premises must be a 1- to 4-unit primary residence or a 1-unit second home
      - The mortgage is a fixed-rate, fully amortizing mortgage or an ARM
      - The amount of coverage meets the standard coverage level requirements (outlined above) using the Base LTV ratio
      - The mortgage insurance premium must be paid with a borrower-paid single-premium payment

Continued on next page

Mortgage Insurance, Continued

General, continued

Freddie Mac LPA, continued

- **Mortgage Insurance Premiums**, continued
  - **Financed Mortgage Insurance Premium Endorsement**
    - The mortgage insurance policy must include an endorsement, generally referred to as the "financed mortgage insurance premium endorsement." This endorsement states that adjustments will be made to the claim calculation to meet the required exposure level for the Base LTV ratio.
  - **Maximum Original Loan Amount**
    - The maximum original loan amounts permitted per the transaction type apply to mortgages with financed mortgage insurance premiums. The original loan amount of the mortgage inclusive of the amount of any financed mortgage insurance premium may not exceed the maximum original loan limits permitted per the transaction type.

- **Lender-Paid Mortgage Insurance**
  - For standard Agency, Agency Plus, and Agency Plus Select mortgage transactions, Truist <u>only offers a single premium option. Monthly and annual premiums are not eligible</u>.
  - Freddie Mac will purchase mortgages with single premium lender-paid mortgage insurance as follows:
    - The mortgage is a mortgage eligible for purchase, in accordance with all standard requirements, per the transaction type
    - Coverage will be maintained for the life of the mortgage.
  - The lender must ensure that the required mortgage insurance for the mortgage is in full force and effective on the delivery date of the mortgage regardless of whether the entire mortgage insurance premium is paid by the lender prior to the delivery date. The lender must obtain and be able to produce evidence of any required mortgage insurance (including, but not limited to, a certificate of insurance).

**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Appraisal Requirements

General

Reference: See General Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information concerning appraisals and appraisal requirements.

General Property Eligibility Requirements

Non-AUS

- **Property Requirements**
  - The mortgaged premises must be:
    - residential in nature as defined by the characteristics of the property and surrounding market area;
    - secured by an interest in real property within the meaning of the Internal Revenue Code as such term is defined in 26 C.F.R. § 1.856-3;

      Truist Note: For the purpose of the above requirement, per 26 C.F.R. § 1.856-3(c), the term "interests in real property" includes fee ownership and co-ownership of land or improvements thereon, leaseholds of land or improvements thereon, options to acquire land or improvements thereon, and options to acquire leaseholds of land or improvements thereon. Such term does not, however, include mineral, oil, or gas royalty interests, such as a retained economic interest in coal or iron ore with respect to which the special provisions of section 631(c) apply.

    - safe, sound, and structurally secure;
    - adequately insured per requirements for property and flood insurance;
    - the highest and best use of the property as improved (or as proposed per plans and specifications), and the use of the property must be legal or legal non-conforming use;
    - readily accessible by roads that meet local standards;
    - served by utilities that meet community standards; and
    - suitable for year-round use.

      Note: Certain aspects of the location of a property will require special consideration. For example, properties in resort areas that attract people for seasonal or vacation use are acceptable only if they are suitable for year-round use.

- **Acceptable Dwelling Types**
  - Dwelling units for security properties may be detached, attached, or semi-detached.
  - Properties may be located:
    - on an individual lot,
    - in a condo project, or
    - in a planned unit development (PUD) or subdivision project.
  - Properties located in a condo or PUD project must meet project standards requirements.

    Reference: See Section 1.06 Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide* for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Appraisal Requirements, Continued

General Property Eligibility Requirements, continued

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Freddie Mac will purchase eligible mortgages secured by residential properties in urban, suburban and rural market areas provided the mortgaged premises is adequate collateral for the mortgage transaction based on the value, condition and marketability of the property.
- The mortgaged premises must:
  - Be located in a state. See the "Geographic Restrictions" topic previously outlined in this document and General Section 1.02: Eligible Mortgages Standard for Truist specific geographic restrictions that may apply.
  - Be primarily residential in nature based on the characteristics of the property
  - Be an attached, semi detached or detached dwelling unit(s) located on an individual lot, in a Planned Unit Development (PUD) or in a Condominium Project.
  - Be safe, sound and structurally secure. See "Property Condition and Quality of Construction of the Improvements" presented in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard for acceptable overall condition ratings and indications of unacceptable collateral conditions.
  - Be complete or comply with the conditions outlined in the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic for eligible incomplete improvements
  - Represent the highest and best use of the property as improved (or as proposed per plans and specifications)
  - Have an eligible zoning compliance
  - Have legal access (ingress and egress)
  - Be suitable for year-round occupancy regardless of the location, except as specifically permitted otherwise for certain second homes

    Reference: See the "Second Homes" subtopic previously presented in this document for additional information

  - Have utilities that meet community standards
  - Have mechanical systems that meet community standards
  - Have adequate property insurance coverage that meets published Agency LPA requirements, including coverage for hazards specific to the location of the property
  - Not be subject to a pending legal proceeding for condemnation in whole or in part

Appraiser Eligibility

- While Truist does not require pre-approval of individual appraisers, Truist does maintain a list of ineligible appraisers and appraisal companies.
- Any appraisers or appraisal companies identified on the Truist Ineligible List are not eligible to perform appraisal assignments, either directly or indirectly, on properties that secure loans to be funded or purchased by Truist.

Reference: See Section 1.07: Appraisal Standard and Section 1.19: Fraud Prevention Standard of the *Correspondent Seller Guide* for additional restrictions and guidance.

Continued on next page

Lender Responsibilities

Non-AUS

- **Lender Responsibilities**
  - The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage. For most loans, Fannie Mae requires that the lender obtain a signed and complete appraisal report that accurately reflects the market value, condition, and marketability of the property.
  - If an appraisal is obtained, the lender is responsible for:
    - providing the borrower disclosures and requirements described in the "Appraisal Quality Matters" subtopic presented in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard;
    - compliance with the *Appraiser Independence Requirements*;
    - selection of the appraiser;
    - compliance with the Uniform Appraisal Dataset (UAD) when applicable;
    - ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae requirements;
    - successful submission of the appraisal through the UCDP prior to delivery;
    - continually evaluating the appraiser's work through the quality control process; and
    - ensuring the appraisal does not contain subjective and prohibited language relating to discriminatory practices and appraisal bias.

- **Confirmation and Documentation of the Current Owner**
  - Publicly available information helps to identify property flipping schemes, which typically involve various combinations of transactions and result in a sale of a recently acquired property for significant profit based on a misleading or fraudulent appraisal with an inflated property value. The lender must confirm that the property seller in a purchase transaction (or the borrower in a refinance transaction) is the owner of the subject property.
  - Lenders must confirm and document in the mortgage file that the property seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property when an appraisal is required. Examples of acceptable documentation include, but are not limited to:
    - a copy of a recorded deed, mortgage, or deed of trust,
    - a recent property tax bill or tax assessment notice,
    - a title report,
    - a title commitment or binder, or
    - a property sale history report.
  - This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and back-to-back, simultaneous, double transaction closings, or double escrows to support the property acquisition, financing and closing.
  - When the transaction is part of an employee relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract. Additionally, the appraiser must comment on this condition in the appraisal report.

Continued on next page

Appraisal Requirements, Continued

Lender Responsibilities, continued

Non-AUS, continued

- **Objective and Unbiased Appraisals**
  - A lender must ensure the appraiser:
    - described the property and the market area in factual, unbiased, and specific terms;
    - considered all factors that have an effect on value; and
    - was objective and unbiased in the development of the opinion of market value in the appraisal report.
  - A number of federal, state, and local laws prohibit discrimination in the appraisal of housing. Fannie Mae expects professional appraisers to fully understand that discriminatory valuation and appraisal reporting practices are not only illegal, but also unethical. Unintentional discrimination can occur in the appraisal report as the result of what an appraiser states, or fails to state. The lender and appraiser must ensure the appraisal is not in violation of any unacceptable appraisal practices. See "Unacceptable Appraisal Practices" subsequently presented in this subtopic for additional information.

- **Reporting Unfavorable Conditions**
  - The lender must ensure that appraiser comments regarding unfavorable conditions, such as the existence of an adverse environmental or economic factor, also discuss how the condition affects the value or marketability of the property being appraised and explain how the condition was taken into consideration in the valuation process. In such cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected whenever possible. The appraiser must address the impact these factors may have, if any, on the value and marketability of the subject property. See "Property Condition and Quality of Construction of the Improvements" presented in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard for further information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Lender Responsibilities**
  - The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage. For most loans, Fannie Mae requires that the lender obtain a signed and complete appraisal report that accurately reflects the market value, condition, and marketability of the property. Some loans may be eligible for a value acceptance option, and an appraisal is not required if the lender exercises the option and complies with the related requirements. See the "Fannie Mae's DU Value Acceptance (Appraisal Waivers)" and "Fannie Mae's DU Value Acceptance + Property Data" subtopics, subsequently presented in this topic, for additional information.

Continued on next page

Appraisal Requirements, Continued

Lender Responsibilities, continued

Fannie Mae DU, continued

- **Lender Responsibilities**, continued
  - If an appraisal is obtained, the lender is responsible for:
    - providing the borrower disclosures and requirements described in the "Appraisal Quality Matters" subtopic presented in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard;
    - compliance with the *Appraiser Independence Requirements*;
    - selection of the appraiser;
    - compliance with the Uniform Appraisal Dataset (UAD) when applicable;
    - ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae requirements;
    - successful submission of the appraisal through the UCDP prior to delivery;
    - continually evaluating the appraiser's work through the quality control process; and
    - ensuring the appraisal does not contain subjective and prohibited language relating to discriminatory practices and appraisal bias.
  - If the transaction involves property data collection, the lender is responsible for:
    - compliance with the *Property Data Collector Independence Requirements*;
    - selection of the property data collector;
    - successful submission of the data to Fannie Mae's Property Data API prior to loan delivery; and
    - continually evaluating the property data collector's work through the quality control process.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Freddie Mac expects the lender to place as much emphasis on the adequacy of the property as collateral as it does on underwriting the borrower's creditworthiness. The conclusion that a mortgage is eligible for sale to Freddie Mac must be based on the determination that the borrower is creditworthy (acceptable credit reputation and capacity) and the mortgaged premises is adequate and acceptable collateral for the mortgage transaction. The lender is responsible for determining the eligibility of the property and the acceptability of the appraisal report.
- Freddie Mac requires that the lender obtain an appraisal report that accurately reflects the market value, condition and marketability of the property.

- The lender is responsible for:
  - Complying with the *Appraiser Independence Requirements*
  - Selecting the appraiser
  - Requiring the appraiser to use the appropriate Freddie Mac appraisal report form
  - Complying with the Uniform Appraisal Dataset
- Freddie Mac does not select or approve individual appraisers or appraisal management companies. The lender, or a third party authorized by the lender, is responsible for approving and selecting the appraiser. The lender warrants that the appraisal services provided comply with the Uniform Standards of Professional Appraisal Practice, applicable laws and Freddie Mac requirements.

Continued on next page

Lender Responsibilities, continued

Freddie Mac LPA, continued

References:

- See the "Truist Ineligible List Certification" topic in Section 1.19: Fraud Prevention Standard for additional information.
- See "Appraiser Selection Criteria" subsequently presented in this topic for additional guidance related to Appraiser Independence Requirements, lender selection of appraisers, and appraiser qualifications.

- **Detrimental Conditions**
  - See "Environmental Issues and Detrimental Conditions" in the "Site Section of the Appraisal Report" subtopic presented in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard for guidance.

- **Lender Verification of Subject Property Owner of Record**
  - **Verifying the Owner of Record**
    - When a new appraisal report is required, the lender must verify the information outlined in the table below:

Owner of Record Verification by Transaction Type	
Transaction Type	The Lender Must Verify:
Purchase	• **The property seller listed on the sales contract is the owner of record of the subject property, or** • **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**
Refinance	**The borrower is an owner of record of the subject property**
Payoff of a 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**

  - **Investigating and Documenting Owner of Record Discrepancies**
    - If the property seller for purchase transactions or the borrower for refinance transactions is not the owner of record, the lender must investigate the circumstances of the transaction to ensure the transaction is legitimate.
    - If the lender determines the transaction is legitimate, the lender must retain in the mortgage file documentation evidencing the verification or legitimacy of the transaction, which may include:
      - the appraiser's analysis and conclusions in the appraisal report
      - a property sales history report
      - a copy of the recorded deed
      - a copy of a property tax bill
      - title commitment or binder indicating the legal ownership of the property

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Appraisal Requirements, Continued

Appraiser Selection Criteria

Non-AUS

- **Appraiser License and Certification**
  - Fannie Mae requires a lender (or its authorized agent) to use appraisers or supervisory appraisers that are state-licensed or state-certified (in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws). The lender (or its authorized agent) must document that the appraisers it uses are licensed or certified as appropriate under the applicable state law. The lender must ensure that the state license or state certification is active as of the effective date of the appraisal report. The appraiser must note their license or certification number on the individual appraisal report forms, in compliance with the Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements.
  - Fannie Mae's appraisal report forms identify the appraiser as the individual who:
    - performed the analysis, and
    - prepared and signed the appraisal report as the appraiser.
  - This does not preclude appraisers from relying on individuals who are not state-licensed or state-certified to provide significant professional assistance, such as an appraiser trainee or an employee of the appraiser doing market data research or data verification in the development of the appraisal. Under some state laws, a lender's use of an unlicensed or uncertified appraiser that is working as an employee or sub-contractor of a licensed or certified appraiser will satisfy the state's licensing and certification requirement, as long as the appraisal report is signed by a state-licensed or state-certified supervisory or review appraiser. The state-licensed or state-certified appraiser that signs the appraisal report must acknowledge in the report the extent of the professional assistance provided by others and the specific tasks performed by each individual, and must certify that each named individual is qualified to perform the tasks.

- **Appraiser Trainees**
  - Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) to perform a significant amount of the appraisal (or the entire appraisal if they are 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.
  - If the jurisdiction does not provide license numbers for trainees, the term "Trainee" should be entered in the "Other" field in the Appraiser Certification section.

Continued on next page

Appraiser Selection Criteria, continued

Non-AUS, continued

- **Knowledge and Experience**
  - Lenders must use appraisers that:
    - have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and particular property type; and
    - have the requisite knowledge about, and access to, all necessary and appropriate local data sources for the subject property's geographic area, including multiple listing service(s) and government records.
  - Appraisers that are not familiar with specific real estate markets may not have adequate information available to perform a reliable appraisal. Although the Uniform Standards of Professional Appraisal Practice (USPAP) allows an appraiser that does not have the appropriate knowledge and experience to accept an appraisal assignment by providing procedures with which the appraiser can complete the assignment, Fannie Mae does not allow the USPAP flexibility.

- **Selection of the Appraiser**
  - The lender:
    - is responsible for the selection of appraisers and for the qualifications and quality of work provided by the appraisers that are selected;
    - may not use appraisals ordered or received by borrowers or other parties with an interest in the transaction, such as the property seller or real estate agent. Fannie Mae does allow lenders to use third-party vendors (for example, appraisal management companies) to manage the appraiser selection process. However, it should be noted that if a lender enters into a contract with any vendor, contractor, or third-party service provider, the lender is accountable for the quality of the work performed as if it was performed by an employee of the lender.
  - The lender (or its authorized agent):
    - must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements, including the *Appraiser Independence Requirements*.
    - must ensure that an appraiser has demonstrated the ability to perform high-quality appraisals before using an appraiser's services. The quality of an appraiser's work is a key criterion that must be used in determining which appraiser the lender (or its authorized agent) uses for its assignments. The requirement for an appraiser to produce a high-quality work product must always outweigh fee or turnaround time considerations.
  - Delegating these responsibilities to a third party does not relieve the lender of its responsibilities related to the appraisal or the value, condition, and marketability of the property. See the "Appraisal Quality Matters" subtopic in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for information related to ongoing review of appraisals.

Note: Fannie Mae does not approve appraisers. Therefore, when selecting appraisers, lenders must not give any consideration to an appraiser's representation that they are is approved or qualified by Fannie Mae.

Continued on next page

Appraiser Selection Criteria, continued

Non-AUS, continued

- **Supervisory Appraiser**
  - As noted in the License and Certification section in this subtopic, Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) that works as an employee or subcontractor of a licensed or certified appraiser, to perform a significant amount of the appraisal (or the entire appraisal if they are qualified to do so), as long as the appraisal report is signed by a licensed or certified supervisory or review appraiser and is acceptable under state law.
  - If a supervisory appraiser is used, the supervisory appraiser does not need to physically inspect the subject property or comparables, but must sign the right side of the report and certify that they:
    - directly supervised the appraiser that prepared the appraisal report,
    - have reviewed the appraisal report,
    - agree with the statements and conclusions of the appraiser,
    - agree to be bound by certifications as set forth in Fannie Mae's appraisal report forms, and
    - take full responsibility for the appraisal report.
  - A supervisory appraiser may not sign the left-hand side of the appraisal report unless they have met the requirements of the appraiser as noted in the License and Certification section in this subtopic.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Appraiser Independence Requirements, Lender Selection of Appraisers, and Appraiser Qualifications**
  - **Lender Responsibilities**
    - The lender is responsible for:
      - Complying with the *Appraiser Independence Requirements*
      - Selecting the appraiser
      - Requiring the appraiser to use the appropriate Freddie Mac appraisal report form
      - Complying with the Uniform Appraisal Dataset
    - Freddie Mac does not select or approve individual appraisers or appraisal management companies. The lender, or a third party authorized by the lender, is responsible for approving and selecting the appraiser. The lender warrants that the appraisal services provided comply with the Uniform Standards of Professional Appraisal Practice, applicable laws, and Freddie Mac requirements.
  - **Appraiser Independence Requirements**
    - For each conventional mortgage sold to Freddie Mac, the lender represents and warrants that the appraisal was obtained in a manner consistent with the requirements of the *Appraiser Independence Requirements*.

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Appraiser Selection Criteria, continued

Freddie Mac LPA, continued

- **Appraiser Independence Requirements, Lender Selection of Appraisers, and Appraiser Qualifications**, continued
  - **Appraiser and Supervisory Appraiser Qualification**
    - The appraiser or supervisory appraiser must:
      - Be **state-licensed** or **state-certified** in the state in which the subject property is located
      - Have knowledge and experience in appraising the property type in the market area, and
      - Have access to applicable data sources
  - **Unlicensed and Trainee Appraisers**
    - Freddie Mac permits unlicensed and trainee (or similar classification) appraisers to complete an appraisal report in accordance with state law. If an appraisal report is completed by an unlicensed or trainee (or similar classification) appraiser:
      - A supervisory appraiser must sign the appraisal report.
      - A supervisory appraiser is not required to inspect the subject property or comparable sales unless required by state law.
  - **Lender Representations and Warranties Regarding Appraisers and Appraisal Reports**
    - In addition to complying with the *Appraiser Independence Requirements*, with respect to each appraisal report, the lender represents and warrants that:
      - All information known to the lender that may affect the estimate of market value or marketability has been provided to the appraiser. It has reviewed the appraisal report and has determined the mortgaged premises is adequate collateral for the mortgage transaction.
      - The appraisal report is of professional quality and supports all of the appraiser's assumptions, data, analyses, rationale and conclusions regarding the opinion of market value of the property and the marketability of the mortgaged premises.
      - The appraisal report is credible, internally consistent, clearly written, fully supported and sufficiently documented.
    - Deficient appraisals will be considered a breach of the lender's warranty regarding the acceptability of the mortgage and will subject the lender to the remedies available to Freddie Mac.
    - In addition to reviewing the appraisal report submitted by the lender, Freddie Mac may conduct property inspections and/or other investigations to verify property eligibility and proper underwriting of the mortgages offered for sale to and sold to Freddie Mac.
    - Freddie Mac may refuse to accept appraisal reports prepared by a particular appraiser.

  Reference: See the "Truist Ineligible List Certification" topic in Section 1.19: Fraud Prevention Standard of the *Correspondent Seller Guide* for additional information.

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Appraiser Selection Criteria, continued

Freddie Mac LPA, continued

- **Appraiser Independence Requirements, Lender Selection of Appraisers, and Appraiser Qualifications**, continued
  - **Representations by Appraisers and Appraisal Management Companies**
    - Appraisers and appraisal management companies must not make any representation to third parties as being approved by Freddie Mac.

Unacceptable Appraisal Practices

Non-AUS

The following are examples of unacceptable appraisal practices:

- development of or reporting an opinion of market value (including responses to requests for an ROV) that is not supportable by market data or is misleading;
- development of a valuation conclusion based either partially or completely on the sex, race, color, religion, disability, national origin, familial status, or including a reference to any protected class of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property;
- reference to crime rate or related data;
- use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process and the use of subjective terminology, including, but not limited to:
  - "pride of ownership," "no pride of ownership," and "lack of pride of ownership";
  - "poor neighborhood";
  - "good neighborhood";
  - "crime " (and its variants);
  - "desirable neighborhood or location"; or
  - "undesirable neighborhood or location";
- development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
- misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales;
- failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences;
- 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;
- selection and use of inappropriate comparable sales;
- failure to use comparable sales that are the most locationally and physically similar to the subject property;
- creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;

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Unacceptable Appraisal Practices, continued

Non-AUS, continued

- failure to personally inspect the exterior of the comparable property when required by the scope of work in the appraisal report;
- use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales;
- not supporting adjustments in the sales comparison approach;
- failure to make market-derived adjustments, including time adjustments, when they are clearly indicated;
- use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser's verification of the information from a disinterested source;
- development of 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 or employment for performing the appraisal or in anticipation of receiving future assignments; or
- development of or reporting an appraisal in a manner that is inconsistent with the requirements of USPAP.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- The following are examples of unacceptable appraisal practices. Evidence of any of the practices listed in this section will be a breach of lender's warranty as to the professional quality of the appraisal.
  - Consideration of the race, color, religion, sex, sexual orientation, gender identity, age, marital status, disability, familial status, exercise of any federally protected civil right, receipt of income derived from any public assistance program, birthplaces of residents at the property or in the neighborhood, national origin of the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property
  - Use of unsupported or subjective terms or statements to assess or rate, such as, but not limited to, "high," "low," "good," "bad," "fair," "poor," "strong," "weak," "rapid" "slow," "fast" or "average" without providing a foundation for analysis and contextual information
  - Incorporating terminology or veiled language that could indicate underlying bias including, but not limited to, "pride of ownership," "crime-ridden area," "desirable neighborhood or location" or "undesirable neighborhood or location," "gentrified," "working class," "inner city," "preferred community," "up and coming," predominately Hispanic or Black neighborhood, substantial amount of Black or Hispanic residents at the property, diverse school system, amenities specifically geared to a race, ethnic or religious group or using terms such as Millennials, Generation X or Baby Boomers

Continued on next page

Unacceptable Appraisal Practices, continued

Freddie Mac LPA, continued

- Development of an appraisal using inaccurate or incomplete data about the subject property, the neighborhood, the market area or any comparable property used in the appraisal analysis or report
- Inclusion of references, statement or comparisons about crime rates or crime statistics, whether objective or subjective, in the appraisal analysis or report
- Consideration of the age or location of a dwelling or the age of the neighborhood or census tract where the dwelling is located in a manner that has a discriminatory effect
- Basing the development of an opinion of value on factors that local, state or federal law designates as discriminatory
- Reliance in the appraisal analysis on comparable properties that were not personally inspected by the appraiser when required by the appraisal's scope of work. A personal inspection requires at least a visual inspection of the exterior of the comparable property.
- Reliance in any appraisal analysis on inappropriate comparable properties, or the failure to use comparable properties that are more similar to or nearer to the subject property without adequate explanation
- Use of comparable property data provided by any interested party to the transaction without verification by a disinterested party
- Use of inordinate adjustments for differences between the subject property and the comparable properties that do not reflect the market's reaction to such differences, or the failure to make proper adjustments when necessary
- Development of an opinion of value and/or marketability conclusions that is not supported by available market data
- Breach by the appraiser or supervisory appraiser of a certification or Statement of Assumptions and Limiting Conditions or comparable statements on any Freddie Mac approved appraisal report form or addendum.

Reference: See the "Electronic Transmission of Appraisal Reports" subtopic subsequently outlined in this topic for unacceptable appraisal and inspection practices when using Electronic Signatures and using and maintaining Electronic Records.

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Disclosure of Information to Appraisers

Non-AUS

- **Overview**
  - All information about the subject property the lender is aware of must be disclosed to the appraiser and the details provided must comply with unacceptable appraisal practices (see "Unacceptable Appraisal Practices" previously presented in this topic for additional information). The appraiser must determine if the information could affect either the marketability of the property or the opinion of the market value of the property.

- **Sales Contract Information**
  - All financing data and sales concessions for the subject property that will be or have been granted by anyone associated with the transaction must be disclosed to the appraiser, as appropriate. Typically, this information is provided in the sales contract. Therefore, the lender must provide, or ensure that the appraiser is provided with, a copy of the complete, ratified sales contract and all addenda for the property that is to be appraised.

- **Information Disclosed to the Appraiser**
  - **Financial Information**
    - The list below includes items that must be disclosed to the appraiser on purchase transactions, if applicable:
      - settlement charges,
      - loan fees or charges,
      - discounts to the sales price,
      - interest rate buydowns,
      - below-market-rate financing,
      - terms of any subordinate financing provided by interested parties,
      - credits or refunds of borrower expenses,
      - absorption of monthly payments,
      - assignment of rent payments, and
      - any other information not listed above that impacts property value.

  - **Property Information**
    - The list below includes items that must be disclosed, if applicable:
      - condo or PUD fees,
      - non-realty items included in the transaction,
      - any environmental hazard in or on the subject property or in the vicinity of the property that the lender is aware of or learns from the borrower, the real estate agent, or any other party to the transaction (see "Environmental Hazards Appraisal Requirements" in the "Appraisal Analysis: Agency Loan Programs" topic presented in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information), and
      - any other items that affect the safety, soundness, or structural integrity of a property of which the lender may be aware.

Continued on next page

Appraisal Requirements, Continued

Disclosure of Information to Appraisers, continued

Non-AUS, continued

- **Contract Changes After the Appraisal is Completed**
  - If the contract is amended after the effective date of the appraisal in a way that does not affect the description of the property, then the lender is not required to provide the amended contract to the appraiser nor obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:
    - sale price,
    - transaction terms,
    - financing concessions,
    - seller-paid closing costs,
    - names or initials,
    - closing date, and
    - correction of minor clerical errors such as misspellings.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- For each appraisal report request, the lender, or an authorized third party, must provide the appraiser with the following information about the subject property:
  - The complete legal description
  - The complete sales contract for purchase transactions, including:
    - All non-realty items
    - Financing terms
    - Financing and sales concessions granted by anyone associated with the transaction, and
    - Any gifts, buydowns or down payment assistance provided by anyone on behalf of the borrowers

    Note: For new construction, the sales contract should state the base price of the house and itemize each option.

    The lender is not required 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, the lender must obtain an updated appraisal report for the property. Changes to the sales contract that are not required to be provided to the appraiser include, but are not limited to:
    - Changes to the transaction terms such as sales price, financing or sale concessions, and
    - Date revisions, corrections to typographical errors, etc.

Continued on next page

Disclosure of Information to Appraisers, continued

Freddie Mac LPA, continued

- Any known affiliation between the property seller and the purchaser.
- Income and expense statements and property leases
- Generally acceptable energy reports such as the Home Energy Rating System report and U.S. Department of Energy Home Energy Score report, if applicable
- Ground lease for leasehold properties (Refer to the "Leasehold Estates" subtopic subsequently presented in this topic for additional information)
- Any other information known to the lender that could adversely affect the market value, condition or marketability of the subject property, including the existence of any contaminated site, hazardous substance or other adverse condition that affects the subject property or neighborhood in which the property is located. (Refer to "Environmental Issues and Detrimental Conditions" in the "Site Section of the Appraisal Report" subtopic within the "Appraisal Analysis: Agency Loan Programs" topic presented in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information).

Continued on next page

Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits

Non-AUS

- **Scope of Work**
  - Appraisers must use the most recent version of the appraisal report forms and include any other information, either as an attachment or addendum to the appraisal report form, needed to adequately support the opinion of market value. Although the scope of work for the appraisal or the extent of the appraisal process is guided by Fannie Mae's appraisal report forms, the forms do not limit or control the appraisal process. The appraiser's analysis should go beyond any limitations of the forms, with additional comments and exhibits being used if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions. The extent of the appraiser's data collection, analysis, and reporting must be determined by the complexity of the appraisal assignment.

- **List of Appraisal Report Forms**
  - Appraisal reports must be completed on one of the following Fannie Mae appraisal forms.

Form	Purpose
Uniform Residential Appraisal Report (Form 1004)	• For traditional appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory dwelling unit) based on an interior and exterior on-site physical inspection of the property by the appraiser. • Form 1004 also 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, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance. • Appraisals reported on Form 1004 must be completed in accordance with the UAD Specification.
Individual Condominium Unit Appraisal Report (Form 1073)	• For traditional appraisals of one-unit properties in condo projects based on interior and exterior property inspections. • Appraisals reported on Form 1073 must be completed in accordance with the UAD Specification.
Appraisal Update and/or Completion Report (Form 1004D)	• For appraisal updates and/or completion reports for all one- to four-unit properties. Reference: See "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subsequently presented in this subtopic for information about completion alternative methods for the Form 1004D.

Continued on next page

Appraisal Report Forms and Exhibits, continued

Non-AUS, continued

- **List of Appraisal Report Forms,** continued

Form	Purpose
One-Unit Residential Appraisal Field Review Report (Form 2000)	A lender uses this form for one-unit properties for the spot-check appraisal component of its quality control process. This appraisal field review report is intended to provide the lender/client with an opinion on the accuracy of the appraisal report under review.
Two- to Four-Unit Residential Appraisal Field Review Report (Form 2000A)	A lender uses this form for two- to four-unit properties for the spot-check appraisal component of its quality control process. This appraisal field review report is intended to provide the lender/client with an opinion on the accuracy of the appraisal report under review.

Continued on next page

Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, continued

Non-AUS, continued

- **Exhibits for Appraisals**
  - The exhibits in the following table must accompany the appraisal report. It should be noted that, in addition to these requirements, the appraiser is expected to provide any additional attachments or addenda to the appraisal report necessary to provide an adequately supported opinion of market value.

Exhibit	Requirements

Building footprint sketch or floor plan and calculations	• A floor plan is required for traditional appraisals if the layout of the dwelling unit(s) is atypical or functionally obsolete, limiting the appeal of the property in comparison to competitive properties in the market area.
	• A footprint sketch can only be used for a traditional appraisal if the layout of the dwelling unit(s) is not atypical or functionally obsolete.
	• A separate footprint sketch including exterior dimensions and room labels must be provided for each additional structure.
	• For a unit in an apartment-style condo project, the floor plan or footprint sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for square footage(s) shown in the condo documents are acceptable). See "Gross Living Area" in the "Appraisal Analysis: Agency Loan Programs/Improvements Section of the Appraisal Report" topic/subtopic presented in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information.
	
	Outlined below are complete descriptions of a floor plan and footprint sketch:
	• Floor Plan: A floor plan must be software-generated (not hand drawn), show the exterior footprint and interior layout of the dwelling unit(s) and include the following:
	  • all exterior wall dimensions,
	  • all interior walls, doorways, staircases, exterior ingress/egress, and labels for each room,
	  • all levels of the dwelling, and
	  • the calculations that demonstrate how the square footage(s) was derived.
	• Footprint Sketch:
	  • A footprint sketch must be software-generated (not hand drawn) and include the following:
	    • all exterior wall dimensions,
	    • all levels of the dwelling, and
	    • the calculations that demonstrate how the square footage(s) was derived.
	  • A separate footprint sketch including all exterior dimensions and room labels must be provided for each additional structure.

Continued on next page

Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, continued

Non-AUS, continued

- **Exhibits for Appraisals,** continued

Exhibit	Requirements
Street map	• A map showing the location of the subject property and the comparables that the appraiser used.
Exterior photographs	• Clear, descriptive color photographs showing the front, back, and a street scene of the subject property and the front of each comparable. The subject and all comparables must be appropriately identified. • Photographs of comparable rentals utilized in the *Small Residential Income Property Appraisal Report* (Form 1025) are not required.

Interior photographs	• At a minimum, the appraisal report must include photographs of the following:
	  • the kitchen;
	  • all bathrooms;
	  • main living areas of the property (such as living room, family room, dining room, all bedrooms, etc.);
	  • basement, including all finished and unfinished rooms;
	  • examples of physical deterioration, if present; and
	  • examples of recent updates, such as restoration, remodeling, and renovation, if present.
	
	Note: Interior photographs on proposed or under construction properties may be taken at the time of the completion inspection and included with Form 1004D.

Appraisal Update and/or Completion Report (Form 1004D)	• At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.

Continued on next page

Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, continued

Non-AUS, continued

- **Exhibits for Appraisals,** continued

Exhibit	Requirements
Interior photographs	• At a minimum, the appraisal report must include photographs of the following: • the kitchen; • all bathrooms; • main living areas of the property (such as living room, family room, dining room, all bedrooms, etc.); • basement, including all finished and unfinished rooms; • examples of physical deterioration, if present; and • examples of recent updates, such as restoration, remodeling, and renovation, if present. **Note**: Interior photographs on proposed or under construction properties may be taken at the time of the completion inspection and included with Form 1004D.
Appraisal Update and/or Completion Report (Form 1004D)	• At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.

- **Appraiser Certifications and Limiting Conditions**
  - Each Fannie Mae appraisal report form includes an appraiser's certification (and, if applicable, a supervisory 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; or
    - those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal and the information on which it is based.
  - Lenders are responsible for reviewing any additional certifications made by appraisers to ensure that they do not conflict with Fannie Mae's requirements or standard certifications on Fannie Mae appraisal forms.
  - The appraiser's certification #23 is an acknowledgment by the appraiser that certain parties to a mortgage finance transaction that are not the lender/client and/or intended user may rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

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Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, continued

Non-AUS, continued

- **Appraiser Certifications and Limiting Conditions,** continued
  - Fannie Mae will accept the following additional notice or statement when appraisers believe the lender/client is the only intended user:

    "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 stated 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."

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **List of Appraisal Report Forms**
  - The following additional appraisal report forms apply.

Form	Purpose
Uniform Residential Appraisal Report (Desktop) (Form 1004 Desktop)	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory dwelling unit) that are not based on an interior and exterior on-site physical inspection of the property by the appraiser. The property data may be collected through secondary data sources or by someone other than the appraiser. This form is not designed to report an appraisal for a unit in a condo project. Appraisals reported on Form 1004 Desktop must be completed in accordance with the UAD Specification. Reference: See "Desktop Appraisals" subsequently outlined in this topic for additional information related to desktop appraisals.
Uniform Residential Appraisal Report (Hybrid) (Form 1004 Hybrid)	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory dwelling unit) that are based on interior and exterior property data collection. This form is not designed to report an appraisal for a unit in a condo project. Appraisals reported on Form 1004 Hybrid must be completed in accordance with the UAD Specification Reference: See "Hybrid Appraisals" subsequently outlined in this topic for additional information related to hybrid appraisals.
Individual Condominium Unit Appraisal Report (Hybrid) (Form 1073 Hybrid)	For appraisals of one-unit (attached and detached) properties in condo projects that are based on interior and exterior property data collection. Appraisals reported on Form 1073 Hybrid must be completed in accordance with the UAD Specification.

Continued on next page

Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, continued

Fannie Mae DU, continued

- **Exhibits for Appraisals**
  - The following additional exhibit requirements apply.

Exhibit	Requirements

Building footprint sketch or floor plan and calculations	• A floor plan is required for the following:
	  ◦ all property data collections,
	  ◦ hybrid appraisals,
	  ◦ desktop appraisals,
	  ◦ traditional appraisals (if the layout of the dwelling unit(s) is atypical or functionally obsolete, limiting the appeal of the property in comparison to competitive properties in the market area).
	• A footprint sketch can only be used for a traditional appraisal if the layout of the dwelling unit(s) is not atypical or functionally obsolete.
	• A separate footprint sketch including exterior dimensions and room labels must be provided for each additional structure.
	• For a unit in an apartment-style condo project, the floor plan or footprint sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for unit square footage(s) shown in the condo documents are acceptable). See “Gross Living Area” in the “Appraisal Analysis: Agency Loan Programs/Improvements Section of the Appraisal Report” topic/subtopic presented in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information.
	
	Outlined below are complete descriptions of a floor plan and footprint sketch:
	• **Floor Plan**: A floor plan must be software-generated (not hand drawn), show the exterior footprint and interior layout of the dwelling unit(s) and include the following:
	  ◦ all exterior wall dimensions,
	  ◦ all interior walls, doorways, staircases, exterior ingress/egress, and labels for each room,
	  ◦ all levels of the dwelling, and
	  ◦ the calculations that demonstrate how the square footage(s) was derived.
	• **Footprint Sketch**:
	  ◦ A footprint sketch must be software-generated (not hand drawn) and include the following:
	    ▪ all exterior wall dimensions,
	    ▪ all levels of the dwelling, and
	    ▪ the calculations that demonstrate how the square footage(s) was derived.
	  ◦ A separate footprint sketch including all exterior dimensions and room labels must be provided for each additional structure.

Single-Family Comparable Rent Schedule (Form 1007)	Required if the property is a one-unit investment property and the borrower is using rental income to qualify. Otherwise, Form 1007 is not required. (The lender may obtain this form for the purpose of reporting gross monthly rent at delivery.)

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Appraisal Report Forms and Exhibits, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Appraisal Report Forms, PDRs and Inspection Types**
  - For each mortgage transaction that requires an appraisal report or a PDR, the mortgage file must contain an appraisal report or PDR that meets Freddie Mac's requirements to evidence that the mortgaged premises is acceptable collateral. All appraisal reports and PDRs require a physical inspection of the property which includes an on-site visual inspection, except for desktop appraisals. The lender may provide an appraisal report that exceeds the minimum collateral assessment requirement indicated by the Last Feedback Certificate provided the eligibility requirements for the selected appraisal type are met.

  - **Appraisal Report Forms and the PDR by Property Type and Inspection/Data Collection Type**
    - The following tables list Freddie Mac's appraisal report forms, the PDR and the applicable inspection/data collection types.
    - Appraisals reported on Forms 70, 70D, 70H, 2055, 465, 465H and 466 must be completed using the Uniform Appraisal Dataset (UAD) in accordance with Appendix D, UAD Field-Specific Standardization Requirements, of the Uniform Appraisal Dataset Specification ("UAD Specification") when reporting an appraisal for a conventional mortgage. (See the "Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP)" subtopic within the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard for additional information.)
    - Freddie Mac does not require the UAD to be used for appraisals reported on Form 72. However, this form may be completed using the standards contained in the UAD Specification to the extent those standards are applicable.

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Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Appraisal Report Forms, PDRs and Inspection Types,** continued
  - **Appraisal Report Forms and the PDR by Property Type and Inspection/Data Collection Type,** continued
    - **Appraisal Report Forms, Property Type and Inspection/Data Collection Type**

Appraisal Report Forms by Property Type and Inspection/Data Collection Type		
Property Type	**Form Number and Title**	**Type of Inspection/Data Collection and Reporting Considerations**
1-unit property, including: • In a Planned Unit Development (PUD) • With an ADU And excluding: • Attached Condominium Units	Form 70, *Uniform Residential Appraisal Report*	Interior and Exterior Inspection Form 70 may be used for a detached condominium unit if the appraiser includes information about the project and its condition. The form may not be used for an appraisal of an attached condominium unit.
	Form 70H, *Uniform Residential Appraisal Report (Hybrid)*	On-site interior and exterior property data collection using the Uniform Property Dataset (UPD). Form 70H may be used for a detached condominium unit if the appraiser includes information about the project and its condition. The form may not be used for an appraisal of an attached condominium unit. **Note**: See the "Hybrid Appraisals" subtopic subsequently presented in this topic for the detailed requirements with respect to the use of Form 70H.
	Form 70D, *Uniform Residential Appraisal Report (Desktop)*	No physical inspection **Note**: See the "Desktop Appraisals" subtopic subsequently presented in this topic for the detailed requirements with respect to the use of Form 70D.

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Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Appraisal Report Forms, Property Type and Inspection/Data Collection Type**, continued

Appraisal Report Forms by Property Type and Inspection/Data Collection Type, (continued)		
Property Type	**Form Number and Title**	**Type of Inspection/Data Collection and Reporting Considerations**
(see previous page)	Form 2055, *Exterior-Only Inspection Residential Appraisal Report*	Exterior-only Inspection The form is only to be used for an appraisal update or a subsequent opinion of market value. The form may not be used for an appraisal of a unit in an attached condominium project Form 2055 may be used for a detached condominium unit if the appraiser includes information about the project and its condition. **Note**: See "Form 2055 and 466 Upgrade Requirements" subsequently presented in this section for the conditions when Form 2055 must be upgraded to a Form 70.
Condominium Unit, including: • Attached Units • Detached Units	Form 465, *Individual Condominium Unit Appraisal Report*	Interior and Exterior Inspection
	Form 465H, *Individual Condominium Unit Appraisal Report (Hybrid*)	On-site interior and exterior property data collection using the UPD. **Note**: See the "Hybrid Appraisals" subtopic subsequently presented in this topic for the detailed requirements with respect to the use of Form 465H.
	Form 466, *Exterior-Only Inspection Individual Condominium Unit Appraisal Report*	Exterior-only Inspection The form is only to be used for an appraisal update or a subsequent opinion of market value. **Note**: See "Form 2055 and 466 Upgrade Requirements" subsequently presented in this section for the conditions when Form 2055 must be upgraded to a Form 70
2- to 4-unit property, including a 2- or 3-unit property with an ADU	Form 72, *Small Residential Income Property Appraisal Report*	Interior and Exterior Inspection When Form 72 is utilized for a 2- or 3-unit property with an ADU, the ADU is included as an additional unit **Note**: See "Form 72*,* Small Residential Income Property Appraisal Report" subsequently presented in this section for requirements applicable to completing Form 72, for 2- to 4-unit properties.

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Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Appraisal Report Forms, Property Type and Inspection/Data Collection Type**, continued

Appraisal Report Forms by Property Type and Inspection/Data Collection Type, (continued)		
Property Type	**Form Number and Title**	**Type of Inspection/Data Collection and Reporting Considerations**
Any, as required by the original appraisal report	Form 442, *Appraisal Update and/or Completion Report*	Interior and Exterior Inspection or Exterior-only Inspection **Notes**: • See "Appraisal Age, Appraisal Update, and Appraisal Use Requirements" subsequently presented in this topic for additional information regarding appraisal updates. • See "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subsequently presented in this topic for additional information regarding completion reports.
Any, as required by the original appraisal report	Form 400, *Warranty of Completion of Construction or Repairs/Alterations*	Interior and Exterior Inspection or Exterior-only Inspection **Note**: See "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subsequently presented in this topic for additional information regarding completion reports.

- **PDRs by Property Type and Data Collection Type**

PDR by Property Type and Data Collection Type		
Property Type	**Report Form**	**Type of Data Collection and Reporting Considerations**
1-unit property	PDR	On-site interior and exterior property data collection using the UPD. This report is required when accepting an ACE+ PDR offer or to complete a hybrid appraisal report.

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Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Form 70D, Uniform Residential Appraisal Report (Desktop)**
  - See the table in the "Appraisal Report Forms, Property Type and Inspection/Data Collection Type" subsection above and the "Desktop Appraisals" subtopic subsequently presented in this topic for requirements.
- **Form 70H, Uniform Residential Appraisal Report (Hybrid), and Form 465H, Individual Condominium Unit Appraisal Report (Hybrid)**
  - See the table in the "Appraisal Report Forms, Property Type and Inspection/Data Collection Type" subsection above and the "Hybrid Appraisals" subtopic subsequently presented in this topic for requirements.
- **ACE+ PDR Upgrade Requirements**
  - The lender must analyze the information in the PDR and review the photographs. The lender's review of the PDR may reveal that the subject property is not eligible for ACE+ PDR or has characteristics that require the lender to upgrade to an appraisal report on Forms 70, 70H, 465 or 465H or an appraisal report form applicable to the property type. Property characteristics or conditions that require a PDR to be upgraded to an appraisal include:
    - The building status is "Proposed" (not eligible for upgrade to a hybrid appraisal)
    - 0 bedrooms above grade and/or 0 bathrooms above grade
    - A measured finished area above grade of less than 400 square feet
    - The property is mixed use (i.e., altered or modified specifically to support or facilitate a non-residential or income-producing use)
  - **Special Feature Code Requirement**
    - Use SFC J44 to identify loans that have been upgraded from ACE+ PDR to a hybrid appraisal
- **Form 2055 and 466 Upgrade Requirements**
  - An appraisal based on an exterior-only property inspection, reported on either Form 2055 or 466, must be upgraded to a Form 70 or 465, as applicable, when one or more of the following conditions exists:
    - Third-party data sources do not provide sufficient information about both the interior and exterior physical characteristics of the subject property for the appraiser to develop a credible and adequately supported appraisal
    - The appraiser cannot reconcile all significant discrepancies (e.g., size, condition, room count, gross living area, etc.) among available data sources to develop a credible and adequately supported appraisal
    - The appraiser is unable to view the property improvements from the street and/or an exterior-only inspection does not provide sufficient information to develop a credible and adequately supported appraisal
    - The subject property is new construction
    - The subject property is undergoing renovation or rehabilitation

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Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Form 2055 and 466 Upgrade Requirements,** continued
    - The data sources used to develop the appraisal, including the sales contract, reflect the presence of physical deficiencies or adverse conditions that indicate the property has a condition rating of C5 or C6 or the quality rating is Q6. (Refer to "Property Condition and Quality of Construction of the Improvements" within the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard for additional information related to property condition and quality of construction.)
    - The exterior-only inspection reveals apparent physical deficiencies or adverse property conditions

- **Form 72, Small Residential Income Property Appraisal Report**
  - The following requirements are applicable to completing Form 72, for 2- to 4-unit properties.
    - **Comparable Rent Data for 2- to 4-unit Properties**
      - At least three rental comparables must be analyzed in the "comparable rental data" section. These rental comparables must:
        - Have current rental information
        - Be units similar to and located near the subject property
      - The appraisal report should state that the units and properties selected as rental comparables are comparable to the subject property (both the units and the overall property) and should accurately represent the rental market for the subject property unless otherwise stated in the report.
    - **Subject's Rent Schedule for 2- to 4-unit properties**
      - This section contains the subject property's current actual rents and the estimated market rents. The estimated market rents for the subject property must be supported in the appraisal report and be consistent with the data presented throughout the report.
    - **Sales Comparison Approach for 2- to 4-unit properties**
      - See "Sales Comparison Approach Section of the Appraisal Report" within the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard for requirements.

Continued on next page

Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Appraisal Report Review Forms by Property Type and Inspection Type**
  - The following table lists the Freddie Mac appraisal review report forms and the applicable inspection types.

Appraisal Report Review Forms by Property Type and Inspection Type		
Property Type	**Form Number and Title**	**Type of Inspection**
1-unit property	Form 1032, *One-Unit Residential Appraisal Field Review Report*	Exterior-only Inspection
1-unit property	Form 1033, *One-Unit Residential Appraisal Desk Review Report*	No Inspection
2- to 4-unit property	Form 1072, *Two- to Four-Unit Residential Appraisal Field Review Report*	Exterior-only Inspection

- **Statement of Assumptions and Limiting Conditions and Certification**
  - Modifications or deletions to the Statement of Assumptions and Limiting Conditions or to the Certification, which are incorporated into each appraisal report form and the PDR, are not permitted; however, additional certifications that do not constitute material alterations to the report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

Continued on next page

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**
  - Each appraisal report must meet the applicable requirements and include the exhibits specified based on the type of property inspection or appraisal form type, as described below.
  - Each PDR must meet the applicable requirements and include the exhibits specified, as described below.
  - **Exhibit Requirements**
    - **Photographs**
      - Photographs of the subject property must be original images that are in color and illustrative of the property. The photographs must be clear, appropriately identified and clearly show the improvements, including any physical deterioration of the property, amenities, conditions or external influences that have a material effect on the market value or marketability of the subject property.
      - Photographs of the comparable sales must be clear images. Copies of multiple listing service photographs are acceptable.

    - **Building Sketch and Floor Plan**
      - When required, a building sketch must include perimeter dimensions with calculations that reflect the measured areas of the dwelling unit(s). All levels of the dwelling unit(s) must be represented on the building sketch. A separate building sketch is required for each additional structure(s) on the subject property. Each building sketch must include exterior dimensions and, when applicable, room labels.
      - When required, the floor plan must include the following:
        - Interior walls
        - Doorways
        - Staircases
        - Exterior ingress/egress
        - Labels for each room, and
        - The dimensions of all exterior walls

        Reference: See "Layout and Floor Plans" in the "Improvements Section of the Appraisal Report" subtopic within the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard for additional guidance on unusual floor plans.

Continued on next page

Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
  - **Building Sketch and Floor Plan,** continued
    - **Requirements for Building Sketches, Compliance with ANSI Standard for Measuring the Subject Property, and Floor Plan Requirements**
      - Requirements for building sketches, compliance with the American National Standards Institute Standard, Square Footage – Method for Calculating: (ANSI® Z765) (ANSI Standard) for measuring the subject property, and floor plans are in the table below.
      - When ANSI-compliant measurement is required, the ANSI Standard that is current as of the appraisal report effective date, or the date of the PDR, must be utilized for measuring, calculating, and reporting areas outlined in the "Measurement Terminology and Appraisal Reporting" section below.

Property Type	Appraisal Form	Inspection or Data Collection Type	Building Sketch and Measurement Requirements	Floor Plan Requirements
1-unit property, including: In a PUD, with an ADU, and detached condo units (if the appraiser includes information about the condo project and its condition) And excluding: Attached condo units	Form 70	Interior / exterior	Building sketch required ANSI compliant measurement required[3]	Required when atypical[1]
	Form 70D	None	Building sketch required ANSI compliant measurement not required	Required
	Form 70H	Interior / exterior property data collection with a PDR	Building sketch required ANSI compliant measurement required[3]	Required when atypical[1]
	Form 2055	Exterior	Not required	Required when atypical[1]

Continued on next page

Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
  - **Building Sketch and Floor Plan,** continued

Property Type	Appraisal Form	Inspection or Data Collection Type	Building Sketch and Measurement Requirements	Floor Plan Requirements
Condominium Unit, including: Attached Units and Detached Units	Form 465	Interior / exterior	Building sketch required ANSI compliant measurement required for detached units only[2,3]	Required when atypical[1]
	Form 465H	Interior / exterior property data collection with a PDR	Building sketch required ANSI compliant measurement required[3]	Required when atypical[1]
	Form 466	Exterior	Not required	Required when atypical[1]
2- to 4-unit property, including a 2- or 3-unit property with an ADU	Form 72	Interior / Exterior	Building sketch required and must include: Square feet of living area per unit and Gross building area ANSI compliant measurement not required[2]	Floor plan required for each unit
Any, as required by the original appraisal	Form 442	As required for assignment	Not required	Not required

[1] Required if the subject property is atypical or functionally obsolete such that its market appeal is limited in comparison with competitive properties in the market area.
[2] Not required for a condominium unit in a garden, mid-rise or high-rise building or for 2- to 4-unit properties. Instead, the appraiser may measure the unit or building(s) or rely on the dimensions and estimates of square footage as shown on the plat, exhibits of Project Documents, floor plans or individual unit plats that include the dimensions and calculations.
[3] When sketching or 3D scanning software is used, the resulting output must also conform to the ANSI Standard.

Continued on next page

Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
  - **Building Sketch and Floor Plan,** continued
    - **Measurement Terminology and Appraisal Reporting**
      - The table below lists the terms that must be used for areas measured and calculated using the ANSI Standard and identifies where those identified areas are reported on the appraisal report forms.

Terms	Description	Appraisal Reporting Requirements[1]
Finished area	Finished above-grade area as defined by the ANSI Standard.	Used for calculating and reporting living area. Rooms in the finished area must be included in the above-grade room count. This area must be reported on the appraisal report on all Gross Living Area fields, including the Improvements Section, Sales Comparison Approach Section and Cost Approach Section, as applicable.
Non-standard finished area (NSFA)	Finished above-grade area that does not meet the ANSI Standard for finished area. An example of NSFA is area that does not meet the ANSI Standard by having a minimum ceiling height of seven feet.	This area must be reported as NSFA on the appraisal report on the first blank line of the Sales Comparison Approach adjustment grid, when applicable. Rooms located in NSFA must be included in the room counts (Total Rooms, Bedrooms, Bath(s)) in the Improvement section and in the Sales Comparison Approach grid of the appraisal report to comply with Uniform Appraisal Dataset requirements, when applicable. The FEATURE column of the Sales Comparison Approach Grid must include "NSFA" when used to report non-standard finished area. There must be no other entries on this Sales Comparison Approach row when it is used to report NSFA.

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Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
  - **Building Sketch and Floor Plan,** continued
    - **Measurement Terminology and Appraisal Reporting,** continued

Terms	Description	Appraisal Reporting Requirements[1]
Below grade/basement area, finished and unfinished area	The ANSI Standard considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of finish or the window area of any room. Therefore, any below-grade area, irrespective of whether the basement has finished area, would not be included in the above-grade finished area or room count.	Below-grade finished and unfinished areas and rooms must be reported on the Basement & Finished Rooms Below Grade lines of the Sales Comparison Approach adjustment grid, when applicable.
Above-grade unfinished area (UA)	Above-grade area that is accessible from the interior finished area of the dwelling and does not meet the ANSI definition of finished area or non-standard finished area. An example of UA is an unfinished/storage area over an attached garage that is accessed from the hallway of the second floor of the dwelling.	These features and their associated finished and unfinished areas should be reported on the Additional Features field on page 1 of the appraisal report, and adjusted for in the Sales Comparison Approach grid, as appropriate. Measured areas must be reported separately from the primary dwelling's measured areas.
Attached and detached ADUs	ADU finished and unfinished areas, as defined by the ANSI Standard, must be measured and calculated using the ANSI Standard.	

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Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
  - **Building Sketch and Floor Plan,** continued
    - **Measurement Terminology and Appraisal Reporting,** continued

Terms	Description	Appraisal Reporting Requirements[1]
Detached structures	Detached structures that are independent of the Primary Residence.	(See previous page)

[1] The requirements for reporting the ANSI measured areas (e.g., finished above-grade area, non-standard finished area, etc.) in prescribed fields on the appraisal report do not apply to the PDR.

    - **ANSI Adherence and Declarations**
      - If adherence to the ANSI Standard is not possible, the appraisal report must include:
        - The identifier “GXX001-” at the beginning of the Additional Featured field,
        - An explanation that addresses the lack of adherence, and
        - One of the ANSI prescribed declarations that addresses departure from the ANSI Standard.
      - Examples that would require the use of an ANSI departure declaration include:
        - Dwelling measurements are made without an interior inspection
        - The area calculations for a proposed dwelling are based on plans and specifications
        - Direct physical measurement of the dwelling dimensions is not possible
  - **Location Map**
    - The location map must identify the location of the subject property and of any comparable properties identified in the appraisal report, including closed sales, closed rentals, and properties listed for sale or rent, as applicable.

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Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
    - **Exhibits Required for Appraisals with Interior and Exterior Inspections (Forms 70, 72, and 465)**
        - The following exhibits that meet the requirements outlined in the "Exhibit Requirements" section above are required for appraisal reports with interior and exterior inspections:
            - **Photographs of the Subject Property**
                - The appraisal report must include at least the following:
                    - A front view of the subject property
                    - A rear view of the subject property
                    - A street scene identifying the location of the subject property and showing neighboring improvements
                    - The kitchen of the subject property
                    - All bathrooms of the subject property
                    - All main living areas of the subject property, including all gathering rooms
                    - All basement areas of the subject property, including unfinished and finished areas
                - The appraisal report must include additional photographs, as needed, to show any physical deterioration, improvements, amenities, observed conditions or external influences that materially impact the market value or marketability of the subject property.
            - **Photographs of Comparable Sales**
                - The appraisal report must include at least one clear photograph that shows the front of each comparable sale.
                - The appraisal report must include additional photographs, as needed, to show the improvements, amenities or external influences that materially impact the market value or marketability of the subject property.
            - **Building Sketch and Floor Plan**
                - The appraisal report must include a building sketch and floor plan that meets the requirements outlined in the "Exhibit Requirements" section above.
            - **Location Map**
                - The appraisal report must include a location map that meets the requirements outlined in the "Exhibit Requirements" section above.

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Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
  - **Exhibits Required for Desktop Appraisal (Form 70D)**
    - A desktop appraisal report must include the following:
      - **Photographs of the Subject Property**
        - The appraisal report must include the following:
          - A front view of the subject property
          - A rear view of the subject property
          - A street scene identifying the location of the subject property and showing neighboring improvements
          - The kitchen of the subject property
          - All bathrooms of the subject property
          - The main living areas of the subject property
      - **Photographs of Comparable Sales**
        - The appraisal report must include at least one clear photograph that shows the front of each comparable sale.
      - **Building Sketch and Floor Plan**
        - The appraisal report must include a building sketch and floor plan that meets the requirements outlined in the "Exhibit Requirements" section above.
      - **Location Map**
        - The appraisal report must include a location map that meets the requirements outlined in the "Exhibit Requirements" section above.
  - **Exhibits Required for Hybrid Appraisals (Forms 70H and 465H)**
    - The following exhibits that meet the requirements outlined in the "Exhibit Requirements" section above are required for hybrid appraisal reports:
      - **Photographs of the Subject Property**
        - The hybrid appraisal report must include at least the following:
          - A front view of the subject property
          - A rear view of the subject property
          - A street scene identifying the location of the subject property and showing neighboring improvements
          - The kitchen of the subject property
          - All bathrooms of the subject property
          - All main living areas of the subject property, including all bedrooms and gathering rooms
          - All basement areas of the subject property, including all unfinished and finished areas

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Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
  - **Exhibits Required for Hybrid Appraisals (Forms 70H and 465H)**, continued
    - The appraisal report must include additional photographs, as needed, to show any physical deterioration, improvements, amenities, observed conditions or external influences that materially impact the market value or marketability of the subject property.
    - **Photographs of Comparable Sales**
      - The appraisal report must include at least one clear photograph that shows the front of each comparable sale. A photograph from a multiple listing service is acceptable, and, notwithstanding the prohibition in "Unacceptable Appraisal Practices," the appraiser may rely on comparable sales that were not personally inspected by the appraiser.
    - **Building Sketch and Floor Plan**
      - The appraisal report must include a building sketch and floor plan that meets the requirements outlined in the "Exhibit Requirements" section above.
    - **Location Map**
      - The appraisal report must include a location map that meets the requirements outlined in the "Exhibit Requirements" section above.
  - **Exhibits Required for Appraisals with Exterior-only Inspections (Forms 466 and 2055)**
    - An appraisal report based on an exterior-only inspection must include the following that meet the requirements outlined in the "Exhibit Requirements" section above:
      - At least one photograph that shows the front view of the subject property
      - Location map
  - **Exhibits Required for Appraisal Updates (Form 442)**
    - If the photographs in the original appraisal report accurately represent the subject property, new photographs of the subject property are not required.
    - Photographs of any factors that affect the value, condition or marketability of the subject property should be provided if not already part of the original appraisal report.

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Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
  - **Exhibits Required for Completion Reports (Forms 442 and 400)**
    - The completion report must include, at a minimum, the following photographs:
      - For an existing property subject to repairs or alterations, photographs that clearly identify the completion of repairs or alterations
      - For new or proposed construction subject to completion, photographs including:
        - A front view of the subject property
        - A rear view of the subject property
        - A street scene identifying the location of the subject property and showing neighboring improvements
        - The kitchen of the subject property
        - All bedrooms of the subject property
        - All bathrooms of the subject property
        - All main living areas of the subject property, including all gathering rooms
        - All basement areas, including unfinished and finished areas
    - If the photographs above are included in the original appraisal report and accurately represent the subject property's completion, new photographs of the subject property are not required.
  - **Form 1000, Single-Family Comparable Rent Schedule**
    - A *Single-Family Comparable Rent Schedule* (Freddie Mac Form 1000) is required if the property is a one-unit investment property and the borrower is using rental income to qualify. Otherwise, Form 1000 is not required. (If there is no active lease for a unit, or the borrower rents the unit to a family member, the lender may use Form 1000 for the purpose of reporting gross monthly rent at delivery.)
  - **Other Necessary Exhibits and Addenda for Appraisal Reports**
    - The appraiser must provide any additional information or data that is needed to provide the lender/client with a credible and adequately supported appraisal. The lender may request that the appraiser provide additional exhibits or addenda as part of the appraisal scope of work. Any exhibit or addenda must be incorporated into the appraisal report.

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Appraisal Requirements, Continued

Appraisal Report Forms and Exhibits, (continued)

Freddie Mac LPA, continued

- **Exhibits and Addenda for Appraisal Reports and PDRs**, continued
  - **Exhibits Required for a PDR**
    - The following exhibits must be included in the PDR:
      - **Photographs of the Subject Property**
        - The PDR must include, at a minimum, the following photographs:
          - A front view of the subject property
          - A rear view of the subject property
          - A view of any sides of the subject property that are not wholly visible in the front or rear photographs
          - A street scene (both directions) identifying the location of the subject property and neighboring improvements
          - All interior rooms of the subject property including, but not limited to, foyer, kitchen, living room, bedrooms(s), bathroom(s), utility room, laundry room, basement (finished and unfinished areas), attic area accessed via a permanent staircase (finished and unfinished areas), etc.
          - Interior and exterior of any significant (permanently affixed) outbuildings on the subject site, including any ADU (not required from small sheds)
          - Any physical deterioration, improvements, amenities and any observed conditions or external influences
      - **Building Sketch and Floor Plan**
        - The PDR must include a building sketch and floor plan that meets the requirements in the “Exhibit Requirements” section above.

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Desktop Appraisals

Non-AUS
Not eligible

Fannie Mae DU
Follow DU requirements, which are as follows:

- **Overview**
  - A desktop appraisal reported on the *Uniform Residential Appraisal Report (Desktop)* (Form 1004 Desktop) is permitted for certain transactions. The minimum scope of work for Form 1004 Desktop does not include a current inspection of the subject property or comparable sales by the appraiser; the appraiser relies on data obtained from alternative methods or sources to identify property characteristics and condition.

- **Completing the Form 1004 Desktop**
  - Subject property information may be obtained from one or more data sources. The appraiser can accept data, photos, floor plans, and other information from a party who has a financial interest in the sale or financing of the property if the appraiser verifies such data from a disinterested source. The appraiser must determine if the information is accurate and reliable to produce a credible report, which includes the features, quality, and condition of the subject property.
  - Virtual inspection methods (including digital photos or videos) or other technological solutions (such as a machine-generated floor plan) can augment the data and imagery used for a desktop appraisal. Information provided by the homeowner, potential borrower, or a third party can be used to develop the description of the interior and exterior of the improvements. Extraordinary assumption(s) or appraisals made "subject to" verification of the subject property's condition, quality, or physical characteristics are not permitted.
  - The lender remains responsible for the description of the property, and the accuracy of all data on the appraisal that pertains to the property. This includes the property's condition and quality ratings. The lender is also responsible for ensuring the property meets all Agency property eligibility requirements. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

  - **Exhibits**: Form 1004 Desktop requires the same exhibits as traditional appraisals, plus a floor plan. The Square Footage Method for Calculating: ANSI Z765-2021 standard and exception code (GXX001- in the Additional Features field) is not required for desktop appraisals, but encouraged when feasible. See “Appraisal Report Forms and Exhibits” previously outlined in this topic for additional information.

Continued on next page

Desktop Appraisals, continued

Fannie Mae DU, continued

- **Entry of Appraisal Assignment Type**: The appraiser must provide the Appraisal Assignment Type and supporting details (located in the Additional Comments section of the appraisal report) as shown in the following table.

Field Labels	Required Entry
Appraisal Assignment Type	"DesktopAppraisal"
Subject Property Data Collection Method	"Other"
Subject Property Data Collection Date	"Null"
Subject Property Data Workforce	"Null"

- **DU Messaging**: For loan casefiles that are eligible for a desktop appraisal option, DU will issue a message informing the lender they can choose to obtain an appraisal reported on Form 1004 Desktop. DU will also issue messages for other appraisal options. The lender may select from any of the options presented, which may include a desktop appraisal, hybrid appraisal, or traditional appraisal.

- **Eligible Transactions**
  - To be eligible for a desktop appraisal, transactions must meet the following criteria:
    - one-unit property (including those with an ADU and units in a PUD),
    - primary residence,
    - purchase transaction (including new construction),
    - LTV ratio less than or equal to 90%, and
    - DU loan casefile that receives an Approve/Eligible recommendation.

- **Ineligible Transactions**
  - The following transactions are not eligible for a desktop appraisal:
    - two- to four-unit properties;
    - condo units;
    - manufactured homes;
    - construction-to-permanent loans (single-close and two-close);
    - second homes and investment properties;
    - all refinances;
    - HomeStyle Renovation and HomeStyle Energy loans;
    - Community Seconds with a subsidized sales price;
    - Community land trusts, or other properties with resale price restrictions (loan casefiles using the Affordable LTV feature); and
    - DU loan casefiles that receive an Ineligible recommendation.

- **Representations and Warranties**
  - When a desktop appraisal is reported on Form 1004 Desktop and submitted through the UCDP, the appraisal will be scored by Collateral Underwriter (CU). All eligible loans with a desktop appraisal that receive a CU risk score of 2.5 or less are eligible for enforcement relief of certain representations and warranties related to the appraisal value of the subject property.

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Appraisal Requirements, Continued

Desktop Appraisals, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Overview**
  - A desktop appraisal reported on Form 70D, *Uniform Residential Appraisal Report (Desktop)* is permitted in lieu of an interior and exterior inspection appraisal for certain purchase transactions.

- **Desktop Appraisal Requirements**
  - Mortgages that meet the following requirements may be delivered with a desktop appraisal in lieu of an interior and exterior appraisal:
    - The mortgage must be an Accept mortgage
    - The mortgage must be secured by a 1-unit dwelling.
    - The mortgage must comply with the following mortgage purpose, occupancy type and maximum loan-to-value (LTV) ratio requirements:

Mortgage Purpose	Occupancy Type	Maximum LTV ratio
Purchase	Primary Residence	90%

Note: Freddie Mac will accept mortgages originated with a desktop appraisal with an LTV ratio higher than 90% (as calculated using the value obtained from the desktop appraisal) if the loan amount does not increase and all other eligibility requirements continue to be met, including the requirement that the LTV ratio calculated using the sales price is less than or equal to 90%. LTV ratios greater than 90% that occur as a result of loan amount increases require an upgrade to an interior and exterior inspection appraisal (Form 70).

    - Each mortgage must be delivered with the required ULDD Data Points

- **Ineligible Mortgages**
  - The following mortgages are not eligible for a desktop appraisal:
    - Mortgages secured by a condominium unit
    - Mortgages secured by cooperative share loans
    - Mortgages secured by a manufactured home
    - Mortgages secured by a mixed-use property
    - Mortgages secured by a property that is undergoing renovation or rehabilitation
    - Mortgages secured by a property acquired in a non-arm's length transaction
    - Mortgages secured by a property where the property owner at the time of sale (i.e., the property seller) is a lender or a government entity
    - Mortgages secured by mortgaged premises subject to resale restrictions, excluding those subject to age-based resale restrictions
    - Construction Conversion and Renovation Mortgages
    - Community land trust mortgages
    - GreenChoice Mortgages
    - ChoiceRenovation Mortgages

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Desktop Appraisals, continued

Freddie Mac LPA, continued

- **Form 70D Upgrade Requirements**
  - The appraisal must be upgraded to Form 70 when one or more of the following conditions exists:
    - Third-party data sources do not provide sufficient information about both the interior and exterior physical characteristics of the subject property for the appraiser to develop a credible and adequately supported appraisal
    - The appraiser cannot reconcile significant discrepancies (e.g., room count, gross living area, size, condition, etc.) among available data sources to develop a credible and adequately supported appraisal
    - The subject property is undergoing renovation or rehabilitation
    - The data sources used to develop the appraisal, including the sales contract, reflect the presence of physical deficiencies or adverse conditions that indicate the property has a condition rating of C5 or C6 or the quality rating is Q6. See "Property Condition and Quality of Construction of the Improvements" within the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard for additional information related to property condition and quality of construction.

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Appraisal Requirements, Continued

Hybrid Appraisals

Truist Note: DU and LPA loans originated with a hybrid appraisal must be underwritten by the Correspondent lender (approved by Truist for delegated underwriting authority). DU and LPA loans originated with a hybrid appraisal are not eligible for purchase if Truist underwrites the loan.

Non-AUS
Not eligible

Fannie Mae DU
Follow DU requirements, which are as follows:

- **Overview**
  - For certain loan casefiles, DU offers hybrid appraisals – an appraisal option requiring a property data collection.
  - A hybrid appraisal reported on the *Uniform Residential Appraisal Report (Hybrid)* (Form 1004 Hybrid) or *Individual Condominium Unit Appraisal Report (Hybrid)* (Form 1073 Hybrid) must conform to unacceptable appraisal practices (see "Unacceptable Appraisal Practices" previously presented in this topic for additional information). The minimum scope of work for hybrid appraisals includes consideration by the appraiser of interior and exterior property data collection by a trained and vetted third party (such as a real estate agent, insurance inspector, appraiser, etc.). The appraiser relies on the data collected (and other sources if needed) to identify property characteristics including condition. The property data collection must comply with the Uniform Property Dataset and be delivered to the Fannie Mae Property Data API.

- **Completing the Hybrid Appraisal**
  - Property data collection and the appraisal report are separate assignments and may be performed by different people. If the appraiser does not perform the data collection, the lender must share the property data collection with the appraiser at the time of engagement. The appraiser will use the data along with other third-party sources to develop the appraisal. The effective date of the hybrid appraisal is the date that the appraiser arrives at their opinion of value.

    Note: If the appraiser is engaged as a property data collector and at a later date engaged as an appraiser, this is still considered a hybrid appraisal.

  - The lender remains responsible for verifying the accuracy of the property description and the completeness of the data including the condition and quality ratings as determined by the appraiser. The lender is also responsible for ensuring the property meets all applicable Agency property eligibility requirements. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

Continued on next page

Appraisal Requirements, Continued

Hybrid Appraisals, continued

Fannie Mae DU, continued

- **Exhibits**: Form 1004 Hybrid and Form 1073 Hybrid require the same exhibits as traditional appraisals with the inclusion of a floor plan conforming to the ANSI standard. See the "Appraisal Report Forms and Exhibits" subtopic previously outlined in this topic for additional information on exhibits and the "Improvements Section of the Appraisal Report" subtopic, outlined in the "Appraisal Analysis: Agency Loan Programs" topic, within Section 1.07: Appraisal Standard for additional information on the ANSI standard.

- **Entry of Appraisal Assignment Type**: The appraiser must provide the Appraisal Assignment Type and supporting details (located in the Additional Comments section of the appraisal report) as shown in the following table.

Field Labels	Required Entry
Appraisal Assignment Type	"Hybrid"
Subject Property Data Collection Method	"Physical"
Subject Property Data Collection Date	"YYYY-MM-DD"
Subject Property Data Workforce	"Appraiser" "AppraiserTrainee" "RealEstateAgent" "HomeInspector" "InsInspector" (*Insurance Inspector) "Other"

Note: For the Subject Property Data Collection Date, the appraiser must enter the date that the property data collection was performed. For the Subject Property Data Workforce, the appraiser must enter the Workforce indicated in the property data that is one of the six Required Entry enumerations listed above.

- **DU Messaging**: For loan casefiles that are eligible for a hybrid appraisal option, DU will issue a message informing the lender they can obtain an appraisal reported on Form 1004 Hybrid or Form 1073 Hybrid. DU will also issue messages for other appraisal options. The lender may select from any of the options presented, which may include a hybrid appraisal, desktop appraisal, or traditional appraisal.

- **Eligible Transactions**
  - The following are eligible for a hybrid appraisal:
    - existing one-unit properties, including a condo or unit in a PUD,
    - primary residence, second home, or investment properties,
    - under construction properties,
    - existing properties with incomplete construction or renovation project, and
    - Texas 50(a)(6) loans.
  - The transaction must be a purchase, limited cash-out refinance, or cash-out refinance.

Continued on next page

Appraisal Requirements, Continued

Hybrid Appraisals, continued

Fannie Mae DU, continued

- **Ineligible Transactions**
  - The following transactions are not eligible for a hybrid appraisal:
    - two- to four-unit properties,
    - proposed construction,
    - construction-to-permanent loans (single-close and two-close),
    - Agency Plus Select,
    - HomeStyle Renovation and HomeStyle Energy loans,
    - properties with resale price restrictions, and
    - DU loan casefiles that receive an Ineligible recommendation.

- **Exercising Hybrid Appraisals**
  - When exercising a hybrid appraisal, the lender must complete all of the following:
    - obtain a property data collection and successfully submit to the Fannie Mae Property Data API,
    - provide the property data collection to an appraiser for the completion of a hybrid appraisal based on property type using either Form 1004 Hybrid or Form 1073 Hybrid,
    - submit the hybrid appraisal to the Uniform Collateral Data Portal (UCDP),
    - perform an appraisal review in accordance with Agency appraisal requirements outlined in this document and the Section 1.07: Appraisal Standard document, and
    - deliver the loan with the hybrid appraisal.

  Note: A lender may obtain a hybrid appraisal if a loan loses value acceptance + property data eligibility after submitting the property data collection to the Property Data API. See the "Fannie Mae's DU Value Acceptance + Property Data" subtopic subsequently presented in this topic for specific requirements.

- **Representations and Warranties**
  - When a hybrid appraisal is reported on Form 1004 Hybrid or Form 1073 Hybrid and submitted through the UCDP, the appraisal will be scored by Collateral Underwriter (CU). All eligible loans with a hybrid appraisal receiving a CU risk score of 2.5 or less are eligible for enforcement relief of certain representations and warranties related to the appraisal value of the subject property.

    Reference: See the "Representations and Warranties on Property Value and Mortgaged Premises" subtopic subsequently presented in this topic for complete requirements and additional information.

Continued on next page

Hybrid Appraisals, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Hybrid Appraisal Requirements**
  - The last Feedback Certificate must indicate the mortgage is eligible for a hybrid appraisal report.

    Note: If the last Feedback Certificate does not indicate the mortgage is eligible for delivery with an appraisal reported on Form 70H or 465H, but the mortgage is eligible for an ACE appraisal waiver, ACE+ PDR or a desktop appraisal, the lender may deliver the mortgage with a hybrid appraisal report.

  - Form 70H or 465H can be used for a hybrid appraisal report with a PDR. The appraiser may contact the property data collector to verify any information in the PDR and adjust that information, as necessary, to complete Form 70H or 465H.

    References:
    - See "Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR)" subsequently presented in this topic for property data collector requirements
    - See "Appraisal Report Forms and Exhibits" previously presented in this topic for PDR and hybrid appraisal exhibit requirements.

  - The PDR must be retained in the mortgage file and must be submitted to Freddie Mac through the Beyond ACE application programming interface (bACE API).
  - When preparing a hybrid appraisal report, the appraiser must:
    - Analyze the information in the PDR and review photographs
    - Identify the name of the property data collector in the body of the appraisal report
    - Report the effective date of the appraisal as the date the appraiser developed the opinion of market value
    - Complete the Appraisal Assignment Type fields, located in the Additional Comments section of the Form 70H or 465H according to the requirements in the table below:

Appraisal Assignment Type	
Field Label	**Required Entry**
Appraisal Assignment Type	Hybrid
Subject Property Data Collection Type	Physical
Subject Property Data Collection Date	YYYY-MM-DD
Subject Property Data Workforce (e.g., select the applicable identifier to describe the data collector who completed the PDR)	Appraiser AppraiserTrainee RealEstateAgent HomeInspector InsInspector (Insurance Inspector) Other

Continued on next page

Appraisal Requirements, Continued

Hybrid Appraisals, continued

Freddie Mac LPA, continued

- **Hybrid Appraisal Requirements**, continued
  - **Special Feature Code Requirement for Loans Upgraded from ACE+ PDR to a Hybrid Appraisal**
    - Use SFC J44 to identify loans that have been upgraded from ACE+ PDR to a hybrid appraisal.
    - See "Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR)" subsequently presented in this topic for LPA messaging that will be displayed in the Feedback Certificate to indicate a loan is no longer eligible for ACE+ PDR and an upgrade to a hybrid appraisal report is required.

- **Ineligible Mortgages**
  - The following mortgages are not eligible for a hybrid appraisal report:
    - Mortgages secured by:
      - 2- to 4-unit properties
      - Proposed construction
    - Agency Plus Select Mortgages
    - GreenCHOICE Mortgages
    - CHOICERenovation Mortgages

- **Form 70 or 465 Upgrade Requirements**
  - The appraiser must perform an interior and exterior inspection reported on Form 70 or 465 when one or more of the following conditions exists:
    - The PDR does not provide sufficient information about both the interior and exterior physical characteristics of the subject property for an appraiser to develop a credible and adequately supported appraisal report
    - The appraiser cannot reconcile significant discrepancies (e.g., room count, living area, size, condition, etc.) among available data sources, including the PDR, to develop a credible and adequately supported appraisal report

Reference: See the table in the "Appraisal Report Forms, Property Type and Inspection/Data Collection Type" subsection outlined in the "Appraisal Report Forms and Exhibits" subtopic previously presented in this topic for additional information on hybrid appraisals.

Continued on next page

Appraisal Age, Appraisal Update, and Appraisal Use Requirements

Non-AUS

- **Age of Appraisal and Appraisal Update Requirements**
  - When an appraisal is obtained, the property must be appraised within the 12 months prior to the date of the note and mortgage.
  - When the effective date of the original appraisal report is more than four months but less than 12 months from the date of the note and mortgage, the appraiser must perform an appraisal update that includes inspecting the exterior of the property and reviewing current market data to determine whether the property has declined in value since the date of the original appraisal report. This requirement applies regardless of whether the property was appraised as proposed or existing construction. The appraisal update must occur within four months prior to the date of the note and mortgage.
  - The original appraiser should complete the appraisal update; however, lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal report and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.
  - The inspection and results of the appraisal update must be reported on the *Appraisal Update and/or Completion Report* (Form 1004D).
    - If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property.
    - If the appraiser indicates on the Form 1004D that the property value has not declined, then the lender may proceed with the loan in process without requiring any additional fieldwork.
  - When the effective date of the original appraisal report is more than 12 months from the date of the note and mortgage (with or without an appraisal update) a new appraisal report is required. Except for single-close construction-to-permanent financing loans, these requirements apply to all appraisals including those that receive appraisal and value representation and warranty enforcement relief. See "Age of Appraisal Documents" in the "Construction Lending – Single Closings" subtopic previously outlined in this document for additional information.
  - See the "Appraisal Quality Matters" subtopic in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for information concerning changes to the appraised value.
  - See the "Properties Affected by a Disaster" subtopic subsequently presented in this topic for exceptions to the allowable age of appraisal documents for loans impacted by a natural disaster.

  Reference: For additional information/requirements related to completion reports, see "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subsequently presented in this topic.

- **Required Exhibits for an Appraisal Update**
  - See "Appraisal Report Forms and Exhibits" previously presented in this topic, for requirements.

Continued on next page

Appraisal Age, Appraisal Update, and Appraisal Use Requirements, (continued)

Non-AUS, continued

- **Multiple Appraisals of the Subject Property**
  - If the lender obtains more than one appraisal for a loan due to applicable law, regulation, lender policy, or otherwise, the lender must:
    - adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value,
    - document the reasons for relying on the appraisal, and
    - submit the appraisal selected by the lender through the UCDP prior to delivery.
  - These requirements also apply if the lender considers an appraisal to be deficient (see the "Appraisal Quality Matters" subtopic in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information).

- **Use of an Appraisal for a Subsequent Transaction**
  - Fannie Mae will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met:
    - The subsequent transaction may only be a limited cash-out refinance.
    - The age of the appraisal report must be less than 12 months from the note date of the subsequent transaction. If the appraisal report is greater than four months from the date of the note and mortgage, then an appraisal update is required. See the preceding section, "Age of Appraisal and Appraisal Update Requirements", for requirements for completing an appraisal update.
    - The lender must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
    - The borrower and the lender/client must be the same on the original and subsequent transaction, with the following exception:
      - **Truist Note**: Fannie Mae has further clarified that in the event of a divorce or legal separation, the borrower for the new transaction must be one of the borrowers on the prior transaction, and the file must document that the borrower for the new transaction obtained the property through a divorce or legal separation.

  Note: The appraisal must comply with all other requirements outlined in this document and in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide*.

- **Transferred Appraisals**
  - A lender may deliver to Truist a loan containing an appraisal prepared by an appraiser selected by another lender.
  - The loan file must contain a transfer letter, signed by an officer of the transferring lender, indicating that the appraisal was obtained in a manner consistent with the Appraiser Independence Requirements.
  - The appraisal must be received directly from the transferring lender, and cannot be received by an individual with a financial interest in the transaction. All appraisals delivered to Truist must meet Fannie Mae eligibility requirements.
  - Transferred appraisals must be acceptable without corrections, revisions or updates.

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Appraisal Requirements, Continued

Appraisal Age, Appraisal Update, and Appraisal Use Requirements, (continued)

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Desktop Appraisals**
    - When the effective date of the original desktop appraisal report is more than four months from the date of the note and mortgage, a new appraisal is required.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Age of Appraisal Reports and Appraisal Update Requirements**
    - **Acceptable Age of Appraisal Reports**
        - If the effective date of the appraisal report is more than 12 months before the note date, a new appraisal with an interior and exterior inspection is required
        - With the exception of desktop appraisals, if the effective date of the appraisal report is more than 120 days before the note date, an appraisal update is required. The effective date of an appraisal update must be no more than 120 days before the note date.
        - For desktop appraisals, if the effective date of the appraisal report is more than 120 days before the note date, a new desktop appraisal is required.
    - **Appraisal Update Reporting Requirements**
        - Appraisal updates must be reported on Form 442, *Appraisal Update and/or Completion Report*.
        - If the update indicates that the value of the subject property has not declined, a new appraisal is not required.
        - If the update indicates that the value of the subject property has declined, the lender must obtain a new appraisal, based on either:
            - An exterior-only inspection reported on the appropriate Freddie Mac form for the property type (Form 2055 or 466, as applicable), or
            - An interior and exterior inspection reported on the appropriate Freddie Mac form for the property type (Form 70, 70H, 72, 465 or 465H, as applicable)
        - The original appraiser should perform the appraisal update. If the original appraiser is not available to perform the update, another appraiser may be used. Freddie Mac will accept an appraisal update performed by an unlicensed appraiser or appraiser-trainee (or similar classification) if a supervisory appraiser signs the appraisal update.
        - See "Exhibits and Addenda for Appraisal Reports and PDRs" in the "Appraisal Report Forms and Exhibits" subtopic previously presented in this document for appraisal update exhibit requirements.

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Appraisal Age, Appraisal Update, and Appraisal Use Requirements, (continued)

Freddie Mac LPA, continued

- **Re-use of an Appraisal Report for a Subsequent Transaction**
  - When an appraisal is required for a subsequent transaction secured by the mortgaged premises, the original appraisal report may be re-used if the following requirements are met:
    - The borrowers on the new transaction must be the borrowers on the original transaction. The only exception is in the event of a divorce or legal separation. The borrower for the new transaction must be one of the borrowers on the original transaction, and the file must document that the borrower for the new transaction acquired the property through a divorce or legal separation.
    - Since the effective date of the original appraisal report, the mortgaged premises 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 the value, condition or marketability
    - The new transaction must be a “no cash-out” refinance
    - The appraisal report from the original transaction must meet all of the following requirements:
      - The effective date of the appraisal report must not be more than 12 months prior to the note date of the subsequent transaction.
      - If the effective date of the appraisal is more than 120 days prior to the note date of the subsequent transaction, an appraisal update is required. The appraisal update must meet all appraisal update requirements noted above and reflect the current borrower(s) and lender/client.
      - The lender/client is the seller or a third party specifically authorized by the seller of the original transaction.

- **Age of a PDR**
  - The effective date of the PDR is the date the data was collected, and that date must be no more than 12 months prior to the note date. If the effective date of the PDR is more than 12 months prior to the note date, a new PDR is required.

- **Transferred Appraisals**
  - A lender may deliver to Truist a loan containing an appraisal prepared by an appraiser selected by another lender.
  - The loan file must contain a transfer letter, signed by an officer of the transferring lender, indicating that the appraisal was obtained in a manner consistent with the Appraiser Independence Requirements.
  - The appraisal must be received directly from the transferring lender, and cannot be received by an individual with a financial interest in the transaction. All appraisals delivered to Truist must meet Freddie Mac eligibility requirements.
  - Transferred appraisals must be acceptable without corrections, revisions or updates.

Appraisal Analysis

Reference: See the “Appraisal Analysis: Agency Loan Programs” topic in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for guidance.

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Representations and Warranties on Property Value and Mortgaged Premises

Non-AUS

- **Representations and Warranties Related to Collateral Underwriter (CU)**
  - Loans may benefit from enforcement relief of certain representations and warranties related to the appraisal and value of the subject property. To be eligible for relief:
    - the loan must be secured by a one-unit detached, attached, or condo property; and
    - the appraisal must receive a CU risk score of 2.5 or below.

    Reference: See "Unacceptable Appraisal Practices" previously presented in this topic for examples of unacceptable practices.

  - When this criteria is met, the lender is not responsible for the following requirements:
    - underwriting the appraisal report to determine whether the subject property presents adequate collateral for the mortgage;
    - ensuring the appraisal accurately reflects the market value of the property;
    - ensuring the appraiser used sound reasoning and provided evidence to support the methodology chosen to develop the opinion of value; and
    - analyzing the comparable sales used in the appraisal report, including the description, selection, adjustments, and reconciliation of the comparables.
  - The lender remains responsible for the description of the property, adherence to fair lending, local, state, and federal laws and the accuracy and completeness of all data on the appraisal that pertains to the property and project (if applicable). This includes the property's condition and quality ratings. The lender is also responsible for ensuring the property meets the property eligibility requirements. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Representations and Warranties Related to Value Acceptance**
  - When a loan casefile is eligible for value acceptance (appraisal waiver), value acceptance + property data, or rural high needs value acceptance (appraisal waiver) and is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property. The property value the lender enters in DU may be based on:
    - the lender's estimate of value, determined at the discretion of the lender, or
    - the borrower's estimate of value.
  - For all value acceptance offers that are exercised, the lender remains responsible for the accuracy and completeness of all data that pertains to the property and project (if applicable) that is submitted to DU (other than the property value) and must warrant that the property is adequately insured.
  - The following table describes the representations and warranties the lender must make ("Yes") if they exercise a value acceptance (appraisal waiver),

Continued on next page

Representations and Warranties on Property Value and Mortgaged Premises, (continued)

Fannie Mae DU, continued

- **Representations and Warranties Related to Value Acceptance** (continued)

  value acceptance + property data, or rural-high needs value acceptance (appraisal waiver) offer. The table also identifies the representations and warranties the lender is not responsible for ("No").

	Representations and Warranties Related to…			
	Value and Marketability	Physical Property Characteristics	Property Eligibility including Condition	Condition with a Recent Disaster
Value Acceptance (Appraisal Waiver)	No	No	No	Yes
Value Acceptance + Property Data	No	Yes	Yes*	Yes
Rural High-Needs Value Acceptance (Appraisal Waiver)	No	Yes	Yes*	Yes

  *Includes warranty that the property is safe, sound, and structurally secure.

  - Fannie Mae does not warrant that the estimated value provided by the lender is the actual value of the subject property. The lender may not make any statements to any third party (including the borrower) that Fannie Mae performed any kind of appraisal or valuation of the property.

  Reference: See the "General Property Eligibility Requirements" subtopic previously presented in this topic for property eligibility requirements and the "Properties Affected by a Disaster" subtopic subsequently presented in this topic for requirements on recent disasters.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Collateral Representations and Warranties**
  - In addition to all other representations and warranties specified in the lender's purchase documents, the lender makes the following representations and warranties, as of the Truist purchase date.
    - **Value Warranty**: The lender represents and warrants that the appraisal accurately reflects the market value of the mortgaged premises.
    - **Condition Warranty**: The lender represents and warrants that the mortgaged premises is not in C5 or C6 condition. For property types not required to utilize the Uniform Appraisal Dataset condition ratings, the lender represents that the property is in a condition consistent with condition ratings C1 through C4.

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Appraisal Requirements, Continued

Representations and Warranties on Property Value and Mortgaged Premises, (continued)

Freddie Mac LPA, continued

- **Collateral Representations and Warranties** (continued)
    - **Marketability Warranty**: The lender represents and warrants that the mortgaged premises is acceptable to typical purchasers in the subject property's market area.
- **Appraised Value Representation and Warranty Relief - Loan Collateral Advisor®**
    - **Overview**
        - For mortgages with appraisals submitted to the Uniform Collateral Data Portal® (UCDP®) and assessed through Loan Collateral Advisor®, Freddie Mac will not exercise its remedies, including the issuance of repurchase requests, in connection with a breach of the lender's selling representations and warranties related to the appraised value of the mortgaged premises provided the requirements below are met.
    - **Eligible Mortgages**
        - The following requirements must be met for mortgages to be eligible for appraised value representation and warranty relief:
            - The mortgage must have a loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio less than or equal to 95%
            - The mortgage must be secured by a 1-unit dwelling (including units in a condominium project or a planned unit development (PUD))
            - The borrower must be an individual or a living trust
            - The UCDP feedback message FRE4000 must be returned, indicating "This appraisal is eligible for representation and warranty relief for property value, pending an assessment of the loan."

              Note: For lenders using Loan Collateral Advisor, representation and warranty relief eligibility corresponds to an appraisal with a risk score of 2.5 or lower. Loan Collateral Advisor will also display an "eligible" indicator. Upon submission to Loan Product Advisor and/or Loan Quality Advisor®, a corresponding representation and warranty relief message will also be provided in the Feedback Certificate.

            - The final submission to Loan Selling Advisor® must indicate the representation and warranty relief status is "Y" or "Yes."
    - **Ineligible Mortgages**
        - The following mortgages are not eligible for appraised value representation and warranty relief:
            - Mortgages secured by leasehold estates
            - Mortgages secured by mortgaged premises subject to resale restrictions, excluding those subject to age-based resale restrictions

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Representations and Warranties on Property Value and Mortgaged Premises, (continued)

Freddie Mac LPA, continued

- **Exemptions to Appraisal Underwriting**
  - For mortgages that are eligible for appraised value representation and warranty relief as described above, the lender/servicer is not responsible for underwriting the appraisal to ensure compliance with the following requirements:
    - Justification and support for the appraiser's opinion of market value and how the final value conclusion was determined.
    - The validity of the appraiser's adjustments in the analysis of comparable sales.
    - Whether the opinion of market value of the subject property is credible and adequately supported.

- **Exemptions to Loan Collateral Advisor Appraised Value Representation and Warranty Relief**
  - Even if a mortgage meets the eligibility requirements above, the lender/servicer remains responsible for compliance with the following requirements. Freddie Mac may still enforce remedies if these requirements are not met, even if such matters are related to appraised value.
    - The mortgaged premises must meet Freddie Mac's property eligibility requirements (e.g., not vacant, or undeveloped land, not primarily used for agricultural or farming purposes or for a commercial enterprise, etc.).
    - The mortgaged premises must not be subject to a pending legal proceeding for condemnation in whole or in part.
    - When applicable, Form 442, *Appraisal Update and/or Completion Report, or Form 400, Warranty of Completion of Construction or Repairs/Alterations, must be* obtained to verify that any outstanding conditions of the appraisal have been satisfied.

      Reference: See "Requirements for Verifying Completion" in the "Appraisal Requirements" topic for additional requirements on these forms.

    - The lender must ensure the appraiser's description of the subject property must be complete and accurate (e.g., accuracy of quality and condition ratings, photographs that support the quality and condition of the property, etc.).

- **Automated Collateral Evaluation – Value, Condition and Marketability Representation and Warranty Relief**
  - See the "Freddie Mac's LPA Automated Collateral Evaluation (ACE)" subtopic subsequently presented in this topic for guidance.

Reference: See General Section 1.05: Underwriting Standard of the *Correspondent Seller Guide* for additional information regarding appraised value representation and warranty relief eligibility.

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Fannie Mae's DU Value Acceptance (Appraisal Waivers)

Truist Note: An appraisal waiver is not allowed in all states. Correspondent lenders are responsible for adhering to all state, federal and/or regulatory lending requirements, as well as licensing requirements. Correspondent lenders are advised to consult with their legal counsel or compliance managers for further state-specific appraisal waiver guidance.

Non-AUS
Not eligible

Fannie Mae DU
Follow DU requirements, which are as follows:

- **Overview**
    - For certain loan casefiles, DU offers value acceptance (appraisal waiver), in which case an appraisal is not required. For loan casefiles that are not eligible for value acceptance (appraisal waiver), DU will require an appraisal reported on the appropriate appraisal report form for the type of property being appraised.

- **Prior Appraisal Requirements**
    - For value acceptance (appraisal waiver) to be considered, generally a prior appraisal must be found for the subject property in Fannie Mae's Collateral Underwriter (CU) data.
    - When required, DU will compare the address for the subject property to the property addresses found in CU. DU will use the information from the prior appraisal to determine if the loan casefile is eligible for the value acceptance (appraisal waiver). In some cases, the prior appraisal may not be acceptable. For example, if a CU "Overvaluation Flag" was issued on the prior appraisal, or the appraisal could not be scored, that prior appraisal will not be used and a value acceptance (appraisal waiver) will not be offered on the new loan casefile.
    - DU will not offer value acceptance (appraisal waiver) when an appraisal has been uploaded to the Uniform Collateral Data Portal (UCDP) within the prior 120 days from any lender.

- **Eligible Transactions**
    - A value acceptance (appraisal waiver) offer will be considered for the following transactions:
        - one-unit properties, including condominiums,
        - primary residence and second home transactions,
        - investment property refinance transactions,
        - certain purchase, limited cash-out, and cash-out refinance transactions, and
        - DU loan casefiles that receive an "Approve/Eligible" recommendation.

    Truist Note: See "Rural High-Needs Value Acceptance (Appraisal Waiver)" presented below for specific eligibility requirements for value acceptance (appraisal waivers) in selected rural high-needs areas.

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Fannie Mae's DU Value Acceptance (Appraisal Waivers), continued

Fannie Mae DU, continued

- **Ineligible Transactions**
  - The following transactions are not eligible for a value acceptance (appraisal waiver offer:
    - Construction-to-permanent loans (single close and two-close),
    - Two- to four-unit properties,
    - HomeStyle Renovation and HomeStyle Energy loans,
    - Leasehold properties,
    - Transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more,
    - Properties with resale price restrictions,
    - Proposed construction,
    - DU loan casefiles that receive an ineligible recommendation,
    - Transactions using gifts of equity,
    - Texas Section 50(a)(6) loans,
    - Agency Plus Select transactions, and
    - DU loan casefiles that receive an Ineligible recommendation.

    Note: DU may offer value acceptance (appraisal waiver) on a recently constructed property (i.e., new construction) when there is an existing "as is" prior appraisal for the subject property. For example, an appraisal of the subject property may have been performed for a different lender or borrower, but that loan did not close. The lender may execute the value acceptance (appraisal waiver) offer when the loan meets all other eligibility criteria for the transaction.

  - Furthermore, the lender may not exercise a value acceptance (appraisal waiver) offer and must order an appraisal if one or more of the following applies:
    - DU was unable to identify ineligible criteria in the list above (for example, Texas Section 50(a)(6) loans),
    - The lender is required by law to obtain an appraisal,
    - The lender is using rental income from the subject property to qualify the borrower, or
    - The lender believes that an appraisal is warranted based on additional information the lender has about the property or subsequent events.

      Truist Note: Truist clarifies that examples of additional information about the property include, but may not be limited to, the following:
      - a home inspection report or other information in the loan file that indicates the presence of adverse conditions and/or marketability factors,
      - the presence of any contaminated site or hazardous substance affecting the property or the neighborhood in which the property is located.

    Note: The lender may not exercise a value acceptance (appraisal waiver) offer if an appraisal is obtained for the transaction.

  Truist Note: See "Rural High-Needs Value Acceptance (Appraisal Waiver)" presented below for specific ineligibility requirements for value acceptance (appraisal waivers) appraisal waivers in selected rural high-needs areas.

Continued on next page

Appraisal Requirements, Continued

Fannie Mae's DU Value Acceptance (Appraisal Waivers), continued

Fannie Mae DU, continued

- **Representations and Warranties**
  - When a loan casefile is eligible for value acceptance (appraisal waiver) and the offer is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property.

    Reference: See the "Representations and Warranties on Property Value and Mortgaged Premises" subtopic previously presented in this topic for additional guidance.

- **Rural High-Needs Value Acceptance (Appraisal Waiver)**
  - In selected rural high-needs areas, Fannie Mae may offer a value acceptance (appraisal waiver) through DU for certain transactions.

    Truist Note: The Rural High-Needs Value Acceptance (Appraisal Waiver) offer will be considered only for property locations designated as rural high-needs by Fannie Mae's Duty to Serve requirements. Click here to access an interactive version of the High-Needs Rural Areas Map (on the Federal Housing Finance Agency's website) that shows the eligible counties.

  - The rural high-needs value acceptance (appraisal waiver) offer will be considered for the following transactions only:
    - loan casefiles that receive an "Approve/Eligible" recommendation;
    - purchase transactions;
    - one-unit primary residence properties;
    - borrowers with income at or below 100% of the area median income; and
    - LTV ratios up to 97% and TLTV ratios up to 105% with a Community Seconds.
  - The following are ineligible for the rural high-needs value acceptance (appraisal waiver):
    - cash-out or limited cash-out refinances;
    - second homes and investment properties; and
    - all other transactions that are ineligible for value acceptance (appraisal waiver) as listed above.

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Appraisal Requirements, Continued

Fannie Mae's DU Value Acceptance (Appraisal Waivers), continued

Fannie Mae DU, continued

- **Rural High-Needs Appraisal Waiver**, continued
  - The following table provides the requirements related to the home inspection. These requirements must be met for the lender to exercise the rural high-needs value acceptance (appraisal waiver).

✓	The lender must
	obtain a home inspection to determine the property condition. The inspection report must be retained in the loan file and made available to Fannie Mae upon request.
	review the inspection report to verify the property condition. The content of the inspection report must be sufficient for the lender to determine whether the property is safe, sound, and structurally secure. Any issues that compromise safety, soundness, or structural integrity must be repaired before loan delivery.
	obtain an affidavit signed by the borrower(s) confirming that they received a copy of the property inspection report, read the report, and were notified of any lender-required repairs. **Truist Note**: There is no Fannie Mae specific form/format for the above referenced affidavit requirement. A signed letter/statement from the borrowers attesting to the items noted above is acceptable.
	confirm that the purchase contract contains an inspection contingency that offers the borrower(s) enough time to cancel the contract without penalty if they so choose, should the inspection reveal an issue with the property.
	confirm that the inspector has liability insurance.
	use a professional inspector that meets the state license and education requirements for those states that regulate inspectors. **Note**: In states that do not have inspector licenses, inspectors that are professionally accredited members in good standing of a nationally recognized property inspection organization must be used. The national organization must require education, testing, and adherence to a code of ethics and to standards of practice.
	represent and warrant that the property is safe, sound, and structurally secure and that the property is not in C6 condition. See "Representations and Warranties" presented above and "Property Condition and Quality of Construction of the Improvements" in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07 Appraisal Standard, for additional information.

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Appraisal Requirements, Continued

Fannie Mae's DU Appraisal Waivers, continued

Fannie Mae DU, continued

- **Value Acceptance (Appraisal Waiver) Messaging**
  - The following message will be displayed in the DU Underwriting Findings report when a loan receives a value acceptance (appraisal waiver) offer ***other than*** the rural high-needs value acceptance (appraisal waiver) offer:
    - *"DU accepts the value submitted by the lender for this subject property. To exercise the value acceptance (appraisal waiver) offer with representation and warranty relief on the value, condition, and marketability of the subject property, the loan delivery file must include the Casefile ID and Special Feature Code 801. If the value acceptance (appraisal waiver) offer is not exercised, an appraisal is required for this transaction and the loan cannot be sold with Special Feature Code 801. Note that DU does not identify all value acceptance (appraisal waiver) ineligible transactions, including Texas Section 50(a)(6) mortgages; always refer to the Selling Guide to verify eligibility."*
  - The following message will be displayed in the DU Underwriting Findings report when a loan receives a rural high-needs value acceptance (appraisal waiver) offer.
    - *"DU accepts the purchase price submitted as the value for the subject property. This loan is eligible for representation and warranty relief on the value and marketability of the subject property if a satisfactory home inspection report from a qualified home inspector is obtained and other requirements below are satisfied. The lender must review the home inspection report to confirm that there are no physical deficiencies or conditions that affect the safety, soundness, or structural integrity of the property and that the property is not in C6 condition. The borrower must receive a copy of the home inspection report and must be notified of any lender-required repairs. Any deficiencies that impact the safety, soundness, or structural integrity of the property must be repaired prior to delivery of the loan. To exercise the value acceptance (appraisal waiver) offer with representation and warranty relief on the value and marketability of the subject property, include the Casefile ID and Special Feature Code 801 in the loan delivery file. If the value acceptance (appraisal waiver) offer is not exercised, a traditional appraisal based on an interior and exterior property inspection is required for this transaction. If an appraisal is obtained for this transaction, or the Selling Guide states that the transaction is not eligible for value acceptance (appraisal waiver), the value acceptance (appraisal waiver) may not be exercised and the loan cannot be sold with Special Feature Code 801. Note that DU does not identify all value acceptance (appraisal waiver) ineligible transactions, including Texas Section 50(a)(6) mortgages; always refer to the Selling Guide to verify eligibility."*

- **Exercising a Value Acceptance (Appraisal Waiver)**
  - A lender may only exercise value acceptance (appraisal waiver) if:
    - the final submission of the loan casefile to DU resulted in a value acceptance (appraisal waiver) offer,
    - an appraisal is not obtained for the transaction, and
    - the value acceptance (appraisal waiver) offer is not more than four months old on the date of the note and the mortgage.

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Fannie Mae's DU Appraisal Waivers, continued

Fannie Mae DU, continued

- **Special Feature Code Requirement:** Lenders that elect to exercise value acceptance (appraisal waiver) must include SFC 801 at delivery. Lenders may not adversely select against Fannie Mae in determining which value acceptance (appraisal waiver) offers to accept. Fannie Mae may monitor the lender's exercise of value acceptance (appraisal waiver) offers and delivery of loans to Fannie Mae, and may take appropriate measures if adverse selection is identified.

  Truist Note: The above required SFC 801 will be automatically generated (on Truist internal systems) based on the selection of **Property Inspection Waiver** as the appraisal type on Truist internal systems.

- Truist clarifies that when a transaction is originated with value acceptance (appraisal waiver), the lender is still required to confirm that the subject property is not listed for sale per standard refinance requirements. To comply with this requirement, the borrower must sign a *Property Ownership Affidavit* (COR 0061), or substantially similar document, disclosing whether the property is currently or was listed for sale.

Reference: See the "Properties Affected by a Disaster" subtopic subsequently presented in this topic for additional information regarding loans impacted by a natural disaster with a value acceptance (appraisal waiver) offer.

Freddie Mac LPA
Not eligible

Continued on next page

Fannie Mae's DU Value Acceptance + Property Data

Truist Note: Loans originated with a DU Value Acceptance + Property Data offer must be underwritten by the Correspondent lender (approved by Truist for delegated underwriting authority). Loans originated with a DU Value Acceptance + Property Data offer are not eligible for purchase if Truist underwrites the loan.

Non-AUS
Not eligible

Fannie Mae DU
Follow DU requirements, which are as follows:

- **Overview**
  - For certain loan casefiles, DU offers value acceptance + property data - an option that requires interior and exterior property data collection to verify property eligibility prior to the note date. An appraisal is not required.

- **Eligible Transactions**
  - Loan casefiles for certain one-unit properties will be considered for value acceptance + property data.

- **Ineligible Transactions**
  - The following transactions are not eligible for value acceptance + property data:
    - two- to four-unit properties,
    - proposed construction,
    - construction-to-permanent loans (single-close and two-close),
    - investment properties when rental income is used to qualify the borrower,
    - Agency Plus Select,
    - HomeStyle Renovation and HomeStyle Energy loans,
    - Texas Section 50(a)(6) loans,
    - leasehold properties,
    - properties with resale price restrictions,
    - transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more,
    - transactions using gifts of equity, and
    - DU loan casefiles that receive an Ineligible recommendation.
  - Furthermore, Truist clarifies that the lender may not exercise a value acceptance + property data offer and must order an appraisal if one or more of the following applies:
    - DU was unable to identify ineligible criteria in the list above,
    - The lender is required by law to obtain an appraisal, or
    - The lender believes that an appraisal is warranted based on additional information the lender has about the property or subsequent events.

Continued on next page

Fannie Mae's DU Value Acceptance + Property Data, continued

Fannie Mae DU, continued

- **Ineligible Transactions**, continued

  Truist Note: Truist clarifies that examples of additional information about the property include, but may not be limited to, the following:
  - a home inspection report or other information in the loan file that indicates the presence of adverse conditions and/or marketability factors,
  - the presence of any contaminated site or hazardous substance affecting the property or the neighborhood in which the property is located.

  Note: The lender may not exercise a value acceptance + property data offer if an appraisal is obtained for the transaction.

- **Representations and Warranties**
  - When a loan casefile is eligible for value acceptance + property data and is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property.

    Reference: See the "Representations and Warranties on Property Value and Mortgaged Premises" subtopic previously presented in this topic for additional guidance.

- **Property Data Collection**
  - The property data collection consists of a visual observation of the interior and exterior areas of the subject property. It must be performed by a trained and vetted property data collector and must adhere to the Uniform Property Dataset (UPD). This dataset consists of all required, conditionally required, and optional data elements for property data collection of subject property data including photos and a floor plan conforming to the ANSI Standard. See "Gross Living Area" in the "Appraisal Analysis: Agency Loan Programs/Improvements Section of the Appraisal Report" topic/subtopic presented in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for ANSI standards, the *Property Data Collection User Guide* and *Uniform Property Dataset (UPD) Specification* for more information.
  - After the property data collection is completed, it must be successfully submitted to Fannie Mae's Property Data API. See Fannie Mae's website for more information about the UPD and the Fannie Mae Property Data API and access.

- **Property Data Collector**
  - The property data collector is the individual who personally visits the subject property to perform the property data collection guided by an application on a hand-held device developed in compliance with the UPD. The property data collector must identify and communicate any safety, soundness, or structural integrity issues and significant items of incomplete construction or renovation.

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Appraisal Requirements, Continued

Fannie Mae's DU Value Acceptance + Property Data, continued

Fannie Mae DU, continued

- **Lender Vetting of Property Data Collectors**
  - The lender must verify and be able to demonstrate that the data collectors are:
    - selected in accordance with Fannie Mae requirements, including the *Property Data Collector Independence Requirements*,
    - vetted through an annual background check,
    - professionally trained, and
    - they possess the essential knowledge to competently complete the property data collection.
  - The lender must ensure that the data collectors are trained to comply with their fair lending laws and deliver accurate results unaffected by personal biases. To avoid conflict of interest, the lender must ensure that the data collector has no interest in or ties to the underlying loan origination transaction, participants, or subject property.
  - The lender or lender's agent must review the data collector's credentials and qualifications on an annual basis to ensure ongoing compliance. Evidence of the reviews must be available to Fannie Mae upon request.
  - The lender must monitor and assess the work performed by the data collector through the lender's quality control program including prefunding and post-closing reviews. The lender must continually evaluate the quality of its property data collectors and property data collection.

- **Value Acceptance + Property Data Messaging**
  - The following **initial** *(i.e., Value Acceptance + Property Data - Eligible)* message will be displayed in the DU Underwriting Findings report when a loan receives a value acceptance + property data offer:
    - *"Value acceptance + property data eligible, DU resubmission required after property data submitted to the API: DU accepts the value submitted by the lender for this loan with representation and warranty relief on the value and marketability of the subject property contingent upon the submission of a property data collection (PDC) to the Fannie Mae Property Data API. After the PDC has been submitted to the Fannie Mae Property Data API, which must be prior to the note date, the lender must resubmit the loan casefile to DU to receive the message stating that Fannie Mae has received the PDC. Note that DU does not identify all value acceptance + property data ineligible transactions, including Texas Section 50(a)(6) mortgages; always refer to the Selling Guide to verify eligibility."*
  - After the submission of property data (i.e., property data collection report) to the Fannie Mae Property Data API (and resubmission of the loan to DU), the following **final** *(i.e., Value Acceptance + Property Data - Complete)* message will be displayed in the DU Underwriting Findings report indicating that the property is eligible for a value acceptance + property data offer:
    - *"Value acceptance + property data complete: Fannie Mae has received the property data collection (PDC) for this value acceptance + property data eligible loan. The lender must include the Casefile ID and Special Feature Code 774 in the loan delivery file. Note that DU does not identify all value acceptance + property data ineligible transactions, including Texas Section 50(a)(6) mortgages; always refer to the Selling Guide to verify eligibility."*

Continued on next page

Appraisal Requirements, Continued

Fannie Mae's DU Value Acceptance + Property Data, continued

Fannie Mae DU, continued

- **Exercising Value Acceptance + Property Data**
  - A lender may only exercise value acceptance + property data when:
    - the final submission of the loan casefile to DU resulted in an eligibility message for value acceptance + property data,
    - property data collection is submitted to the Property Data API prior to the note date,
    - an appraisal is not obtained for the transaction, and
    - the offer is not more than four months old on the date of the note and mortgage.
  - **Special Feature Code Requirement**: Lenders that elect to exercise value acceptance + property data must include Special Feature Code 774 at loan delivery. The property data collection is only valid for 12 months from date of collection and must be performed prior to the note date.
  - If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in some cases it may be possible for the lender to provide the property data collection to an appraiser to perform a hybrid appraisal assignment. See the "Hybrid Appraisals" subtopic previously presented in this topic for specific requirements. Alternatively, the lender may obtain a desktop or traditional appraisal report as specified by DU.

  - Truist clarifies that when a transaction is originated with a value acceptance + property data offer, the lender is still required to confirm that the subject property is not listed for sale per standard refinance requirements. To comply with this requirement, the borrower must sign a *Property Ownership Affidavit* (COR 0061), or substantially similar document, disclosing whether the property is currently or was listed for sale.

  Reference: See the "Properties Affected by a Disaster" subtopic subsequently presented in this topic for additional information regarding loans impacted by a natural disaster with a value acceptance + property data offer.

- **Property Data Collection with Needed Repairs or Completion Verification**
  - The lender must represent and warrant that the property:
    - does not have safety, soundness, or structural integrity issues,
    - does not have significant items of incomplete construction or renovation, and
    - meets Fannie Mae's property eligibility requirements.

Continued on next page

Fannie Mae's DU Value Acceptance + Property Data, continued

Fannie Mae DU, continued

- **Property Data Collection with Needed Repairs or Completion Verification**, continued
  - To make these representations and warranties in the absence of an appraisal, the lender must examine the descriptive information and photo exhibits from the property data collection to determine whether the property meets the above requirements.
  - When the property data collection evidences any items failing eligibility requirements, the lender may need to obtain a professionally prepared report from a qualified professional to confirm the eligibility of the property and if repairs are required (well, septic, foundation, roof, electrical, mold, etc.). If repairs or alterations are necessary to bring the property into compliance with Fannie Mae's eligibility requirements, the lender must provide satisfactory evidence and documentation showing the condition has been corrected or completed prior to delivery of the loan to Truist.
  - See "Form 1004D and Completion Alternatives" in the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic subsequently presented in this topic for the applicable requirements to verify completion of repairs, alterations, or inspections.

Freddie Mac LPA
Not eligible

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Freddie Mac's LPA Automated Collateral Evaluation (ACE)

Non-AUS
Not eligible

Fannie Mae DU
Not eligible

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **ACE Overview**
  - For certain Loan Product Advisor mortgages, the lender may receive the option to accept an appraisal waiver and originate the mortgage without an appraisal.
  - If the lender accepts the appraisal waiver option, Freddie Mac will:
    - Accept the value of the mortgaged premises as:
      - The purchase price of the mortgaged premises, for purchase transactions, or
      - The estimated value of the mortgaged premises, for refinance transactions
    - Not exercise its remedies, including the issuance of repurchase requests, in connection with a breach of the lender's selling representations and warranties related to the value, condition, and marketability of the mortgaged premises.
  - For refinance transactions, the lender must have written procedures in place that prohibit changes to the estimated value in Loan Product Advisor for the purpose of obtaining an appraisal waiver or more favorable mortgage terms (e.g., avoiding mortgage insurance).
  - The procedures must include a process for establishing the estimated value, which may include, but is not limited to, the use of the borrower's estimated value, an Automated Valuation Model (AVM) or an online valuation tool or website.

- **Process for Qualifying for and Accepting the Appraisal Waiver Offer**
  - For a mortgage to qualify for an appraisal waiver:
    - The mortgage must be an Accept mortgage
    - The last Feedback Certificate must indicate the mortgage is eligible for representation and warranty relief with an appraisal waiver. (This represents the "offer.")

      Reference: See "ACE Messaging" below for additional information regarding the specific LPA messaging that indicates ACE eligibility.

    - In lieu of accepting the appraisal waiver offer, the lender may deliver the mortgage with a PDR or an appraisal report if the eligibility requirements for ACE+ PDR or the selected appraisal type are met

Continued on next page

Appraisal Requirements, Continued

Freddie Mac's LPA Automated Collateral Evaluation (ACE), continued

Freddie Mac LPA, continued

- **Eligible Mortgages**
  - To be eligible for an appraisal waiver offer, the mortgage must:
    - Be secured by a 1-unit dwelling, including a condominium unit
    - Be secured by a primary residence or second home
    - Meet the following occupancy and maximum loan-to-value (LTV)/total LTV (TLTV) ratio requirements:

Mortgage Purpose	Occupancy Type	Maximum LTV/TLTV Ratios
Purchase	Primary residence or second home	90%
"No cash-out" refinance	Primary residence or second home	90%
Cash-out refinance	Primary residence	70%
	Second home	60%

- **Ineligible Mortgages**
  - The following mortgages are ineligible for an appraisal waiver:
    - Mortgages for which an appraisal or a PDR has been obtained in connection with the mortgage
    - Mortgages secured by one of the following:
      - A 2-to 4-unit property
      - An investment property
      - A leasehold estate
    - Mortgages secured by mortgaged premises subject to resale restrictions (excluding those subject to age-based resale restrictions)
    - Mortgages secured by a property acquired in a non-arm's length transaction
    - Mortgages secured by a property where the property owner at the time of sale (i.e., the property seller) is a lender or a government entity
    - Mortgages with an estimate of value or purchase price greater than $1,000,000
    - Agency Plus Select Mortgages
    - CHOICERenovation® Mortgages
    - GreenCHOICE Mortgages®
    - Texas Equity Section 50(a)(6) Mortgages
    - Texas Section 50(f)(2) Mortgages

Continued on next page

Appraisal Requirements, Continued

Freddie Mac's LPA Automated Collateral Evaluation (ACE), continued

Freddie Mac LPA, continued

- **Conditions that Prevent the Lender from Accepting an Appraisal Waiver Offer**
  - Lenders may not accept the appraisal waiver offer if:
    - An appraisal is required by law or regulation
    - Rental income from an ADU on a subject 1-unit primary residence is used to qualify the borrower
    - The lender is aware of conditions that warrant a PDR or an appraisal being obtained. Examples include, but are not limited to:
      - A contaminated site or hazardous substance that affects the property or the neighborhood in which the property is located
      - Adverse physical property conditions that are apparent based on a review of the sales contract, property inspection, disclosure from the borrower, etc. The lender may accept an appraisal waiver offer if the adverse physical property condition(s) is minor (e.g., minor cracks in windows, damaged or missing trim), and the subject property condition meets Freddie Mac's property eligibility requirements. If the adverse physical property condition(s) is not minor (e.g., active roof leaks, damaged or failing foundation), a PDR or an appraisal is required.

- **Acceptable Age of the Appraisal Waiver Offer**
  - The appraisal waiver offer provided through the Loan Product Advisor Feedback Certificate message is valid for 120 days. If the offer is more than 120 days old on the note date, resubmission to Loan Product Advisor is required to determine ongoing appraisal waiver eligibility.

- **Data Changes that Impact Appraisal Waiver Eligibility**
  - If the lender changes loan data (e.g., address of the property, loan amount, purchase price, estimate of value, loan type, property type, occupancy of the property, etc.) in a subsequent submission, the original offer will become invalid, and Loan Product Advisor may provide a different appraisal waiver eligibility determination.

- **Appraisal Waiver Eligibility in Disaster Areas**
  - Lenders may accept an appraisal waiver offer for properties located in disaster areas if the lender can represent and warrant that the value and marketability of the mortgaged premises has not been adversely impacted. See the "Properties Affected by a Disaster" subtopic subsequently outlined in this document for property condition requirements.

- **Lender Representation of Property Review or Valuation**
  - A lender that has accepted an appraisal waiver offer must not make any representation that Freddie Mac has performed a property review or obtained a valuation of the mortgaged premises.

Continued on next page

Freddie Mac's LPA Automated Collateral Evaluation (ACE), continued

Freddie Mac LPA, continued

- **ACE Messaging**
  - If eligible for the automated collateral evaluation, the Feedback Certificate will include the following messages in the "Property & Appraisal" section:
    - *"Loan is eligible for collateral representation and warranty relief with an appraisal waiver through <<Appraisal Alternative Eligibility Expiration Date>>. The submitted value estimate or purchase price is accepted as the value of the subject property; an appraisal is not required, and Seller will be relieved of representations and warranties related to value, condition and marketability."*
    - *"Loan is eligible for an appraisal waiver. If the waiver is not accepted, a property data report or appraisal is required.*

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Appraisal Requirements, Continued

Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR)

Truist Note: Loans originated with an ACE+ PDR, including a PDR upgraded to hybrid Form 70H, *Uniform Residential Appraisal Report (Hybrid) or* Form 465H, *Individual Condominium Unit Appraisal Report (Hybrid)*, must be underwritten by the Correspondent lender (approved by Truist for delegated underwriting authority). Loans originated with an ACE+ PDR are not eligible for purchase if Truist underwrites the loan.

Non-AUS
Not eligible

Fannie Mae DU
Not eligible

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **ACE+ PDR Overview**
  - For certain Loan Product Advisor® mortgages, the lender may receive the option to accept ACE+ PDR and originate the mortgage with a PDR.
  - If the lender accepts the ACE+ PDR option, Freddie Mac will:
    - Accept as the value of the mortgaged premises:
      - The purchase price of the mortgaged premises, for purchase transactions, or
      - The estimated value of the mortgaged premises, for refinance transactions
    - Not exercise its remedies, including the issuance of repurchase requests, in connection with a breach of the lender's selling representations and warranties related to the value of the mortgaged premises.
  - For refinance transactions, the lender must have written procedures in place that prohibit changes to the estimated value in Loan Product Advisor for the purpose of obtaining ACE+ PDR or more favorable mortgage terms (e.g., avoiding mortgage insurance).
  - The procedures must include a process for establishing the estimated value, which may include, but is not limited to, the use of the borrower's estimated value, an Automated Valuation Model (AVM) or an online valuation tool or website.

- **Process for Qualifying for and Accepting the ACE+ PDR Offer**
  - For a mortgage to qualify for ACE+ PDR:
    - The mortgage must be an Accept mortgage.
    - The last Feedback Certificate must indicate the mortgage is eligible for representation and warranty relief with ACE or ACE+ PDR. (This represents the "offer.")

      Reference: See "ACE+ PDR Messaging" below for additional information regarding the specific LPA messaging that indicates ACE+ PDR eligibility.

    - In lieu of accepting the ACE+ PDR offer, the lender may deliver the mortgage with an appraisal report if the eligibility requirements for the selected appraisal type are met.

Continued on next page

Appraisal Requirements, Continued

Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR), continued

Freddie Mac LPA, continued

- **Eligible Mortgages**
  - To be eligible for an ACE+ PDR offer, the mortgage must:
    - Be secured by a 1-unit dwelling
    - Be secured by a primary residence or second home
    - Meet the following occupancy and maximum loan-to-value (LTV)/total LTV (TLTV) ratio requirements:

Mortgage Purpose	Occupancy Type	Maximum LTV/TLTV Ratios
Purchase	Primary residence or second home	Program Limits[1]
"No cash-out" refinance	Primary residence or second home	90%
Cash-out refinance	Primary residence	70%
	Second home	60%
[1]A TLTV ratio up to program limits for the associated mortgage product.		

- **Ineligible Mortgages**
  - The following mortgages are ineligible for ACE+ PDR:
    - Mortgages for which an appraisal has been obtained in connection with the mortgage
    - Mortgages secured by one of the following:
      - A 2- to 4-unit property
      - An investment property
      - A leasehold estate
    - Mortgages secured by mortgaged premises subject to resale restrictions, excluding those subject to age-based resale restrictions
    - Mortgages secured by a property acquired in a non-arm's length transaction
    - Mortgages secured by a property where the property owner at the time of sale (i.e., the property seller) is a lender or government entity
    - Mortgages with an estimate of value or purchase price greater than $1,000,000
    - Agency Plus Select Mortgages
    - CHOICERenovation® Mortgages
    - GreenCHOICE Mortgages®
    - Texas Equity Section 50(a)(6) Mortgages
    - Texas Section 50(f)(2) Mortgages

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Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR), continued

Freddie Mac LPA, continued

- **Conditions that Prevent the Lender from Accepting the ACE+ PDR Offer**
  - Lenders may not accept the ACE+ PDR offer if:
    - An appraisal is required by law or regulation
    - Rental income from an ADU on a subject 1-unit primary residence is used to qualify the borrower

- **Acceptable Age of the ACE+ PDR Offer**
  - The ACE+ PDR offer provided through the Loan Product Advisor Feedback Certificate message is valid for 120 days. If the offer is more than 120 days old on the note date, resubmission to Loan Product Advisor is required to determine ongoing ACE+ PDR eligibility.

- **Data Changes that Impact ACE+ PDR Eligibility**
  - If the lender changes loan data (e.g., address of the property, loan amount, purchase price, estimate of value, loan type, property type, occupancy of the property, etc.) in a subsequent submission, the original offer will become invalid, and Loan Product Advisor may provide a different eligibility determination.

- **ACE+ PDR Eligibility in Disaster Areas**
  - If the mortgaged premises is located in a disaster area, the lender may accept an ACE+ PDR offer if the lender can represent and warrant that the value and marketability of the mortgaged premises has not been adversely impacted. See the "Properties Affected by a Disaster" subtopic subsequently presented in this document for property condition requirements.

- **Lender Representation of Property Review or Valuation**
  - A lender that has accepted an ACE+ PDR offer must not make any representation that Freddie Mac has performed a property review or obtained a valuation of the mortgaged premises**.**

- **ACE+ PDR Messaging**
  - The following **initial** messages will be displayed in the Feedback Certificate when a loan receives an ACE+ PDR offer:
    - *"The property data report must be submitted via the bACE API in order to be relieved of representations and warranties related to value. Loan is eligible for a property data report (ACE+ PDR) through <Appraisal Alternative Eligibility Expiration Date>."*
    - *"Loan is eligible for a property data report (ACE+ PDR). An interior and exterior property data report (PDR) is the minimum assessment required for sale to Freddie Mac."*

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Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR), continued

Freddie Mac LPA, continued

- **ACE+ PDR Messaging**, continued
  - After the submission of the PDR to the Beyond ACE application programming interface (bACE API) (and resubmission of the loan to LPA), the following **final** messages (per the applicable scenario identified below) will be displayed in the Feedback Certificate in the "Property & Appraisal" section to indicate ACE+ PDR eligibility:
    - **Scenario 1: No Additional Feedback in Response Messages:**
      - *"Loan is eligible for collateral representation and warranty relief with a property data report (ACE+ PDR) through <<Appraisal Waiver Expiration Date>>. The submitted value estimate or purchase price is accepted as the value of the subject property; therefore, an appraisal is not required and Seller will be relieved of representations and warranties related to value."*
      - *"Loan is eligible for a property data report (ACE+ PDR). An interior and exterior property data report (PDR) is the minimum assessment required for sale to Freddie Mac."*
    - **Scenario 2: Additional Feedback in Response Messages:**
      - *"Loan is eligible for collateral representation and warranty relief with a property data report (ACE+ PDR) through <<Appraisal Waiver Expiration Date>>. The submitted value estimate or purchase price is accepted as the value of the subject property; therefore, an appraisal is not required and Seller will be relieved of representations and warranties related to value. Based on the property data submitted to bACE API, review all bACE API messaging for additional feedback and ensure that the mortgage is eligible for sale to Freddie Mac."*
      - *"Loan is eligible for a property data report (ACE+ PDR). An interior and exterior property data report (PDR) is the minimum assessment required for sale to Freddie Mac."*
    - **Scenario 3: Response Messages Identify Required Repairs/Inspections:**
      - *"Loan is eligible for collateral representation and warranty relief with a property data report (ACE+ PDR) through <Appraisal Waiver Expiration Date>. The submitted value estimate or purchase price is accepted as the value of the subject property; therefore, an appraisal is not required and Seller will be relieved of representations and warranties related to value. Based on the property data submitted to bACE API, ensure that any required repairs and/or inspections are completed prior to delivery."*
      - *"Loan is eligible for a property data report (ACE+ PDR). An interior and exterior property data report (PDR) is the minimum assessment required for sale to Freddie Mac."*

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Appraisal Requirements, Continued

Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR), continued

Freddie Mac LPA, continued

- **ACE+ PDR Messaging**, continued
  - After the submission of the PDR to the bACE API (and resubmission of the loan to LPA), the following **final** messages will be displayed in the Feedback Certificate in the "Property & Appraisal" section to indicate the loan is **no longer eligible** for ACE+ PDR and an upgrade to a hybrid appraisal report is required:
    - **Subject Property is Not a Condominium**
      - *"Based on the property data report, an upgrade to a Uniform Residential Appraisal Report (Hybrid Appraisal) is required."*
      - *"A Uniform Residential Appraisal Report (Hybrid - Form 70H) is the minimum assessment required for sale to Freddie Mac."*
    - **Subject Property is a Condominium**
      - *"Based on the property data report, an upgrade to a Uniform Residential Appraisal Report (Hybrid Appraisal-Condominium) is required."*
      - *"An Individual Condominium Unit Appraisal Report (Hybrid - Form 465H) is the minimum assessment required for sale to Freddie Mac."*

    Note: If an upgrade to a traditional appraisal (rather than a hybrid appraisal) is required, messages will be displayed in the Feedback Certificate in the "Property & Appraisal" section to indicate an upgrade to the applicable traditional appraisal report is required.

    Reference: See "Hybrid Appraisals" in the "Appraisal Requirements" topic previously presented in this document for additional guidance regarding hybrid appraisals.

- **ACE+ PDR Additional Requirements**
  - Each mortgage delivered with a PDR must retain the PDR in the mortgage file and also comply with the additional requirements below.
    - **Property Data Collector Independence Requirements and Lender Engagement of Property Data Collectors**
      - **Lender Responsibilities**
        - The lender is responsible for:
          - Complying with the *Property Data Collector Independence Requirements (PDCIR)*
          - Selecting the property data collector
          - Complying with the Uniform Property Dataset (UPD).
        - Freddie Mac does not select or approve individual property data collectors or property data collector management companies. The lender, or a third party authorized by the lender, is responsible for approving and selecting the property data collector. The lender represents and warrants that the property data collection complies with *Property Data Collector Independence Requirements (PDCIR)*, applicable laws, and Freddie Mac requirements.

      - **Separation of Functions**
        - The lender must maintain separation between its sales and mortgage production functions and its property data collection functions.

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Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR), continued

Freddie Mac LPA, continued

- **ACE+ PDR Additional Requirements**, continued
  - **Property Data Collector Qualifications and Lender Oversight**
    - **Property Data Collectors**
      - The lender, or its authorized third party, must ensure the property data collector:
        - Is independent and unbiased and has no present or prospective interest or bias with respect to the transaction, the property or the participants to the transaction
        - Completes training in all aspects of property data collection and the Uniform Property Dataset (UPD) and passes an exam that evidences proficiency in property data collection, and
        - Performs all aspects of a property data collection including, but not limited to:
          - Identifying and reporting, with supporting photographs, any:
            - Property characteristics represented in the UPD;
            - Design features that impair the use of the subject property and cannot easily be changed (e.g., access to a bedroom only through another bedroom, etc.); and
            - Factors adjacent to the subject property that are atypical for the location (e.g., power lines, commercial site, industrial site, etc.)
          - Measuring the dwelling unit(s) and any other structures on the subject property to produce building sketches and floorplans in accordance with requirements. (See "Appraisal Report Forms and Exhibits" previously presented in this document for additional information regarding building sketches and floorplan requirements.)
          - Collecting a comprehensive set of photographs of the subject property, as described in the UPD. (See "Appraisal Report Forms and Exhibits" previously presented in this document for photograph requirements.)

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Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR), continued

Freddie Mac LPA, continued

- **ACE+ PDR Additional Requirements**, continued
  - **Property Data Collector Qualifications and Lender Oversight**, continued
    - **Lender Oversight of Property Data Collectors**
      - The lender, or its authorized third party, is responsible for the accuracy and reliability of the PDR and of any data provided by the property data collector to the appraiser. The lender, or its authorized third party, must have in place policies or procedures that:
        - Require property data collectors to undergo periodic background checks that include criminal background checks;
        - Require property data collectors to complete comprehensive training on preparing an accurate and thorough PDR;
        - Require property data collectors to comply with the same customer service standards or code of conduct with which employees and/or contractors of the lender, or its authorized third party, must comply
        - Include a process to continuously evaluate property data collectors, including monitoring and documenting performance to identify and remedy any recurring deficiencies, and discontinuing the use of chronically underperforming property data collectors; and
        - Include a process for providing continuing education when appropriate (e.g., in the event of significant changes to the UPD, the property data collection process, etc.)
      - The lender must include a targeted review of PDRs as part of its quality control sampling. Appraisals completed using a hybrid process must also be included in the lender's quality control sampling.
  - **Exhibits for PDRs**
    - See "Appraisal Report Forms and Exhibits" previously presented in this document for PDR exhibit requirements.
  - **Age of the PDR**
    - See "Appraisal Age, Appraisal Update, and Appraisal Use Requirements" previously presented in this document for the acceptable age of a PDR.
  - **PDRs with Required Repairs and/or Inspections**
    - See "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" for PDRs with required repairs and/or inspections requirements.
  - **ACE+ PDR Upgrade Requirements**
    - See "Appraisal Report Forms and Exhibits" previously presented in this document for PDR upgrade requirements.

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Appraisal Requirements, Continued

Freddie Mac's LPA Automated Collateral Evaluation+ Property Data Report (ACE+ PDR), continued

Freddie Mac LPA, continued

- **ACE+ PDR Additional Requirements**, continued
- **bACE API Submission Requirement**
  - The PDR must be submitted to the Beyond ACE application programming interface (bACE API).
- **Special Feature Code (SFC) Requirement**
  - Truist requires use of SFC J44 to identify a mortgage originated with an ACE+ PDR offer.

Home Value Explorer (HVE)

The following table shows information on the Freddie Mac Home Value Explorer (HVE).

Non-AUS Loans
Not applicable.

Fannie Mae DU
Not applicable.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- Home Value Explorer® (HVE) is Freddie Mac's Automated Valuation Model (AVM) tool that generates an estimate of property value.
- Freddie Mac provides a point value estimate from HVE for the property address submitted to LPA in the Loan Product Advisor Full Feedback Certificate. The value information provided by HVE is a tool to help users to better identify potentially inflated appraisal values that may need additional review early in the origination process.

Notes:

- The value provided by HVE is only a tool and is not used as an alternative to meet any appraisal requirements.
- LPA may not provide an HVE point value estimate for all property addresses.

Continued on next page

Appraisal Requirements, Continued

Electronic Transmission of Appraisal Reports

The following table shows information on electronic signatures

Non-AUS
Electronic signatures on appraisals are acceptable.

Fannie Mae DU
Non-AUS requirements apply.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- The lender may use and maintain an electronic record of the appraisal report as an original mortgage file document if all of the following conditions are met:
  - The electronic appraisal report otherwise complies with the applicable appraisal requirements
  - The appraiser electronically transmits the electronic appraisal report directly to the lender or any third party specifically authorized by the lender, as applicable
  - The electronically transmitted photographs and any addenda are clear and otherwise satisfy the requirements as outlined in the "Appraisal Report Forms and Exhibits" subtopic previously presented in this topic.
  - The lender represents and warrants that the appraiser's electronic signature, and a supervisory appraiser's signature if applicable, are attached to or logically associated with the electronic appraisal report in accordance with the federal Electronic Signatures in Global and National Commerce Act ("E-SIGN") and other applicable state and federal laws
  - The lender represents and warrants that the electronic appraisal report is as effective , enforceable and valid as a paper original of the appraisal report duly executed by the appraiser, and the supervisory appraiser if applicable
- In addition to the unacceptable appraisal practices, previously outlined in the "General Appraisal Requirements" subsection of this document, the following are unacceptable electronic appraisal report practices and will constitute a breach of the lender's warranty of the professional quality of the appraisal report:
  - Failure of the appraiser to take reasonable precautions to protect his or her electronic signature from identity and signature theft, including granting a trainee, administrative personnel or other third party permission to use the appraiser's or supervisory appraiser's electronic signature
  - Failure to maintain proper security controls to protect against alteration of the appraisal report or data used in connection with preparing the report by someone other than the appraiser, or supervisory appraiser if applicable, ultimately responsible for the report
  - Failure to securely store the electronic appraisal report, including all original photographs, maps and supporting documents, as originally reported by the appraiser

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Electronic Transmission of Appraisal Reports, continued

Freddie Mac LPA, continued

- The lender retains liability for the authenticity and accuracy of the electronic appraisal report, including all original photographs, maps and supporting documents. In the event the lender is concerned about the accuracy or reliability of the electronic appraisal report or photographs, maps and supporting documents, the lender shall immediately obtain a paper duplicate of the electronic appraisal report signed with pen and ink by the appraiser, and the supervisory appraiser if applicable, and maintain the paper duplicate of the electronic appraisal report in the mortgage file. The lender shall provide the electronic or original appraisal report and photographs, as applicable, to Freddie Mac at any time upon Freddie Mac's request. After receiving the paper duplicate of the original appraisal report signed with pen and ink by the appraiser, and the supervisory appraiser if applicable, the lender may maintain a copy of the paper duplicate of the original appraisal report and photographs reproduced from the original of such documents. The lender shall provide Freddie Mac with a copy of the original appraisal report and photographs upon Freddie Mac's request.
- The lender represents and warrants that any appraisal report, including photographs received from an appraiser by the lender or any third party specifically authorized by the lender as an electronic record, is a copy of the original appraisal report, including photographs, that was signed by the appraiser and a supervisory appraiser if applicable, and that it complies with applicable state and federal laws and regulations. The lender agrees that the appraisal report and photographs received from an appraiser by the lender or any third party specifically authorized by the lender as an electronic record are subject to the lender’s representations, warranties, covenants, agreements and requirements.
- In the event the lender becomes aware of the unauthorized or improper use of the appraiser's signature and a supervisory appraiser's signature if applicable, in connection with any electronic appraisal report, including photographs, or if the lender suspects unauthorized alteration of any appraisal report, the lender must notify Freddie Mac immediately.

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Appraisal Requirements, Continued

Leasehold Estates

Non-AUS

- **Overview**
  - A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met.

    Note: Manufactured housing located on leasehold interest properties is ineligible.

  - For leasehold estate eligibility requirements, see "Leasehold Estates" in the "Occupancy/Property Types" topic previously presented in this document.

- **Appraisal Requirements for Leasehold Interests**
  - The appraisal requirements for leasehold interest properties are as follows:
    - Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
    - 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.

- **Comparable Selection Requirements for Leasehold Interests**
  - When there are a 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 of 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 in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised. See "Comparable Sales" in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard for general requirements regarding comparable section.

Fannie Mae DU

Follow DU requirements, which are the same as conventional non-AUS requirements.

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Leasehold Estates, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- In addition to standard requirements related to appraisals, an appraisal for each leasehold mortgage must meet the following requirements:
  - The appraiser must develop a detailed description of the terms, conditions, and restrictions of the ground lease. The appraiser must consider and report any effect the terms of the lease have on the value and marketability of the mortgaged premises.
  - When there are similar leasehold sales available that have the same lease terms, the appraiser should use these sales as comparable sales. If sales of properties with the same lease terms are not available, the appraiser should use other similar leasehold sales having different lease terms as comparable sales. The appraiser must describe the differences in the terms of the leases, and report any effect the differences have on the value and marketability of the mortgaged premises.
  - If there are no sales of leasehold properties, the appraiser should use sales of similar properties owned in fee simple as comparable sales. The appraiser must explain why the use of sales with different property rights is appropriate, and make appropriate adjustments to reflect the market's reaction to these differences.
  - For Condominium Projects and Planned Unit Developments on leasehold estates, the appraiser must also:
    - Provide a description of the Common Elements including Amenities
    - Comment on the ground rent for the subject property and the competing properties

Reference: See Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information concerning appraisals and appraisal requirements.

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Properties Affected by a Disaster

Non-AUS

- **Overview**
  - The lender warrants for each loan it delivers to Truist that the property is not damaged by fire, wind, or other cause of loss and that there are no proceedings pending for the partial or total condemnation of the property. The lender also warrants that the loan conforms to all applicable requirements in the *Correspondent Seller Guide*, including the requirement that the loan is an acceptable investment. Finally, the lender represents and warrants that it knows of nothing involving the loan or the property that can reasonably be expected to cause the loan to become delinquent or adversely affect the mortgage's value or marketability.

- **Property Eligibility Requirements**
  - The lender must be able to make the warranties that are described above. Therefore, before delivery of a loan to Truist where the property may have been damaged by a disaster, the lender is expected to take prudent and reasonable actions to determine whether the condition of the property may have materially changed. The lender is responsible for determining if an inspection of the property and/or new appraisal is necessary to support this warranty. If a property is located in a condo project, both the condition of the unit and the condition of the building in which the unit is located must be assessed.
  - Lenders should use the following criteria when determining if the loan can be delivered to Truist:
    - If the property has been damaged and the damage does not affect the safety, soundness, or structural integrity of the property and the repair items are covered by insurance, the lender may deliver the loan to Truist. In these circumstances, the lender must obtain documentation of the professional estimates of the repair costs and must ensure that sufficient funds are available for the borrower's benefit to guarantee the completion of the repairs.
    - If the property was damaged and the damage is uninsured or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired before the loan is delivered to Truist.
  - These requirements are necessary to support the lender's property representations and warranties, and apply through the end of the delivery process.

- **Age of Documentation Requirements**
  - When a loan is secured by a property located in a FEMA-Declared Disaster Area eligible for individual assistance, Fannie Mae provides additional flexibilities. The following requirements apply:
    - The 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. Lenders must comply with the property eligibility requirements above.
    - Loans originated in accordance with the age of documentation flexibilities, must be delivered to Fannie Mae no later than two years from the date of the disaster declaration by FEMA.

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Properties Affected by a Disaster, continued

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows.

- For DU loan casefiles with a value acceptance (appraisal waiver) or value acceptance + property data offer, the lender may exercise the offer as long as they have complied with the above requirements with regard to property condition and repairs. This applies in addition to the value acceptance requirements.

  Reference: See the "Fannie Mae's DU Value Acceptance (Appraisal Waivers)" and "Fannie Mae's DU Value Acceptance + Property Data" subtopics previously presented in this topic, for value acceptance (appraisal waiver) and value acceptance + property data requirements.

- DU is updated periodically to incorporate ZIP codes included in FEMA-Declared Disaster Areas eligible for individual Assistance. Fannie Mae may also add areas impacted by other disasters or emergencies at its discretion. New loan casefiles for properties in those ZIP codes are excluded from consideration for a new value acceptance (appraisal waiver) or value acceptance + property data offer.

- **Value Acceptance Offers Following a Disaster**
  - After Fannie Mae has received an acceptable appraisal that was performed following a disaster, that appraisal can serve as the basis for a future value acceptance (appraisal waiver) or value acceptance + property data offer.
  - Lenders may exercise these offers in accordance with the requirements outlined in the "Fannie Mae's DU Value Acceptance (Appraisal Waivers)" and "Fannie Mae's DU Value Acceptance + Property Data" subtopics previously presented in this topic.

- **Age of Documentation Requirements**
  - When a loan is secured by a property located in a FEMA-Declared Disaster Area eligible for individual assistance, Fannie Mae provides additional flexibilities. The following requirements apply:
    - The underwriting documentation, including credit reports and verifications of income and assets, must be dated no more than 180 days before the note date.
      - Lenders may disregard the message in the DU Underwriting Findings Report that indicates if the loan casefile has not already closed, the credit report has expired.
    - The appraisal must be dated no more than 180 days before the note date. Lenders must comply with the property eligibility requirements above.
    - Lenders who wish to receive representation and warranty relief offered by the DU validation service must continue to comply with all conditions in the DU Underwriting Findings Report, including the close by date.
    - **Special Feature Code (SFC) Requirement:** Use SFC H37 to identify a mortgage utilizing the extended age of documentation flexibility for eligible disaster areas.
    - Loans originated in accordance with the age of documentation flexibilities, must be delivered to Fannie Mae no later than two years from the date of the disaster declaration by FEMA.

Continued on next page

Properties Affected by a Disaster, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Eligibility of Properties Impacted by a Disaster**
  - The lender represents and warrants that properties securing mortgages sold to Truist meet all applicable property eligibility requirements including, but not limited to, the collateral representation and warranties requirements regarding the value, condition and marketability of the mortgaged premises. The lender must have policies and procedures in place to assess whether there has been any adverse effect on the mortgaged premises that needs to be considered before the mortgage is eligible for delivery to Truist. If the mortgage is a condominium unit mortgage, the lender's assessment should include damage to condominium project common elements, separate from any specific condominium unit damage.
  - With respect to the condition of the mortgaged premises, mortgages for which the lender has obtained appraisal reports and mortgages with automated collateral evaluation (ACE) appraisal waivers or ACE+ PDR, the following requirements must be met for a mortgage secured by a property impacted by a disaster to be eligible for sale to Truist:
    - The property damage does not impact the safety, soundness, or structural integrity of the mortgaged premises. In this instance, the lender must ensure all damage is documented and is covered by insurance (described in the "Property and Flood Insurance" topic subsequently outlined in this document); or
    - If the property securing the mortgage has been damaged such that the damage impacts the safety, soundness, or structural integrity of the mortgaged premises, the property is not acceptable as security for the mortgage and the mortgage is not eligible for sale to Truist until all repairs to the property are documented and completed.

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Appraisal Requirements, Continued

Properties Affected by a Disaster, continued

Freddie Mac LPA, continued

- **Age of Documentation and Loan Product Advisor® Submission Requirements in Eligible Disaster Areas**
  - The following age of documentation flexibilities and Loan Product Advisor® submission requirements apply to all mortgages secured by properties located in eligible disaster areas and will remain in effect for six months from the disaster declaration date announced by the Federal Emergency Management Agency (FEMA).
  - The following age of documentation flexibilities and requirements apply to property valuation:
    - The effective date of the appraisal report must be no more than 180 days before the note date
    - The Feedback Certificate message that offers the lender an automated collateral evaluation (ACE) appraisal waiver, or ACE+PDR, is valid for 180 days as long as the lender does not make any loan data changes that invalidate the ACE appraisal waiver or ACE+ PDR. [See the "Freddie Mac's LPA Automated Collateral Evaluation (ACE) Offer" or "Freddie Mac's LPA ACE+ PDR" subtopic previously presented in this document for additional information on maintaining ACE appraisal waiver or ACE+ PDR eligibility]. If the ACE appraisal waiver or ACE+ PDR offered on the Feedback Certificate is more than 180 days old on the note date, the lender must resubmit the mortgage to Loan Product Advisor to determine if the mortgage is still eligible for an ACE appraisal waiver or ACE+PDR, or if an appraisal report is required.
  - The following age of documentation flexibilities and requirements apply to underwriting the borrower:
    - Any required credit and capacity underwriting documentation including, but not limited to, credit reports, verifications of income, employment and sources of funds, must be dated no more than 180 days before the note date
    - For Loan Product Advisor mortgages, the mortgage must be submitted to Loan Product Advisor no more than 180 days before and no later than the note date

      Note: Loan Product Advisor will automatically pull a new credit report for mortgages that are submitted or resubmitted more than 120 days after the date of the credit report used in the Loan Product Advisor assessment.

      The requirements for the 10-day pre-closing verification of employment and a verification of the current existence of the self-employed borrower's business continue to apply (in accordance with the requirements outlined in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic previously presented in this document).

  - **Special Feature Code (SFC) Requirement**
    - Use SFC H37 to identify a mortgage utilizing the extended age of documentation flexibility for eligible disaster areas.

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Appraisal Requirements, Continued

Properties Affected by a Disaster, continued	**Freddie Mac LPA**, continued • **Representation and Warranty Relief for Automated Collateral Evaluation Appraisal Waiver Offers and Loan Collateral Advisor®** • For mortgaged premises secured by properties located in an eligible disaster area, depending on the extent of the disaster's impact, Freddie Mac may decide to systematically suspend automated collateral evaluation (ACE) appraisal waiver and ACE+ PDR eligibility and appraised value representation and warranty relief eligibility on new Loan Product Advisor® or Loan Collateral Advisor® submissions, respectively. Freddie Mac will notify lenders in a Guide Bulletin when a disaster requiring a systematic suspension occurs. Freddie Mac will monitor market developments within the impacted areas and reinstate eligibility at its discretion. See “Freddie Mac’s LPA Automated Collateral Evaluation (ACE)”, “Freddie Mac’s LPA ACE+ Property Data Report (PDR)” and the “Representations and Warranties on Property Value and Mortgaged Premises” subtopics previously presented in this document for ACE appraisal waiver, ACE+ PDR and Loan Collateral Advisor appraised value representation and warranty relief eligibility requirements.
Property Flipping	Reference: See the *Property Flipping Standards* topic within General Section 1.07: Appraisal Standard document in the *Correspondent Seller Guide* for additional information.

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Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements

Non-AUS

- **Overview**
  - Generally, improvements, alterations, and repairs on the subject property must be complete when the mortgage is delivered to Truist. Lenders must obtain evidence of completion and Fannie Mae allows for a variety of certification methods depending on the type of valuation method and condition (completion, alteration, or repair) that must be confirmed.
  - Additionally, in some circumstances, Truist allows a loan to be delivered prior to improvements or repairs being completed if the lender complies with the requirements related to postponed improvements.

- **Form 1004D and Completion Alternatives**
  - **Form 1004D**
    - The *Appraisal Update and/or Completion Report* (Form 1004D) is used to update an appraisal or provide confirmation that the requirements or conditions in an appraisal report have been met (such as completion of construction or repairs).
    - The appraiser can complete the Completion Report section of Form 1004D based on an on-site visual inspection of the property. The appraiser may also complete the form based on alternative methods, such as virtual inspections, digital photos, site videos, or other technological solutions. All completion documentation must include one or more visually verifiable exhibits. A link to the digital exhibits from within the form is acceptable but must be accessible by Fannie Mae for the life of the loan. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property.
    - See "Appraisal Age, Appraisal Update, and Appraisal Use Requirements" previously presented in this topic, for certifications completed by substitute appraisers.

  - **Attestation Letters**
    - Fannie Mae also permits other completion alternatives - attestation letters - to verify completion of construction, alteration, or repairs in lieu of Form 1004D.
      - **Borrower/Builder Attestation Letter**: For new or proposed construction, a letter is permitted to confirm the property was completed and constructed in conformity with the plans and specifications, amendments, and change orders. The borrower/builder attestation letter must include (at a minimum) the following items:
        - borrower name,
        - property address or legal description if the address is not available,
        - certification language that the property was constructed in conformity with the plans and specifications including any amendments or changes,

Continued on next page

Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Non-AUS, continued

- **Attestation Letters**, continued
  - **Borrower/Builder Attestation Letter**, continued
    - signatures and dates by the borrower(s) and builder, and
    - exterior and interior photos of the property (see "Appraisal Report Forms and Exhibits" previously presented in this subtopic for additional guidance)

    Note: If a letter signed by both parties is not obtainable, then a Form 1004D completed by the appraiser is required.

  - **Borrower Attestation Letter**: A letter is permitted to confirm completion of certain alterations or repairs for existing construction. The letter must include (at a minimum) the following:
    - borrower name;
    - property address;
    - certification language that the alteration or repair was satisfactorily completed;
    - signatures and date of the borrower;
    - visually verifiable exhibits of the completed work; and
    - one of the following:
      - signature of the qualified professional,
      - a professionally prepared report, or
      - paid invoices for the alterations or repairs.
  - When either of these attestation letter options is used, a link within the letter to any digital exhibits is acceptable but must be accessible by Fannie Mae for the life of the loan. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property. The letter and all documentation must be retained in the loan file.

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Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Non-AUS, continued

- **Criteria for Use of Form 1004D and Completion Alternatives**
  - Use of Form 1004D and completion alternatives varies depending on the type of valuation method and condition (completion, alteration, inspection, or repair) that must be verified.

Appraisals (Any traditional appraisal report form)		
Appraisal "Subject to" Condition	**Performer**	**Documentation Options**
New or proposed construction - completion per plans and specifications	Appraiser	Form 1004D with site visit
	Appraiser	Form 1004D with virtual inspection
	Borrower and builder	Borrower/builder attestation letter with supporting evidence
Existing construction - repairs or alterations	Appraiser	Form 1004D with site visit
	Appraiser	Form 1004D with virtual inspection
	Borrower	Borrower attestation letter with supporting evidence
Existing construction - inspections requiring a professionally prepared report	Qualified professional	Professionally prepared inspection report The lender must determine if repairs are required as a result of the inspection, verification per above requirements.

Note: The alternative Form 1004D completion method and attestation letters are not permitted for verifying completion for HomeStyle Renovation transactions.

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Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Non-AUS, continued

- **Verification of Completion: New or Proposed Construction**
  - When the property securing the mortgage is new or proposed construction, the appraisal must be based on either plans and specifications, an existing model home, or other information sufficient to identify the quality and character to accurately report the interior features of the proposed improvements.
  - Verification of completion of construction is required (in accordance with the requirements above) before delivery of the loan to Truist, unless the lender complies with the postponed improvements requirements described below.

- **Verification of Completion: Existing Construction**
  - Lenders must review the appraisal to ensure that the property does not have minor conditions or deferred maintenance items that affect the safety, soundness, or structural integrity of the subject property. See "Property Condition and Quality of Construction of the Improvements" presented in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard for information concerning property condition and quality of construction ratings.
  - The tables below provide requirements related to existing properties that have physical deficiencies, minor conditions, or deferred maintenance items that may or may not affect the safety, soundness, or structural integrity of the property.

Requirements for Existing Construction When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Safety, Soundness, or Structural Integrity of the Property
When the appraisal shows the existence of minor conditions or deferred maintenance that does not affect the safety, soundness, or structural integrity of the property, these items must be reflected in the appraiser's opinion of value and the appraisal report must be completed "as-is." Items meeting these criteria require the appraiser to report and comment on the effect these items may have on the subject property's value and marketability. The lender will then evaluate and determine if any additional course of action is required to comply with Fannie Mae's safety, soundness, and structural integrity requirements. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, missing handrails, or cracked window glass and are typically due to normal wear and tear. The lender is not required to ensure that the borrower has had these items repaired prior to delivery of the loan to Truist when the appraisal is completed "as-is."
If there are minor conditions or deferred maintenance items to be remedied or completed after closing, the lender may escrow for these items at its own discretion and still deliver the loan to Truist prior to the release of the escrow as long as the lender can ensure that these items do not affect the safety, soundness, or structural integrity of the property.

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Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Non-AUS, continued

- **Verification of Completion: Existing Construction**, continued

Requirements for Existing Construction When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Safety, Soundness, or Structural Integrity of the Property
Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in Servicing Guide topic A4-1-02, Establishing Custodial Bank Accounts.
Additional Truist Instructions: If an escrow is established for these items: • Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed. • Send the completed Satisfactory Completion Certificate to the Purchase Relations Specialist. • Send the mechanic's lien waivers to the Purchase Relations Specialist. • The correspondent lender is responsible for follow-up on all outstanding escrow agreements. If improvements are not made as agreed, Truist will hold the correspondent lender responsible for completing the improvements with the escrowed funds.

Requirements for Existing Construction When There are Incomplete Items or Conditions that Affect the Safety, Soundness, or Structural Integrity of the Property
When an appraisal is required and there are incomplete items, physical deficiencies, or items affecting the safety, soundness, or structural integrity of the improvements, the appraisal must be "subject to" completion of the specific repairs or alterations. This may include but is not limited to foundation settlement, water seepage, active roof leaks, worn roof shingles, inadequate electrical service or plumbing fixtures, etc. In all cases, the lender must verify completion before the loan is delivered to Truist. See "Form 1004D and Completion Alternatives" above for the specific requirements.

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Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Non-AUS, continued

- **Postponed Improvements**
  - Truist allows the delivery of a loan before construction or energy improvements are complete if certain requirements are met.
    - **Requirements for New or Proposed Construction**
      - The table below describes requirements related to properties that are new or proposed construction that are not complete when the loan is delivered to Truist.

Requirements for New or Proposed Construction
Loans may be delivered to Truist before postponed items are complete; however, 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 permissible); • are postponed for a valid reason, such as inclement weather or a shortage of building materials; and • do not affect the ability to obtain an occupancy permit.
Completion must be confirmed using Form 1004D or an acceptable completion alternative as described above. All documentation must be retained in the loan file.
The cost of completing improvements must not represent more than 10% of the "as completed" appraised value of the property.
Lenders must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. 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.
Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in Servicing Guide topic A4-1-02, Establishing Custodial Bank Accounts.
Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed. **Truist Note**: The lender may use the *Escrow Agreement for Postponed Improvements* (COR 0016) form or another type of escrow agreement form meeting the requirements stated above.

Continued on next page

Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Non-AUS, continued

- **Postponed Improvements**, continued
  - **Requirements for New or Proposed Construction**, continued

Requirements for New or Proposed Construction
The completion escrow may not adversely affect the mortgage insurance or title insurance.
After a satisfactory Form 1004D or completion alternative is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items.
Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of the Lender's lien.
Additional Truist Instructions: • Send the completed Satisfactory Completion Certificate to the Purchase Relations Specialist. • Send the mechanic's lien waivers to the Purchase Relations Specialist. • The correspondent lender is responsible for follow-up on all outstanding escrow agreements. If improvements are not made as agreed, Truist will hold the correspondent lender responsible for completing the improvements with the escrowed funds.

  - **Requirements for HomeStyle Energy Improvements on Existing Construction**
    - See the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties" requirements in the "Eligible Transactions" topic for guidance.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Criteria for Use of Form 1004D and Completion Alternatives**
  - Use of Form 1004D and completion alternatives varies depending on the type of valuation method and condition (completion, alteration, inspection, or repair) that must be verified.

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Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Fannie Mae DU, continued

- **Criteria for Use of Form 1004D and Completion Alternatives**, continued

Appraisals (Any appraisal report form including Hybrid and Desktop)		
Appraisal "Subject to" Condition	**Performer**	**Documentation Options**
New or proposed construction - completion per plans and specifications	Appraiser	Form 1004D with site visit
	Appraiser	Form 1004D with virtual inspection
	Borrower and builder	Borrower/builder attestation letter with supporting evidence
Existing construction - repairs or alterations	Appraiser	Form 1004D with site visit
	Appraiser	Form 1004D with virtual inspection
	Borrower	Borrower attestation letter with supporting evidence
Existing construction - inspections requiring a professionally prepared report	Qualified professional	Professionally prepared inspection report The lender must determine if repairs are required as a result of the inspection, verification per above requirements.

Property Data Collection		
Condition	**Performer**	**Documentation**
Existing construction - repairs or alterations	Borrower	Borrower attestation letter with supporting evidence
Existing construction - inspection requiring a professionally prepared report	Qualified professional	Professionally prepared inspection report The lender must determine if repairs are required as a result of the inspection, verification per above requirements.

Note: The alternative Form 1004D completion method and attestation letters are not permitted for verifying completion for HomeStyle Renovation transactions.

Continued on next page

Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Fannie Mae DU, continued

- **Verification of Completion: Existing Construction**
  - Lenders must review the appraisal to ensure that the property does not have minor conditions or deferred maintenance items that affect the safety, soundness, or structural integrity of the subject property. See "Property Condition and Quality of Construction of the Improvements" presented in the "Appraisal Analysis: Agency Loan Programs" topic within Section 1.07: Appraisal Standard for information concerning property condition and quality of construction ratings.
  - The tables below provide requirements related to existing properties that have physical deficiencies, minor conditions, or deferred maintenance items that may or may not affect the safety, soundness, or structural integrity of the property.

Requirements for Existing Construction When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Safety, Soundness, or Structural Integrity of the Property
When the appraisal shows the existence of minor conditions or deferred maintenance that does not affect the safety, soundness, or structural integrity of the property, these items must be reflected in the appraiser's opinion of value and the appraisal report must be completed "as-is." Items meeting these criteria require the appraiser to report and comment on the effect these items may have on the subject property's value and marketability. The lender will then evaluate and determine if any additional course of action is required to comply with Fannie Mae's safety, soundness, and structural integrity requirements. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, missing handrails, or cracked window glass and are typically due to normal wear and tear. The lender is not required to ensure that the borrower has had these items repaired prior to delivery of the loan to Truist when the appraisal is completed "as-is."
If there are minor conditions or deferred maintenance items to be remedied or completed after closing, the lender may escrow for these items at its own discretion and still deliver the loan to Truist prior to the release of the escrow as long as the lender can ensure that these items do not affect the safety, soundness, or structural integrity of the property.
Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in Servicing Guide topic A4-1-02, Establishing Custodial Bank Accounts.

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Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Fannie Mae DU, continued

- **Verification of Completion: Existing Construction**, continued

Requirements for Existing Construction When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Safety, Soundness, or Structural Integrity of the Property
Additional Truist Instructions: If an escrow is established for these items: • Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed. • Send the completed Satisfactory Completion Certificate to the Purchase Relations Specialist. • Send the mechanic's lien waivers to the Purchase Relations Specialist. • The correspondent lender is responsible for follow-up on all outstanding escrow agreements. If improvements are not made as agreed, Truist will hold the correspondent lender responsible for completing the improvements with the escrowed funds.

Requirements for Existing Construction When There are Incomplete Items or Conditions that Affect the Safety, Soundness, or Structural Integrity of the Property
When an appraisal is required and there are incomplete items, physical deficiencies, or items affecting the safety, soundness, or structural integrity of the improvements, the appraisal must be "subject to" completion of the specific repairs or alterations. This may include but is not limited to foundation settlement, water seepage, active roof leaks, worn roof shingles, inadequate electrical service or plumbing fixtures, etc. Incomplete items, physical deficiencies, or items affecting safety, soundness, or structural integrity may also be identified through the property data collection process. In all cases, the lender must verify completion before the loan is delivered to Truist. See "Form 1004D and Completion Alternatives" above for the specific requirements.

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Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, continued

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Requirements for Verifying Completion**
  - **Verification of Completion for New or Proposed Construction**
    - For appraisal reports of new or proposed construction that are subject to completion per plans and specifications, Freddie Mac will accept one of the following completion reports to verify completion of the property:
      - Form 442, *Appraisal Update and/or Completion Report*, prepared by an appraiser documenting that the property has been completed in accordance with the plans and specifications. Freddie Mac will accept a completion report prepared by an unlicensed appraiser or appraiser trainee (or similar classification) if a supervisory appraiser signs the completion report.
        - The appraiser may complete Form 442 by performing an on-site visual inspection or by using technology to perform a virtual inspection of the subject property to evidence completion.
        - The completion report must:
          - Include photographs that clearly identify completion of construction. If the property was incomplete at the time of inspection, additional photographs may be required. (See "Exhibits and Addenda for Appraisal Reports and PDRs" / "Exhibits Required for Completion Reports (Forms 442 and 400)" in the "Appraisal Report Forms and Exhibits" subtopic previously presented in this topic for photograph requirements)
          - Be dated before the settlement date (i.e., the date the loan is purchased by Freddie Mac) unless the requirements for incomplete improvements or GreenCHOICE mortgages, as described in the "Eligibility of a Property with Incomplete Improvements" section outlined below and "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/Freddie Mac's GreenCHOICE Mortgages®" subtopic previously outlined in this document, respectively, have been met.
          - Be retained in the mortgage file
      - Form 400, *Warranty of Completion of Construction or Repairs/Alterations*, or other substantially similar form, signed by the borrower(s) and the builder confirming that the property has been completed in accordance with the plans and specifications.
        - The completion report must:
          - Include photographs that clearly identify completion of construction. If the property was incomplete at the time of inspection, additional photographs may be required. (See "Exhibits and Addenda for Appraisal Reports and PDRs" / Exhibits Required for Completion Reports (Forms 442 and 400)" in the "Appraisal Report Forms and Exhibits" subtopic previously outlined in this topic for photograph requirements)
          - Be dated before the settlement date (i.e., the date the loan is purchased by Freddie Mac) unless the requirements for incomplete improvements, as described in the "Eligibility of a Property with Incomplete Improvements" section outlined below, have been met
          - Not be used for GreenCHOICE mortgages
          - Be retained in the mortgage file

Continued on next page

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, continued

Freddie Mac LPA, continued

- **Requirements for Verifying Completion**, continued
  - **Verification of Completion for New or Proposed Construction**, continued
      - By accepting the signed completion report, the lender represents and warrants that the property has been completed in accordance with the plans and specifications and that there were no material or significant changes to the plans and specifications after completion of the appraisal report.
      - If the lender is unable to obtain Form 400 signed by both the borrower(s) and builder, then Form 442 completed by the appraiser is required.

Verification of Completion for New or Proposed Construction – Appraisal Reports			
Acceptable Completion Forms	**Signed By**	**Subject to Conditions**	**Acceptable Inspection Type and Documentation Requirements**
Form 442, *Appraisal Update and/or Completion Report*	Appraiser	Completion per plans and specifications	• On-site or virtual inspection • Photos clearly identifying completion
Form 400, *Warranty of Completion of Construction or Repairs/Alterations*, or other substantially similar form	Borrower(s) and builder	Completion per plans and specifications	• On-site inspection • Photos clearly identifying completion

  - **Verification of Completion for an Existing Property**
    - **Appraisal Reports Subject to Repairs or Alterations**
      - For appraisal reports of existing properties that are subject to repairs or alterations, Freddie Mac will accept one of the following completion reports to verify completion of the property:
        - Form 442, prepared by an appraiser documenting that the repairs or alterations identified in the appraisal report have been completed. Freddie Mac will accept a completion report prepared by an unlicensed appraiser or appraiser trainee (or similar classification) if a supervisory appraiser signs the completion report.
          - The appraiser may complete Form 442 by performing an on-site visual inspection or by using technology to perform a virtual inspection of the subject property to evidence completion. Virtual inspections using technology are not permitted for verifying completion for CHOICERenovation mortgages.

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Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, continued

Freddie Mac LPA, continued

- **Requirements for Verifying Completion**, continued
  - **Verification of Completion for an Existing Property**, continued
    - **Appraisal Reports Subject to Repairs or Alterations**, continued
        - The completion report must:
          - Include photographs that clearly identify the completion of repairs or alterations
          - Be dated before the settlement date (i.e., the date the loan is purchased by Freddie Mac) unless requirements for GreenCHOICE mortgages or CHOICERenovation mortgages, as described in the "Fannie Mae's HomeStyle® Energy for Improvements on Existing Properties/Freddie Mac's GreenCHOICE Mortgages®"and "Fannie Mae's HomeStyle® Renovation Mortgage / Freddie Mac's CHOICERenovation® Mortgage" subtopics outlined in this document, have been met.
          - Be retained in the mortgage file
      - Form 400, or other substantially similar form, signed by the borrower(s) confirming that the subject property has been completed in compliance with the required repairs or alterations identified in the appraisal report.
        - The completion report must:
          - Include photographs that clearly identify the completion of repairs or alterations.
          - Be dated before the settlement date (i.e., the date the loan is purchased by Freddie Mac)
          - Not be used for GreenCHOICE mortgages or CHOICERenovation mortgages
          - Include either:
            - A signed report from the professional that completed the work, or
            - Paid invoice(s) for the repairs or alterations
          - Be retained in the mortgage file
        - By accepting the signed completion report, the lender represents and warrants that the repairs or alterations have been completed.
      - PDR Completion Report, performed by a property data collector, attesting that the repairs or alterations identified in the PDR have been completed. The PDR Completion Report is available for use with a hybrid appraisal report.
        - The PDR Completion Report must:
          - Contain the data points and certifications in the PDR Completion Report data set (Freddie Mac Seller Guide Exhibit 39, Completion Report Data Set)
          - Include photographs that clearly identify the completion of repairs or alterations
          - Be dated before the settlement date (i.e., the date the loan is purchased by Freddie Mac)
          - Be retained in the mortgage file

Continued on next page

Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, continued

Freddie Mac LPA, continued

- **Requirements for Verifying Completion**, continued
  - **Verification of Completion for an Existing Property**, continued
    - **Appraisal Reports Subject to Repairs or Alterations**, continued

Verification of Completion for an Existing Property – Appraisal Reports			
Acceptable Completion Forms	**Signed/Attested By**	**Subject to Conditions**	**Acceptable Inspection Type and Documentation Requirements**
Form 442, *Appraisal Update and/or Completion Report*[1]	Appraiser	Completion of repairs or alterations	• On-site or virtual inspection • Photos clearly identifying completion
Form 400, *Warranty of Completion of Construction or Repairs/Alterations*, or other substantially similar form[1]	Borrower(s)	Completion of repairs or alterations	• On-site inspection • Photos clearly identifying completion • Signed report from professional or paid invoice(s)
PDR Completion Report[1] (Available for use with a hybrid appraisal report)	Property data collector	Completion of repairs or alterations	• On-site inspection • Photos clearly identifying completion
[1] All completion reports above may be used with a hybrid appraisal that has been upgraded from a PDR.			

- **ACE+ PDR when the PDR Indicates Required Repairs or Alterations**
  - For ACE+ PDR when the PDR indicates there are required repairs or alterations, Freddie Mac will accept one of the following completion reports to verify completion:
    - PDR Completion Report, performed by a property data collector attesting that the subject property has been completed in compliance with the required repairs or alterations identified in the PDR.
      - The PDR Completion Report must:
        - Contain the data points and certifications in the PDR Completion Report data set (Freddie Mac Seller Guide Exhibit 39, Completion Report Data Set)
        - Include photographs that clearly identify the completion of repairs or alterations
        - Be dated before the settlement date (i.e., the date the loan is purchased by Freddie Mac)
        - Be retained in the mortgage file

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Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, continued

Freddie Mac LPA, continued

- **Requirements for Verifying Completion**, continued
  - **Verification of Completion for an Existing Property**, continued
    - **ACE+ PDR when the PDR Indicates Required Repairs or Alterations**, continued
      - Form 400, or other substantially similar form, signed by the borrower(s) confirming completion of repairs or alterations identified in the PDR.
        - The completion report must:
          - Include photographs that clearly identify the completion of repairs or alterations.
          - Be dated before the settlement date (i.e., the date the loan is purchased by Freddie Mac)
          - Not be used for GreenCHOICE mortgages or CHOICERenovation mortgages
          - Include either:
            - A signed report from the professional that completed the work, or
            - Paid invoice(s) for the repairs or alterations
          - Be retained in the mortgage file
        - By accepting the signed completion report, the lender represents and warrants that the repairs or alterations have been completed.

Verification of Completion for an Existing Property – PDRs			
Acceptable Completion Forms	**Signed/Attested By**	**Allowed For**	**Acceptable Inspection Type and Documentation Requirements**
PDR Completion Report	Property data collector	Completion of required repairs or alterations	• On-site inspection • Photos clearly identifying completion
Form 400, *Warranty of Completion of Construction or Repairs/Alterations*, or other substantially similar form	Borrower(s)	Completion of required repairs or alterations	• On-site inspection • Photos clearly identifying completion • Signed report from professional or paid invoice(s)

  - **Appraisal Reports or PDRs Requiring an Inspection**
    - For appraisal reports that are subject to an inspection of the property or PDRs where the lender's review determines an inspection is required, a licensed professional or other person trained in the particular field of concern (e.g., structural engineer, plumber, pest inspector, etc.) must perform the inspection of the property.

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Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, continued

Freddie Mac LPA, continued

- **Requirements for Verifying Completion**, continued
  - **Appraisal Reports or PDRs Requiring an Inspection**, continued
    - The lender must obtain either:
      - An inspection report stating that repairs are not required (i.e., lender reviews to ensure property does not have deficiencies consistent with a C5 or C6 condition rating), or
      - An inspection report and invoice(s) stating that the required repairs have been completed and the issues have been corrected.
        - The inspection report and invoice(s) must provide the professional's license number, if applicable.
        - The inspection report and invoice(s) must be:
          - Dated before the settlement date (i.e., the date the loan is purchased by Freddie Mac)
          - Retained in the mortgage file

Reporting Inspection Results for Appraisal Reports or PDRs		
Acceptable Documentation	**Prepared by, as applicable**	**Documentation Requirements**
Inspection Report or invoice(s), as applicable	Professional who performed the inspection or completed the repair	• Inspection report stating repairs are not required (i.e., lender reviews to ensure property does not have deficiencies consistent with a C5 or C6 condition rating), or • Inspection report and invoice(s) stating required repairs have been completed

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Appraisal Requirements, Continued

Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, continued

Freddie Mac LPA, continued

- **Eligibility of a Property with Incomplete Improvements**
  - A mortgage is only eligible for purchase by Truist prior to the completion of improvements when all of the following conditions are satisfied:
    - The appraiser has provided the "as completed" value as the opinion of market value.
    - The appraiser has provided a list of the incomplete items, and the appraiser or a disinterested (but relevant) party has provided a cost to complete the incomplete items.

      For example: A contractor/painter who provides an estimate to paint interior walls is a disinterested (but relevant) party. A relevant party also includes, but is not limited to, a representative of a home improvement store or an independent contractor who performs the services needed to complete the improvements.

    - The incomplete items do not adversely affect the safety, soundness or structural integrity of the mortgaged premises.
    - The lender determines that the improvements cannot be completed for valid reasons; examples include, but are not limited to, inclement weather or temporary shortages of building materials.

      Exception: This requirement does not apply to GreenCHOICE mortgages.

    - The improvements will be satisfactorily completed no more than 180 days after the note date.
    - The cost to complete the incomplete items does not exceed 10% of the "as completed" value of the mortgaged premises; provided however, if the mortgage is a GreenCHOICE mortgage, the cost to complete the incomplete items may not exceed 15% of the "as completed" value of the mortgaged premises.
    - The lender has established a completion escrow account for the incomplete improvements. The lender and the borrower must execute a written escrow agreement detailing how the funds will be managed and disbursed. A copy of the escrow agreement must be retained in the mortgage file.
    - The mortgage insurance and title insurance will not be impaired or adversely affected during and after the completion period.
    - Upon completion of all improvements, the lender must obtain a completion report documenting that the property has been completed and retain it in the mortgage file. See "Requirements for Verifying Completion" outlined above in this section for more information on completion report requirements.
  - Third parties may perform certain incomplete improvement functions identified above as obligations or requirements of the lender. However, the lender remains responsible for compliance with these and all other Agency LPA requirements.

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Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements, (continued)

Freddie Mac LPA, continued

- **Eligibility of a Property with Incomplete Improvements,** continued
    - **Additional Truist Instructions**:
        - Lenders and borrowers must execute a written escrow agreement. The lender may use the *Escrow Agreement for Postponed Improvements* (COR 0016) form or another type of escrow agreement form meeting the requirements stated above.
        - Send the completed Satisfactory Completion Certificate to the Purchase Relations Specialist.
        - Send the mechanic's lien waivers to the Purchase Relations Specialist.
        - The correspondent lender is responsible for follow-up on all outstanding escrow agreements. If improvements are not made as agreed, Truist will hold the correspondent lender responsible for completing the improvements with the escrowed funds.

- **Requirements for GreenCHOICE Mortgages**
    - Follow the "Eligibility of a Property with Incomplete Improvements" requirements outlined above.
    - See "Freddie Mac's GreenCHOICE Mortgages®" requirements in the "Eligible Transactions" topic for additional guidance.

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Second Appraisals

Non-AUS

- *Appraiser Independence Requirements* provides that the lender must not order, obtain, use, or pay for a subsequent appraisal in connection with a mortgage financing transaction unless:
  - there are indicators that the initial appraisal was inaccurate, not credible, or in violation of legal and/or professional standards related to nondiscrimination, and such indicators are clearly and appropriately noted in the mortgage file, or
  - such subsequent appraisal is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting requirements, 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, or
  - a subsequent appraisal is required by law.

References:

- See “Multiple Appraisals of the Subject Property” in the “Appraisal Age, Appraisal Update, and Appraisal Use Requirements” subtopic previously presented in this topic for additional information.
- See the “Appraisal Quality Matters” subtopic in the “Appraisal Analysis: Agency Loan Programs” topic in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- *Appraiser Independence Requirements* provides that the lender must not order, obtain, use, or pay for a subsequent appraisal in connection with a mortgage financing transaction unless:
  - there are indicators that the initial appraisal was inaccurate, not credible, or in violation of legal and/or professional standards related to nondiscrimination, and such indicators are clearly and appropriately noted in the mortgage file, or
  - such subsequent appraisal is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting requirements, 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, or
  - a subsequent appraisal is required by law.

Reference: See the “Appraisal Quality Matters” subtopic in the “Appraisal Analysis: Agency Loan Programs” topic in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information.

Property and Flood Insurance

General Property Insurance Requirements for All Property Types

Non-AUS

- **Overview**
  - The borrower has the right to select the insurer of their choice to provide property insurance for the subject property, provided that the insurance meets Fannie Mae's requirements. The lender must ensure that the insurer, policy, and coverage meet Fannie Mae's requirements. In some cases, Fannie Mae may require additional coverage that differs from these requirements.

- **Property Insurer Rating Requirements**
  - The property insurance policy for the property securing any first mortgage, including master policies for project developments, , must be written by an insurer that meets one of the rating requirements in the following table.

Rating Agency	Rating Category
A.M. Best Company	"B+" or better Financial Strength
Demotech, Inc.	"A" or better *Insurance Financial Stability Rating*
Kroll Bond Rating Agency	"BBB" or better *Insurance Financial Strength Rating (IFSR)*
S&P Global	"BBB" or better Insurer Financial Strength Rating

Note: An insurer is only required to meet the rating category requirement for one of the rating agencies, even if they are rated by multiple rating agencies.

- **Exception to Insurer Rating Requirements**
  - The following is an exception to Fannie Mae's insurer rating requirements:
    - **Reinsurance Arrangements**
      - Policies written by an insurer that do not meet Fannie Mae's rating requirements are acceptable provided all conditions outlined in the following table are met.

Continued on next page

Property and Flood Insurance, Continued

General Property Insurance Requirements for All Property Types, continued

Non-AUS, continued

- **Reinsurance Arrangements**, continued

✓	Conditions for Acceptable Reinsurance Arrangements
	The insurer is covered by reinsurance with a company that meets the AM Best Financial Strength Ratings or S&P Global Insurer Financial Strength Rating, as listed in the "Property Insurer Rating Requirements" section above.
	The primary insurer and the reinsuring company are authorized (or licensed, if required) to transact business within the state where the property is located.
	The reinsurance agreement has a "cut-through" endorsement that provides for the reinsurer to become immediately liable for 100% of any loss payable by the primary insurer in the event the primary insurer becomes insolvent.
	Both the primary insurer and the reinsuring company execute an *Assumption of Liability Endorsement* (Fannie Mae Form 858), or any equivalent endorsement that provides for 100% reinsurance of the primary insurer's policy and a 90-day written notice to Fannie Mae of the termination of the reinsurance arrangement. **Note**: Form 858 (or the equivalent endorsement) must be attached to each insurance policy covered by the reinsurance agreement.
	The reinsurance agreement does not allow contributions or assessments to be made against Fannie Mae or to become a lien on the property that is superior to Fannie Mae's lien.
	The insurance written under the policy cannot exceed any dollar limitation amount specified in the reinsurance endorsement.

- **Other Exceptions to Property Insurance Requirements**
  - Fannie Mae also accepts the following types of property insurance policies if they are the only coverage the borrower can obtain at the time of the loan closing or policy renewal:
    - policies obtained through state insurance plans, including a state's Fair Access to Insurance Requirements (FAIR) plan, or
    - other state-mandated windstorm and beach erosion insurance pools.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

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General Property Insurance Requirements for All Property Types, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The lender must ensure that the mortgaged premises are covered by insurance meeting the requirements in this document. The lender must obtain evidence of insurance meeting the requirements outlined in the "Evidence of Insurance" subtopic subsequently outlined in this topic.
  - **Licensing of Insurer**
    - All insurance companies (insurers) and insurance companies which guarantee coverages provided by other insurance companies (reinsurers) must be licensed, or otherwise authorized by law, to conduct business in the jurisdictions where the mortgaged premises are located.
  - **Assessments**
    - Insurance contracts must provide that no assessment may be made against the lender/servicer or Freddie Mac and that any assessment made against others may not become a lien on the mortgaged premises superior to the lien of the Freddie Mac mortgage.
  - **Rating of Insurer**
    - The required insurance must be provided by one of the following insurers:
      - An insurer with a current rating that meets the requirements below:
        - For an insurer rated by AM Best Company (AM Best), a minimum Financial Strength Rating of B+, as reported online at http://www.ambest.com
        - For an insurer rated by Demotech, Inc., a minimum Financial Stability Rating of A as reported online at http://www.demotech.com
        - For an insurer rated by S&P Global, a minimum Insurer Financial Strength Rating of BBB as reported online at http://www.standardandpoors.com
        - For an insurer rated by Kroll Bond Rating Agency (KBRA), a minimum insurance Financial Strength Rating of BBB as reported online at https://www.kbra.com
      - An insurer with coverage that is guaranteed by a reinsurer under all of the following conditions:
        - The reinsurer's current rating meets the requirements below:
          - For a reinsurer rated by AM Best, a minimum Financial Strength Rating of B+, or
          - For a reinsurer rated by S&P Global, a minimum Insurer Financial Strength Rating of BBB
        - The reinsurer assumes by endorsement 100% of the insurer's liability for any covered loss payable but unpaid by the insurer for reason of insolvency
        - The reinsurer assumes by endorsement to give the policyholder, the lender/servicer and insurer 90-day written notice before canceling or otherwise terminating the guarantee
        - The above endorsements are attached to each property insurance policy accepted by the lender/servicer on account of the endorsements

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Property and Flood Insurance, Continued

General Property Insurance Requirements for All Property Types, (continued)

Freddie Mac LPA, continued

- **Rating of Insurer**, continued
    - A state insurance pool created by statutory authority to provide insurance for geographic areas or insurance lines which suffer from lack of voluntary market availability (such pool may be designated as a property insurance plan, a Fair Access to Insurance Requirements (FAIR) plan, an underwriting association, a joint underwriting association or an insurance authority)
    - A non-admitted insurer with a current rating that meets the requirements below:
        - For an insurer rated by AM Best, a minimum Financial Strength Rating of A, or
        - For an insurer rated by S&P Global, a minimum Insurer Financial Strength Rating of AA-
    - An insurer with coverage that is guaranteed by the National Flood Insurance Program (NFIP) under a Standard Flood Insurance Policy issued pursuant to the National Flood Insurance Act of 1968, as amended
  - Insurers rated by more than one rating company need only meet one of the rating requirements.

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Property and Flood Insurance, Continued

Property Insurance Requirements for One-to Four-Unit Properties

Note: See the "Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments" subtopic subsequently presented in this document for additional information on property insurance coverage for units in condominium and PUD projects.

Non-AUS

- **Coverage Requirements**
  - Property insurance policies for one-to four-unit properties securing loans delivered to Fannie Mae should be written on a "Special" coverage form or equivalent. At a minimum, the coverage must include the perils listed in the following table.

✓	Required Perils
	Fire or lightning
	Explosion
	Windstorm (including named storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number)
	Hail
	Smoke
	Aircraft
	Vehicles
	Riot or civil commotion

  - If a property insurance policy excludes or limits coverage of any of the required perils, the borrower must obtain an acceptable stand-alone policy that provides adequate coverage for the limited or excluded peril (see the "Additional Insurance Requirements" section below for additional information).
  - The property insurance policy must provide for claims to be settled on a replacement cost basis. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable. Policies that limit, depreciate, reduce or other settle losses at anything other than a replacement cost basis are also not acceptable.
  - Additional requirements apply to properties with solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement. See "Properties with Solar Panels" outlined in the "Occupancy/Property Types" topic in this document for additional requirements.
  - See "Evidence of Property Insurance" and "Mortgagee Clause for Property and Flood Insurance" subsequently presented in this document for additional requirements applicable to a one- to four-unit property.

Continued on next page

Property and Flood Insurance, Continued

Property Insurance Requirements for One-to Four-Unit Properties, continued

Non-AUS, continued

- **Determining the Required Coverage Amount**
  - The lender must verify that the property insurance coverage amount for a first mortgage secured by a one- to four-unit property is at least equal to the lesser of:
    - 100% of the replacement cost value of the improvements as of the current property insurance policy effective date, or
    - the unpaid principal balance of the loan, provided it equals no less than 80% of the replacement cost value of the improvements as of the current property insurance policy effective date.

      Truist Note: When determining the unpaid principal balance of the mortgage, the combined unpaid principal balance of the first and all subordinate mortgages must be considered.

  - The source that the lender uses to verify the coverage amount may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination. This may include, but is not limited to, a statement from the insurer or other applicable professional, a replacement cost estimator, or an insurance risk appraisal.
  - If the coverage amount does not meet the minimum required, coverage that does provide the minimum required amount must be obtained.
  - The following table provides the steps to calculate the amount of required property insurance coverage.

Step	Description
1	Compare the replacement cost value of the improvements to the unpaid principal balance (UPB) of the loan.
1A	If the replacement cost value of the improvements is less than the UPB, the replacement cost value is the amount of coverage required.
1B	If the UPB of the loan is less than the replacement cost value of the improvements, go to Step 2.
2	Calculate 80% of the replacement cost value of the improvements.
2A	If the result of this calculation is equal to or less than the UPB of the loan, the UPB is the amount of coverage required.
2B	If the result of this calculation is greater than the UPB of the loan, this calculated figure is the amount of coverage required.

Note: When calculating the required amount of property insurance coverage, the loan amount (including first and subordinate liens) must be used at origination of the loan and the UPB (including first and subordinate liens) must be used during servicing of the loan.

Continued on next page

Property Insurance Requirements for One-to Four-Unit Properties, continued

Non-AUS, continued

- **Determining the Required Coverage Amount**, continued

  Examples:

Category	Property A	Property B	Property C
Replacement Cost Value	$90,000	$100,000	$100,000
UPB	$95,000	$90,000	$75,000
80% of the Replacement Cost Value	N/A	$80,000	$80,000
Required Coverage	$90,000	$90,000	$80,000
Calculation Method	Step 1A	Step 2A	Step 2B

- **Deductible Requirements**
  - The maximum allowable deductible for all required property insurance perils for one-to four-unit properties is 5% of the property insurance coverage amount.
  - When a property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof, the total amount for such deductibles applicable to a single occurrence must be no greater than 5% of the property insurance coverage amount.

- **Additional Insurance Requirements**
  - **Additional Property Insurance Coverage**
    - If a lender becomes aware of a subject property's exposure to perils that are not covered as required in "Coverage Requirements" previously outlined in this subtopic or "Coverage Requirements" subsequently outlined in "Master Property Insurance Requirements for Project Developments" (within the "Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments" subtopic), such as toxic waste; it should contact Fannie Mae to determine whether additional coverage is necessary.

  - **Insurance Requirements for Renovation and Energy-Related Improvement Loans**
    - When the loan provides funds to cover the costs of repairs, remodeling, renovations, or energy-related improvements, there must not be any coverage exclusions or limitations related to the renovation work during the time that work is being performed on the property.
    - Once repairs, renovation, or construction is complete, the lender must review the property insurance policy (and flood insurance policy when required) to ensure the appropriate coverage is in place based on the completed replacement cost value of the subject property.

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Property and Flood Insurance, Continued

Property Insurance Requirements for One-to Four-Unit Properties, (continued)

Non-AUS, continued

- **Additional Insurance Requirements** , continued
    - **Optional Credit Life or Mortgage Loan Insurance**
        - Fannie Mae allows insurance policies that include optional coverage such as those outlined below. However, Fannie Mae does not pay costs arising from disputes with insurers in settling claims that relate only to this optional coverage.
        - **Acceptable Types of Optional Credit Life or Mortgage Loan Insurance**
            - Permissible coverage includes:
                - single-premium credit insurance policies that are free in all respects to the borrower,
                - single-premium mortgage insurance policies with a credit insurance feature where such credit insurance feature is free in all respects to the borrower, and
                - credit insurance policies that require borrowers to pay a separately identified premium on a monthly or annual basis.
            - These credit insurance policies must be disclosed to the borrower in clear and simple terms in advance of purchase of the applicable policy.
            - The lender may act as a broker or agent in the sale of this type of credit insurance to the borrower.
            - The lender or servicer must reimburse Fannie Mae for attorney's fees or any costs that it incurs if Fannie Mae brings an action on a defaulted loan and the borrower defends against Fannie Mae's foreclosure or acts to enjoin Fannie Mae from liquidating the loan and one of the defenses or actions for injunction is based on:
                - an obligation of the lender or servicer (including as the broker or agent that obtained the credit insurance for the borrower and/or as a party that has agreed to collect premiums and remit them to the credit insurer on the borrower's behalf),
                - an obligation of the credit insurer, or
                - the obligation of the mortgage insurer to maintain credit insurance and apply benefits thereof to the borrower's loan.
        - **Unacceptable Types of Optional Credit Life or Mortgage Loan Insurance**
            - Although certain property insurance policies that include optional coverage are allowed, Fannie Mae does not purchase loans in the following situations:
                - The premium/fee for single-premium credit life insurance policies or debt cancellation agreements is paid directly by the borrower or paid indirectly by financing the premium/fee into the loan amount.
                - The premium/fee for single-premium mortgage insurance policies with a credit insurance feature is paid directly by the borrower or paid indirectly by rolling the credit insurance single premium into the cost of the mortgage insurance (whether or not it is identified as including a credit insurance premium).
            - Debt cancellation agreements (which are permitted by Fannie Mae on a negotiated basis only) are also an unacceptable type of optional coverage.

Continued on next page

Property and Flood Insurance, Continued

Property Insurance Requirements for One-to Four-Unit Properties, (continued)

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **1- to 4-Unit Properties**
    - At a minimum, the insurable improvements on the mortgaged premises must be insured for loss or damage from:
        - Fire
        - Lightning
        - Windstorm
        - Hail
        - Explosion
        - Riot
        - Civil commotion
        - Damage by aircraft
        - Damage by vehicles
        - Damage by smoke
    - If any of the preceding perils is excluded from the primary insurance policy, coverage of the excluded peril must be provided through a secondary insurance policy.
    - **Deductible Amount**
        - The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "dwelling" in the insurance policy) may not exceed 5 percent of the limit maintained for dwelling coverage.
    - Insurance policies must provide for claims to be settled on a replacement cost basis. Policies that (1) provide for claims to be settled on an actual cash value basis, or (2) limit, depreciate, reduce or otherwise settle losses for less than a replacement cost basis are not eligible.
    - The insurance limits must be at least equal the higher of:
        - The unpaid principal balance (UPB) of the mortgage

          Truist Note: When determining the unpaid principal balance of the mortgage, the combined unpaid principal balance of the first and all subordinate mortgages must be considered.

        - 80% of the full replacement cost value (RCV)of the insurable improvements as of the current insurance policy effective date.
    - The coverage required in accordance with the above formula must not exceed the replacement cost of the insurable improvements, even when the UPB of the mortgage exceeds such replacement cost.

Continued on next page

Property Insurance Requirements for One-to Four-Unit Properties, (continued)

Freddie Mac LPA, continued

- **1- to 4-Unit Properties**, continued
  - The table below describes how to calculate the required amount of insurance.

Step	Description
1	Determine the UPB and the RCV.
2	If the RCV is less than the UPB, the required insurance coverage is the RCV, and no further calculation is required. If the RCV is greater than the UPB, go to step 3.
3	If the RCV is greater than the UPB, calculate 80% of the RCV and then go to step 4 or 5.
4	If this calculation is equal to or less than the UPB, the UPB is the amount of coverage required, or
5	If this calculation is greater than the UPB, the 80% calculation is the amount of coverage required.

  - Examples:

	Property A: The RCV is less than the UPB	Property B: 80% of the RCV is equal to or less than the UPB	Property C: 80% of the RCV is greater than the UPB
RCV	$80,000	$90,000	$90,000
UPB	$85,000	$80,000	$65,000
80% of replacement cost	$64,000	$72,000	$72,000
Required insurance coverage	$80,000	$80,000	$72,000

  - Lenders/servicers must verify the RCV in order to complete the calculation above. The verification source may be (1) the replacement cost estimator utilized by the insurance carrier or an insurance risk appraisal; or (2) statement from property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.
  - The lender/servicer must ensure that adequate insurance coverage is in force even when the improvements are vacant or unoccupied and must notify all insurers of any such change in occupancy in order to preserve its rights as mortgagee under the applicable insurance policy.

- **Ground Lease Communities**
  - Leasehold lessees within a ground lease community with residential properties similar to 1- to 4- unit properties can insure their units individually, provided that the 1-to-4-unit properties requirements previously outlined in this subtopic are met.

Continued on next page

Property Insurance Requirements for One-to Four-Unit Properties, (continued)

Freddie Mac LPA, continued

- **Ground Lease Communities**, continued
  - If the individual units are covered by insurance purchased by their respective leasehold lessees, the fee simple landowner/lessor of the ground lease community, the lender is not required to verify insurance for its common elements.
  - Freddie Mac will also accept a master insurance policy covering all units in the ground lease community if called for in the ground lease. The lender/servicer must confirm the master insurance policy limit covers 100% of the replacement cost value of the units, as of the current insurance policy effective date, but is not required to verify if a master insurance policy provides insurance for common elements. The verification source may be (1) the replacement cost estimator utilized by the insurance carrier or the project's insurance risk appraisal; or (2) statement from property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.
  - The master insurance policy must provide for claims to be settled on a replacement cost basis. Policies that (1) provide for claims to be settled on an actual cash value basis, or (2) limit, depreciate, reduce or otherwise settle losses for less than a replacement cost basis are not eligible.
  - The master insurance policy must be written on a special coverage form or equivalent.
  - The fee simple landowner/lessor must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following:
    - Inflation guard endorsement - this endorsement is required when it is applicable to the coverage and available in the insurance market
    - Building ordinance or law endorsement - this endorsement is not required if the building is legally conforming under current building, zoning or land use laws, or is not available; however, it is required if the enforcement of any law or ordinance results in increased costs such as demolition or loss to the undamaged portions of the building and the coverage is available in the insurance market
    - Steam boiler and machinery or equipment breakdown endorsement – this endorsement is required if a building in the project has a central heating ventilation and cooling (HVAC) system and the coverage is available in the insurance market
      - The insurance limit per covered mechanical breakdown or equipment failure must equal the lesser of:
        - 100% of the replacement cost of the building housing the equipment, or
        - $2 million

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Property and Flood Insurance, Continued

Property Insurance Requirements for One-to Four-Unit Properties, (continued)

Freddie Mac LPA, continued

- **Ground Lease Communities,** continued
  - **Deductible Amount**
    - The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "building" in the insurance policy) may not exceed 5% of the limit maintained for building coverage.
    - If a master insurance policy deductible exceeds the 5% maximum due to a per unit deductible for named perils specific to a geographic area, the mortgage is eligible if the borrower's unit is covered by an owner's HO-6 policy. The borrower's owners policy must include the same perils as the master policy, cover master policy assessments levied on the unit owner and carry a sufficient coverage amount to cover the per unit amount over the permissible 5% limit. See "Condominiums" in the "Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments" section subsequently presented in this document for an example of how to calculate sufficient coverage to meet the 5% maximum deductible requirement
  - The insurance policy of the fee simple landowner/lessor of the ground lease community must name the insured in substantially the same language indicated below:
    - **For Ground Lease Communities**: [Name of the lessor] of the [Name of the ground lease community] for the use and benefit of the individual lessees (designated by name, if required by law or by the lease).

Continued on next page

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments

Non-AUS

- **Master Property Insurance Requirements for Project Developments**
  - **Overview**
    - This section covers requirements for master property insurance policies covering the common elements and residential structures of project developments.
    - The requirements applicable to condo projects in this section also apply to two- to four-unit condos and detached condos, unless stated otherwise.
    - For the purposes of this section and the "Individual Property Insurance Requirements for a Unit in a Project Development" section presented below, the following definitions apply:
      - Common elements refers to insurable, non-residential elements of a project development. Examples include, but are not limited to, clubhouses, parking areas or structures, and recreational facilities.
      - Residential structures refers to the insurable elements of a building that contains one or more residences.
  - **Determining if a Master Property Insurance Policy is Required**
    - The requirements for individual property insurance policies will vary based on the homeowners' association's (HOA) legal documents and the master property insurance policy. The following table provides the requirements based on the project type.

Project Type	Requirement
PUD	Individual property insurance policies as described in "Property Insurance Requirements for One-to Four-Unit Properties" previously presented in this document, are required for each property securing a loan that Fannie Mae purchases in a PUD project unless the project's legal documents provide for a master property insurance policy that covers both the common elements and residential structures. In that case, Fannie Mae will accept the master property insurance policy in satisfaction of its insurance requirements for the subject property. The borrower may still have to maintain an individual unit owner policy as described in "Coverage Requirements," subsequently presented in this subtopic.

Continued on next page

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, continued

Non-AUS, continued

- **Master Property Insurance Requirements for Project Developments**, continued
  - **Determining if a Master Property Insurance Policy is Required**, continued

Project Type	Requirement
PUD, continued	When units located within a PUD are covered by a master property insurance policy maintained by the HOA, the lender must verify that the insurance provides coverage for both the common elements and residential structures. When units located within a PUD are covered by individual property insurance policies maintained by their respective owner(s), the lender is not required to verify master property insurance coverage on PUD common elements.
Condo	Master property insurance policies are required for the common elements and residential structures for each loan that Fannie Mae purchases in a condo project unless the condo project's legal documents require individual property insurance policies for each unit. In that case, the individual property insurance policy must meet the requirements outlined in "Property Insurance Requirements for One-to Four-Unit Properties" previously presented in this document. When a master property insurance policy is required, the lender must verify that the master property insurance provides coverage for both the common elements and residential structures. The borrower may still have to maintain an individual unit owner policy as described in "Coverage Requirements" subsequently presented in this subtopic.

- To the extent the master property insurance policy does not cover the interior of the unit or improvements to the unit, the borrower must maintain an individual unit owner property insurance policy (see "Individual Property Insurance Requirements for a Unit in a Project Development" outlined below for additional requirements).

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Property and Flood Insurance, Continued

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, continued

Non-AUS, continued

- **Master Property Insurance Requirements for Project Developments**, continued
  - **Coverage Requirements**
    - When required, a master property insurance policy must be maintained with premiums paid as a common expense by the HOA. The policy must cover all insurable property elements. Common personal property and supplies should be covered, if applicable.
    - The master property insurance policy must provide for claims to be settled on a replacement cost basis. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable. Policies that limit, depreciate, reduce or otherwise settle losses at anything other than a replacement cost basis are also not acceptable.
    - Master property insurance coverage policies covering project developments should be written on a "Special" coverage form or equivalent. At a minimum, the coverage must include the perils covered by a commercial "Broad" coverage form, as listed in the following table.

✓	Required Perils
	Fire
	Lightning
	Explosion
	Windstorm (including named storms designated by the U.S. National Weather Service or the National Oceanic and Atmospheric Administration by a name or number)
	Hail
	Smoke
	Aircraft or Vehicles
	Riot or civil commotion
	Vandalism
	Sprinkler leakage
	Sinkhole collapse
	Volcanic action
	Falling objects
	Weight of snow, ice or sleet
	Water damage

    - If a master property insurance policy excludes or limits coverage of any of the required perils, the HOA must obtain an acceptable stand-alone property insurance policy which provides adequate coverage for the limited or excluded peril (see "Additional Insurance Requirements" previously presented in the "Property Insurance Requirements for One- to Four-Unit Properties" subtopic for additional information).
    - See "Evidence of Property Insurance" subsequently presented in this document for the named insured requirements.

Continued on next page

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, continued

Non-AUS, continued

- **Master Property Insurance Requirements for Project Developments**, continued
  - **Determining the Required Coverage Amount**
    - The lender must verify that the property insurance coverage amount is at least equal to 100% of the replacement cost value of the project improvements, including common elements and residential structures, as of the current property insurance policy effective date.
    - The source that the lender uses to verify the coverage amount may be the property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make sure a determination. This may include, but is not limited to, a statement from the insurer or other applicable professional, a replacement cost estimator, or an insurance risk appraisal.

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Property and Flood Insurance, Continued

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, continued

Non-AUS, continued

- **Master Property Insurance Requirements for Project Developments**, continued
  - **Deductible Requirements**
    - The following table describes the maximum allowable deductible for master property insurance policies covering project developments.

Deductible Type	Maximum Deductible
Per Occurrence	The maximum allowable deductible for all required property insurance perils is 5% of the master property insurance coverage amount.
Per occurrence, multiple deductibles	When a master property insurance policy includes multiple deductibles, such as a separate deductible that applies to windstorms, or a separate deductible that applies to a specific property element such as the roof, the total amount for such deductibles applicable to a single occurrence must be no greater than 5% of the insurance coverage amount.

Per occurrence, per unit	Fannie Mae will allow a per unit master property insurance policy deductible when the sum of the applicable per unit deductibles is greater than 5% of the coverage amount and all of the following requirements are met.
	• The master property insurance policy has a per unit deductible for named perils specific to a geographic area where such coverage is common and customary; and
	• The borrower's individual property insurance policy includes:
	  • coverage for the applicable peril(s);
	  • coverage for master property insurance policy deductible assessments levied on the unit owner by the HOA for the applicable peril(s); and
	  • loss assessment coverage in an amount sufficient to cover assessments in excess of 5% of the master property insurance policy coverage amount, divided by the number of units.

Note: A deductible buy-back insurance policy purchased by the HOA may be used to meet Fannie Mae's master property insurance policy deductible requirements, provided the policy meets all other property insurance requirements outlined in this document, including insurer rating requirements.

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Property and Flood Insurance, Continued

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, continued

Non-AUS, continued

- **Master Property Insurance Requirements for Project Developments**, continued
  - **Special Coverage Requirements for Project Developments**
    - The following special coverage requirements apply to condo and PUD master property insurance policies:
      - Inflation Guard Coverage – The coverage is not required if it is not obtainable in the insurance market available to the association;
      - Building Ordinance or Law Coverage – The coverage must include:
        - Coverage A: loss to the undamaged portion of a building,
        - Coverage B: demolition costs, and
        - Coverage C: increased costs of construction.

        Building Ordinance or Law Coverage may be included in the property coverage form or obtained as an endorsement to the property insurance policy. The coverage is not required if it is not obtainable in the insurance market available to the association; and
      - Boiler and Machinery/Equipment Breakdown Coverage - This coverage is required if the project development has central heating or cooling. The coverage amount must equal the lesser of $2 million or the replacement cost value of the building(s) housing the boiler or machinery. This coverage may be included in the property coverage form, obtained as an endorsement to the master property insurance policy, or the HOA may purchase a stand-alone boiler and machinery policy.

        Note: Boiler and Machinery/Equipment Breakdown Coverage may also be referred to as Steam Boiler Coverage or Mechanical Breakdown Coverage.

  - **Special Coverage Requirements for Condo Projects**
    - Master property insurance policies for condo projects must be endorsed with a Condominium Association Coverage Form or its equivalent. The endorsement must include the following provisions or comparable language:
      - Recognition of an Insurance Trustee: If you name an insurance trustee, we will adjust losses with you, but we will pay the insurance trustee. If we pay the trustee, the payments will satisfy your claims against us.
      - Waiver of Rights of Recovery: We waive our rights to recover payment from any unit-owner of the condominium that is shown in the declarations.
      - Unit-owner's Insurance: A unit-owner may have other insurance covering the same property as this insurance. This insurance is intended to be primary, and not to contribute with such other insurance.

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Property and Flood Insurance, Continued

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, continued

Non-AUS, continued

- **Master Property Insurance Requirements for Project Developments**, continued
  - **Builder/Developer Property Insurance Policies**
    - When a project is under development, it may be covered by the builder/developer's property insurance policy if the policy provides equivalent coverage to the requirements for project developments in this subtopic. When property coverage ceases per the terms of the builder/developer's policy, the HOA must obtain a master property insurance policy in accordance with Fannie Mae's requirements.
    - Separate projects under development by the same developer will be considered affiliated during the period when control of the project has not yet transferred from the builder/developer to the individual owners or related HOA. The affiliated status of the subject project ends when the property coverage ceases per the terms of the builder/developer's policy.

  - **Policies Covering Multiple Projects**
    - Except as described below, unaffiliated projects may not share a master property insurance policy. Each project must maintain its own policy that meets Fannie Mae requirements, as detailed throughout this subtopic.
    - If a property insurance policy that covers multiple unaffiliated projects provides a dedicated coverage amount for each individual covered project, the policy structure may provide equivalent coverage to Fannie Mae's coverage amount requirements. The coverage amount dedicated to the subject project must be sufficient to cover the full replacement cost value of the project improvements including the common elements and residential structures.
    - The lender must review the insurance policy and any other associated documents needed to adequately evaluate the insurance coverage. The HOA must be protected in the same manner as if it maintained a master property insurance policy. The coverage of each insured project cannot be affected by any actions or omissions of unaffiliated projects covered by the same policy. Additionally, all other master property insurance requirements for project developments must be met.
    - The lender must document how they determined the applicable policy provides acceptable coverage as detailed above. A copy of the policy, along with the lender's documentation must be maintained in the loan file.

- **Individual Property Insurance Requirements for a Unit in a Project Development**
  - **Overview**
    - See "Overview" in the "Master Property Insurance Requirements for Project Developments" section above for additional information.

  - **Determining if an Individual Property Insurance Policy on a Unit in a Project Development is Required**
    - See "Determining if a Master Property Insurance Policy is Required" in the "Master Property Insurance Requirements for Project Developments" section above for determining when a master property insurance policy and/or an individual property insurance policy is required.

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Property and Flood Insurance, Continued

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, continued

Non-AUS, continued

- **Individual Property Insurance Requirements for a Unit in a Project Development,** continued
  - **Coverage Requirements**
    - See "Coverage Requirements" in the "Property Insurance Requirements for One-to Four-Unit Properties" subtopic previously presented in this document, for the coverage requirements when an individual property insurance policy is required for a unit in a project development.
    - See "Evidence of Property Insurance" and "Mortgagee Clause for Property and Flood Insurance" subsequently presented in this document for requirements applicable to a loan secured by a unit in a project development.
  - **Determining the Required Coverage Amount**
    - To the extent the master property insurance policy does not cover the interior or improvements of a unit in a project development, the borrower must maintain an individual property insurance policy.
    - The lender must verify the coverage amount is sufficient to restore the unit to its condition prior to a loss event.
    - Coverage sufficiency should be based on the best information known or available to the lender, which may include information obtained from the borrower, in collaboration with the insurer, the HOA legal documents, or other professional with appropriate resources to make such a determination.
    - Fannie Mae recommends that lenders encourage borrowers to closely collaborate with an insurance professional to determine their individual insurance needs.
  - **Deductible Requirements**
    - See "Deductible Requirements" in the "Property Insurance Requirements for One-to Four-Unit Properties" subtopic previously presented in this document for deductible requirements when an individual property insurance policy is required for a unit in a project development.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

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Property and Flood Insurance, Continued

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **PUDs**
  - Unit owners within a Planned Unit Development (PUD) with residential properties similar to 1- to 4- unit properties can insure their units individually, provided that the 1-to-4-unit properties requirements outlined in the "Property Insurance Requirements for One-to Four-Unit Properties" subtopic previously presented in this topic are met.
  - If the individual units are covered by insurance purchased by their respective owners or the PUD homeowners association, the lender is not required to verify insurance for its common elements.
  - Freddie Mac will also accept a master insurance policy covering all units in the PUD if called for in the PUD's governing documents. The lender/servicer must confirm the master insurance policy limit covers 100% of the replacement cost value of the units, as of the current insurance policy effective date, but is not required to verify if a master insurance policy provides insurance for common elements. The verification source may be (1) the replacement cost estimator utilized by the insurance carrier or the project's insurance risk appraisal; or (2) statement from property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.
  - The master insurance policy must provide for claims to be settled on a replacement cost basis. Policies that (1) provide for claims to be settled on an actual cash value basis, or (2) limit, depreciate, reduce or otherwise settle losses for less than a replacement cost basis are not eligible.
  - The master insurance policy must be written on a special coverage form or equivalent.
  - The PUD homeowners association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following:
    - Inflation guard endorsement – this endorsement is required when it is applicable to the coverage and available in the insurance market
    - Building ordinance or law endorsement – this endorsement is not required if the building is legally conforming under current building, zoning or land use laws, or is not available; however, it is required if the enforcement of any law or ordinance results in increased costs such as demolition or loss to the undamaged portions of the building and the coverage is available in the insurance market
    - Steam boiler and machinery or equipment breakdown endorsement – this endorsement is required if a building in the project has a central heating ventilation and cooling (HVAC) system and the coverage is available in the insurance market
      - The insurance limit per covered mechanical breakdown or equipment failure must equal the lesser of:
        - 100% of the replacement cost of the building housing the equipment, or
        - $2 million

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Property and Flood Insurance, Continued

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, (continued)

Freddie Mac LPA, continued

- **PUDs**, continued
  - If a higher limit is required by private mortgage investors for PUDs similar in construction, location and use, the PUD homeowners association must maintain the higher insurance limit.
  - **Deductible Amount**
    - The deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "building" in the insurance policy) may not exceed 5% of the limit maintained for building coverage.
    - If a master insurance policy deductible exceeds the 5% maximum due to a per unit deductible for named perils specific to a geographic area, the mortgage is eligible if the borrower's unit is covered by an owner's HO-6 policy. The borrower's owners policy must include the same perils as the master policy, cover master policy assessments levied on the unit owner and carry a sufficient coverage amount to cover the per unit amount over the permissible 5% limit. See the "Condominiums" section outlined below for an example of how to calculate sufficient coverage to meet the 5% maximum deductible requirement.
  - The insurance policy of the PUD homeowners association must name the insured in substantially the same language indicated below:
    - **For PUDs:** Association of Owners of the [Name of PUD] Planned Unit Development for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).
  - Mortgages secured by units in a PUD with a master insurance policy that combines insurance coverage for multiple unaffiliated PUDs are eligible for sale to Freddie Mac provided that each covered PUD has a dedicated policy limit and a specific dedicated deductible that does not exceed the requirements above. Also, the policy must clearly state that each association is a named insured. The policy limit needs to cover the full replacement cost required for the common elements, and to the extent required, the units. Additionally, the insurance policy must meet all requirements applicable to master insurance policies covering PUDs such as:
    - The insurance company underwriting the master policy must meet Freddie Mac insurance ratings requirements
    - The protected perils must include those normally covered in policies for similar types of PUDs; and
    - If applicable, the building ordinance or law endorsement and/or equipment breakdown endorsement
  - Projects that are under the same master association and/or share the use of common facilities, whether those facilities are individually owned or owned as part of a master association or development, are considered to be affiliated projects. Multiple projects that do not meet one of these criteria, even if they are under the management of the same management company, are not considered to be affiliated projects.

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Property and Flood Insurance, Continued

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, (continued)

Freddie Mac LPA, continued

- **Condominiums**
  - The project documents will define the insurance requirements for the homeowners association and the individual unit owner in a condominium project, including a detached condominium project and a 2- to 4-unit condominium project. The insurance requirements will define the extent to which the homeowners association will insure the individual units and the unit owner responsibility for individual insurance.
  - There are two acceptable options for unit coverage depending on what the governing documents indicate:
    - The condominium homeowners association must insure the building and structures in the condominium project as well as fixtures, machinery, equipment and supplies maintained for the service of the condominium project. To the extent required the homeowners association must also insure fixtures, improvements, alterations and equipment within the individual condominium units, regardless of ownership. To the extent the condominium homeowners association's policy does not cover the interior of the condominium unit or the improvements to the condominium unit, the borrower must maintain an HO-6 unit owner policy. Coverage for the HO-6 unit owner policy must be sufficient to repair the condominium unit to at least its condition prior to the claim.
    - If the project documents allow condominium unit owners to insure their condominium units individually, in lieu of a master policy, the mortgages secured by the condominium units are eligible for sale to Freddie Mac provided the requirements applicable to 1- to 4-unit properties are met. Common elements must be covered through the condominium homeowners association policy and the homeowners association must maintain all other applicable insurance coverages.

      Note: See the "Property Insurance Requirements for One-to Four-Unit Properties" subtopic previously presented in this topic for additional information on property insurance coverage for 1- to 4-unit properties.

Continued on next page

Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, (continued)

Freddie Mac LPA, continued

- **Condominiums**, continued
  - The master insurance policy coverage limit must be at least equal to 100% of the replacement cost value of the project's improvements, including common elements and residential structures, as of the current insurance policy effective date.
  - The lender/servicer must verify the coverage amount is not less than the minimum required as described above. The verification source may be (1) the replacement cost estimator utilized by the insurance carrier or the project's insurance risk appraisal; or (2) statement from property insurer, an independent insurance risk specialist, or other professional with appropriate resources to make such a determination.
  - The master insurance policy must provide for claims to be settled on a replacement cost basis. Policies that (1) provide for claims to be settled on an actual cash value basis, or (2) limit, depreciate, reduce or otherwise settle losses for less than a replacement cost basis are not eligible.
  - The master insurance policy must be written on a special coverage form or equivalent. The condominium homeowners association must also obtain any additional coverage commonly required by private mortgage investors for developments similar in construction, location and use, including the following:
    - Inflation guard endorsement – this endorsement is required when it is applicable to the coverage and available in the insurance market
    - Building ordinance or law endorsement – this endorsement is not required if the building is legally conforming under current building, zoning or land use laws, or is not available; however, it is required if the enforcement of any law or ordinance results in increased costs such as demolition or loss to the undamaged portions of the building and the coverage is available in the insurance market
    - Steam boiler and machinery or equipment breakdown endorsement – this endorsement is required if a building in the project has an HVAC system and the coverage is available in the insurance market
      - The insurance limit per covered mechanical breakdown or equipment failure must equal the lesser of:
        - 100% of the replacement cost of the building housing the equipment, or
        - $2 million
      - If a higher limit is required by private mortgage investors for condominium projects similar in construction, location and use, the condominium homeowners association must maintain the higher insurance limits.

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Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, (continued)

Freddie Mac LPA, continued

- **Condominiums**, continued
    - Condominium Association Coverage form or its equivalent, including the following provisions or comparable language:
        - Recognition of an Insurance Trustee (e.g., "If you name an insurance trustee, we will adjust losses with you, but we will pay the insurance trustee. If we pay the trustee, the payments will satisfy your claims against us.")
        - Waiver of Rights of Recovery (e.g., "We waive our rights to recover payment from any unit-owner of the condominium that is shown in the declarations.")
        - Unit-owner's Insurance (e.g., "A unit-owner may have other insurance covering the same property as this insurance. This insurance is intended to be primary, and not to contribute with such other insurance.")
    - **Deductible Amount**
        - The condominium homeowners association's policy deductible for fire, water (not caused by flooding) or wind damage to the insured improvements (generally designated as "building" in the insurance policy) may not exceed 5% of the limit maintained for building coverage.
        - If the deductible exceeds the 5% maximum due to a per unit deductible for named perils specific to a geographic area, the mortgage is eligible for sale to Freddie Mac if the borrower's unit is covered by an owner's HO-6 policy. The borrower's owner's policy must include the same perils as the condominium association's master policy, cover master policy assessments levied on the unit owner and carry a sufficient coverage amount to cover the per unit amount over the permissible 5% limit.
            - For example:

Condominium association policy limit:	$6,000,000
Number of units:	20
Condominium association policy deductible:	$80,000
Condominium association separate per unit deductible for ice dam coverage:	$40,000

- The master deductible of $80,000 is 1.33% of the building coverage ($80,000/$6,000,000) and does not exceed the 5% deductible requirement. However, the per unit deductible is 13.3% (($40,000 x 20 units)/$6,000,000)) which is above the 5% maximum requirement and the policy is not acceptable.
- The maximum per unit deductible needed to meet the 5% deductible requirement is $15,000 (($6,000,000/20) x .05)). To be eligible, the unit owner needs an HO-6 policy that would cover the $25,000 per unit coverage ($40,000 - $15,000 = $25,000).

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Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments, (continued)

Freddie Mac LPA, continued

- **Condominiums**, continued
  - **Deductible Amount**, continued
  - The insurance policy of the condominium homeowners association must name the insured in substantially the same language indicated below:
    - Association of Owners of the [Name of Condominium Project] Condominium for the use and benefit of the individual owners (designated by name, if required by law or the governing documents).
  - In the event the HO-6 unit owner policy is required, the policy must include the standard mortgage clause. See the "Mortgagee Clause for Property and Flood Insurance" section subsequently presented in this subtopic for mortgagee clause requirements.
  - Mortgages secured by a condominium unit in a condominium project with a master insurance policy that combines insurance coverage for multiple unaffiliated condominium projects are eligible for sale to Freddie Mac provided that each covered condominium project has a dedicated policy limit and a specific dedicated deductible that does not exceed the requirements above. Also, the policy must clearly state that each association is a named insured. The policy limit must cover the full replacement cost of the common elements, and to the extent required, the condominium units, as of the current insurance policy effective date. Additionally, the insurance policy must meet all requirements applicable to master insurance policies covering condominium projects such as:
    - The insurance company underwriting the master policy must meet Freddie Mac insurance ratings requirements;
    - The protected perils must include those normally covered in policies for similar types of condominium projects; and
    - If applicable, the building ordinance or law endorsement and/or equipment breakdown endorsement
  - Condominium projects that are under the same master association and/or share the use of common facilities, whether those facilities are individually owned or owned as part of a master association or development, are considered to be affiliated projects. Multiple condominium projects that do not meet one of these criteria, even if they are under the management of the same management company, are not considered to be affiliated projects.

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Liability Insurance Coverage Requirements for Condominiums

Non-AUS

- **Determining if General Liability Insurance is Required**
    - General liability insurance is required for all condo projects, with the following exceptions:
        - projects that qualify for a waiver of project review as described in the "Waiver of Project Review" subtopic outlined in Section 1.06 Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide*, or
        - condo projects reviewed under the Limited Review method as described in the "Limited Review Process (Fannie Mae)" requirements outlined in Section 1.06 Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide*.

- **Coverage Requirements**
    - When required, the HOA must maintain a general liability insurance policy for the entire project. The general liability insurance policy must include coverage for:
        - commercial spaces that are owned by the HOA, even if they are leased to others, and
        - bodily injury and property damage that results from the operation, maintenance, or the use of the project's common elements, and any other areas that are under its supervision.
    - The general liability insurance policy must include a separation of insureds or severability of interests provision in its terms. If the policy does not include separation of insureds or severability of interests in its terms, Fannie Mae requires a specific endorsement to preclude the insurer's denial of a unit owner's claim because of negligent acts of the HOA or of other unit owners.

- **Determining the Required Coverage Amount**
    - The amount of coverage must be at least $1 million for bodily injury and property damage for any single occurrence.

- **Named Insured**
    - The general liability insurance policy must designate the HOA as the named insured with the premiums paid as a common expense by the HOA.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Liability Insurance Coverage Requirements for Condominiums, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Liability insurance is required for all condominium projects, except the following:
  - Condominium projects reviewed under the Streamlined project review type
  - Condominium projects and condominium unit mortgages that meet the "Exempt from Review (Freddie Mac)" requirements outlined in the "Waiver of Project Review (Fannie Mae) / Exempt from Review (Freddie Mac)" subtopic presented in Section 1.06: Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide* and are delivered as the review type **Exempt from Review**
- The condominium homeowners association must maintain commercial general liability (CGL) insurance covering all common areas, common elements, commercial spaces and public ways in the condominium project.
- If not already included in the terms of the CGL coverage, there must be a "severability of interest" endorsement precluding the insurer's denial of a unit owner's claim because of negligent acts by the association or other unit owners.
- The insurer's limit of liability per occurrence for personal injury, bodily injury or property damage under the terms of the above coverages must be at least $1 million and the coverage must provide for claim settlements on an occurrence basis.

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Fidelity/Crime/ Employee Dishonesty Insurance Coverage Requirements for Condominiums

Non-AUS

- **Determining if Fidelity/Crime Insurance is Required**
  - Fidelity/crime insurance is required for all condo projects, with the following exceptions:
    - projects that qualify for a waiver of project review as described in the "Waiver of Project Review" subtopic outlined in Section 1.06 Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide*,
    - condo projects reviewed under the Limited Review method as described in the "Limited Review Process (Fannie Mae)" requirements outlined in Section 1.06 Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide*.
    - condo projects consisting of 20 units or less, or
    - condo projects that would need fidelity/crime insurance coverage of $5,000 or less (based on the calculations described in "Determining the Required Coverage Amount" below).

- **Coverage Requirements**
  - When required, the HOA must have fidelity/crime insurance coverage for the dishonest or fraudulent acts of anyone who either handles or is responsible for funds held or administered for the HOA. Fidelity/crime insurance is required whether or not that individual receives compensation for services rendered. Accordingly, the HOA fidelity/crime insurance policy must include coverage for the acts of any management agent.
  - A management agent that handles funds for the HOA should additionally be covered by its own fidelity/crime insurance policy, however, a fidelity/crime insurance policy maintained by the management agent (with the management agent as the named insured) is not an acceptable alternative for a fidelity/crime insurance policy in the HOA's name that provides coverage for the acts of all parties with access to their funds, including the management agent.

Continued on next page

Fidelity/Crime/ Employee Dishonesty Insurance Coverage Requirements for Condominiums, continued

Non-AUS, continued

- **Determining the Required Coverage Amount**
  - When fidelity/crime insurance is required, the lender must review the project legal documents or other source acceptable to the lender to verify whether the HOA and any associated management company adhere to one or more of the financial controls listed below:
    - Separate bank accounts are maintained for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the HOA.
    - The management company maintains separate records and bank accounts for each HOA that uses its services, and the management company does not have the authority to draw checks on, or transfer funds from, the reserve account of the HOA.
    - Two members of the Board of Directors must sign any checks written on the reserve account.
  - The following table describes how to determine the minimum required amount of fidelity/crime insurance.

If the HOA	Then the fidelity/crime insurance coverage amount must equal at least…
adheres to one or more of the financial controls above	the sum of three months of assessments on all units in the project.
does not adhere to one or more of the financial controls above	the maximum funds that are in the custody of the HOA, or its management agent, at any time.

Note: In states that have statutory fidelity/crime insurance requirements, Fannie Mae accepts those requirements in place of its own.

- **Named Insured**
  - The fidelity/crime insurance policy must designate the HOA as the named insured with premiums paid as a common expense by the HOA.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Fidelity/Crime/ Employee Dishonesty Insurance Coverage Requirements for Condominiums, (continued)	**Freddie Mac LPA** Follow LPA requirements, which are as follows: • Fidelity or employee dishonesty insurance is required for condominium projects, except the following: • Condominium projects reviewed under the Streamlined Project Review type • Condominium projects and condominium unit mortgages that meet the "Exempt from Review (Freddie Mac)" requirements outlined in the "Waiver of Project Review (Fannie Mae) / Exempt from Review (Freddie Mac)" subtopic presented in Section 1.06: Condominium and PUD Approval Requirements Standard of the *Correspondent Seller Guide* and are delivered as the review type **Exempt from Review** • Condominium projects consisting of 20 units or less • Condominium projects where the calculated amount of required coverage is less than or equal to $5,000 (based on the coverage requirement below) • Freddie Mac requires all condominium homeowners associations to obtain and maintain fidelity or employee dishonesty insurance that meets the terms and conditions of coverage detailed in this section. In states that require condominium homeowners associations to obtain and maintain fidelity or employee dishonesty insurance on terms or conditions different from Freddie Mac's, Freddie Mac will deem compliance with the state's requirements to be in compliance with Freddie Mac's requirements. • The condominium homeowners association must maintain fidelity or employee dishonesty insurance covering losses resulting from dishonest or fraudulent acts committed by directors, managers, trustees, employees or volunteers who manage the funds collected and held or administered for the condominium homeowners association. A professional management firm must be insured to the same extent as an association that manages its own operation. The management firm must submit evidence of such coverage or must be insured under the condominium homeowners association's policy. • Fidelity or employee dishonesty insurance coverage must have all of the following characteristics: • The policy must name the condominium homeowners association as the insured, and premiums must be paid as a common expense by the association. • The coverage must equal no less than the maximum amount of funds in the custody of the condominium homeowners association or the management firm at any one time. A lower coverage limit is acceptable if the project documents require the condominium homeowners association and any management firm to adhere to certain financial controls. However, in such case, the coverage limit must at least equal the sum of three months of assessments or maintenance fees on all units in the condominium project. • Freddie Mac will accept reduced fidelity or employee dishonesty insurance coverage based on greater financial controls if such controls include at least one of the following provisions: • The condominium homeowners association or management firm maintains separate accounts for the operating budget and the reserve fund. The depository institution in which funds are deposited sends copies of the monthly account statements directly to the association. • Separate records and accounts are maintained for each condominium homeowners association or other community association using the management firm's services. The management firm does not have the authority to draw checks on or to transfer funds from the reserve fund of the condominium homeowners association. • Two or more members of the board of directors must sign any checks drawn on the reserve fund.

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Property and Flood Insurance, Continued

Evidence of Property Insurance

Non-AUS

- **Overview**
  - Lenders must follow the requirements below for documenting and retaining evidence of property insurance policies:
    - The lender must verify the existence of a valid insurance policy that meets Fannie Mae's requirements.
    - The lender must retain acceptable evidence of insurance for each required policy, which includes sufficient information about the insurance policy, the subject property, and the borrower to ensure compliance with Fannie Mae's requirements for a first mortgage, unless the lender uses other evidence of insurance that Fannie Mae considers acceptable.

      Note: If a lender is unable to determine whether the applicable insurance policy meets Fannie Mae's requirements, the associated loan is not eligible for purchase by Fannie Mae.

    - The certificate, evidence or declarations of insurance must show at least the following information:
      - Name insured and mortgagee (where applicable, PUD or condominium owners association or fee simple landowner/lessor and PUD or Condominium unit or ground lease community mortgagee for all units in which the mortgagee has an insurable interest). See "Named Insured for Property and Flood Insurance" outlined below in this subtopic for additional information.
      - Property address
      - Type, amount and effective dates of coverage
      - Deductible amount and coverage to which each such deductible applies
      - Any endorsement or optional coverage obtained and made part of the original policy
      - Insurer's agreement to provide for at least 10 days' written notice to the named insured and mortgagee(s) before cancellation of the policy
      - Signature of an authorized representative of the insurer, if required by law

- **Certificates of Property Insurance**
  - A lender may accept a certificate of property insurance in lieu of a complete property insurance policy if the certificate includes all of the information needed for the lender to determine whether the insurance meets Fannie Mae's requirements. The certificate of property insurance must be signed by the insurer.

- **Master Property Insurance Policies for Project Developments**
  - When required, the lender must obtain a copy of the current master property insurance policy or a certificate of property insurance showing that the subject unit is covered under the master property insurance policy.

Continued on next page

Property and Flood Insurance, Continued

Evidence of Property Insurance, continued

Non-AUS, continued

- **Acceptance of Combined Insurance Policies**
  Truist provides the following clarifications:
  - Occasionally, a borrower will have a combined policy of various insurance types (i.e., hazard, automobile, jewelry, etc.). To comply with Regulation X/RESPA, Truist will accept combined insurance policies ***only if*** the premiums covering our mortgaged premises are billed separately (i.e., separate bill for hazard, separate bill for flood, etc.). In addition, Truist ***will only escrow and pay*** the insurance premiums for the portion that covers the mortgaged premises, including personal property categorized as "contents". Borrowers will be responsible for the payment of any additional premiums (i.e., for personal property such as furs, jewelry, electronics, automobile, etc.) included on the combined insurance policy. Failure of payment of the additional premiums by the borrower *may* result in cancellation of the entire policy, requiring forced-placed coverage for the mortgaged premises by the mortgage servicer.

- **Perpetual Homeowner's Insurance Policies**
  Truist provides the following clarification:
  - Perpetual homeowner's insurance policies are acceptable.
  - Perpetual policies are insurance policies where the insured has paid the premium in advance for the life of the risk. Once the policy is cancelled, the insured receives a refund of the full premium. The carrier uses the funds to invest and any funds paid out for any damage or repairs to the home will come from an investment fund. The policy has no expiration date.

- **Named Insured for Property and Flood Insurance**
  - The following table provides the requirements for the named insured on property and flood insurance policies.

Property Type	Requirement for Named Insured
One- to four unit properties Individual units in a project development	The individual property or flood insurance policy must name all persons holding title to the subject property as named insured to ensure the borrower(s) has full rights to the policy and Fannie Mae's interest or ability to receive benefits is not impaired.
Condo projects	The master property or flood insurance policy must designate the HOA as the named insured. If the condo's legal documents permit it, the master property or flood insurance policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured.
PUD projects	The master property or flood insurance policy must designate the HOA as the named insured.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

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Evidence of Property Insurance, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- For each property securing a mortgage owned by Freddie Mac, the lender must obtain evidence of all required insurance coverages in one of the following forms:
  - An original policy (including the Planned Unit Development (PUD) or condominium homeowners association or fee simple landowner/lessor's policy under which the required coverages may be provided in whole or in part) and applicable endorsements
  - A copy of the original policy and applicable endorsements
  - A certificate, evidence or declarations of insurance showing at least the following information:
    - Name insured and mortgagee (where applicable, PUD or condominium homeowners association, fee simple landowner/lessor and PUD, or condominium unit or ground lease community mortgagee for all units in which the mortgagee has an insurable interest)
    - Property address
    - Type, amount and effective dates of coverage
    - Deductible amount and coverage to which each such deductible applies
    - Any endorsement or optional coverage obtained and made part of the original policy
    - Insurer's agreement to provide at least 10 days' notice to the mortgagee (including any applicable PUD or condominium unit or ground lease community leasehold mortgagee) before any reduction in coverage or cancellation of the policy
    - Signature of an authorized representative of the insurer, if required by law

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Flood Insurance Coverage Requirements

Non-AUS

- **Determining if a Property Requires Flood Insurance**
  - The lender must ensure that the subject property is adequately protected by flood insurance when required. Flood insurance coverage is required when a loan is secured by a property located in:
    - a Special Flood Hazard Area (SFHA), or
    - a Coastal Barrier Resources System (CBRS) or Otherwise Protected Area (OPA).
  - The lender must determine whether the property is located in an SFHA, a CBRS, or an OPA by using the FEMA Standard Flood Hazard Determination form. All flood zones beginning with the letter "A" or "V" are considered SFHAs.

    Note: If the subject property is located within a CBRS or an OPA, flood insurance is required regardless of whether the property is located in an SFHA.

    Truist Note: The flood zone determination must be dated no more than 120 days before the note date of the mortgage.

  - Flood insurance is not required on a principal or residential detached structure securing the loan if the lender obtains a letter from FEMA stating that its maps have been amended and the structure is no longer in an SFHA.

    Truist Note: In all instances, a revised flood zone determination must be obtained removing the property from a special flood hazard area.

- **Determining if Flood Insurance is Required on Specific Structures**
  - The following table describes how to evaluate a property to determine if flood insurance is required. For these requirements, the "principal structure" is the primary residential structure on the subject property.

If . . .	Then flood insurance is . . .
any part of the principal structure is located within an SFHA	required.
the principal structure is not located within an SFHA, but a residential detached structure affixed to the land that serves as part of the security for the loan is located within the SFHA ***Truist's Definition of Residential Structure:*** A structure generally serves as a residence if it includes sleeping, bathroom, or kitchen facilities. A structure with more than one of these facilities may serve as an individual's residence. A structure with only one of these facilities would render the structure non-residential.	required for the residential detached structure.
the principal structure is not located within an SFHA, but a non-residential detached structure affixed to the land that serves as part of the security for the loan is located within the SFHA	not required on either structure.
the principal structure is not located within an SFHA, but a detached structure affixed to the land that does not serve as part of the security for the loan is located within the SFHA	not required on either structure.

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Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, continued

Non-AUS, continued

- **Community Eligibility**
  - If the lender determines that a principal or residential detached structure is located in an SFHA, but the community does not participate in the National Flood Insurance Program (NFIP), the loan is not eligible for purchase by Fannie Mae.
  - If the property is in a non-participating community and a CBRS or an OPA, it is only eligible for purchase by Fannie Mae if it is not located in an SFHA.
  - Loans secured by properties in the Emergency Program of the NFIP are eligible for purchase by Fannie Mae with coverage equivalent to the NFIP maximum that is available.

- **Acceptable Flood Insurance Policies**
  - The flood insurance policy must be one of the following:
    - a standard policy issued under the NFIP; or
    - a policy issued by a private insurer, provided:
      - the terms and amount of coverage are at least equal to that provided under an NFIP policy based on a review of the full policy issued by a private insurer, and
      - the insurer meets Fannie Mae's rating requirements as specified in "Property Insurer Rating Requirements" previously presented in the "General Property Insurance Requirements for All Property Types" subtopic within in this document.

    Truist Note: All private flood insurance policies must be approved by the Truist Compliance Department prior to loan purchase by Truist.

  - A Policy Declaration page is acceptable evidence of flood insurance.

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Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, continued

Non-AUS, continued

- **Maximum Coverage Limits Available under the National Flood Insurance Program**
  - Truist clarifies the current maximum coverage limits available under the NFIP, as outlined in the table below:

Program Type	NFIP Maximum Limit of Coverage
Regular Program	$250,000
Emergency Program	$35,000

- **Requirements for One- to Four-Unit Properties**
  - The minimum amount of flood insurance required for first mortgages must be equal to the lesser of:
    - 100% of the replacement cost value of the improvements,
    - the maximum coverage amount available from NFIP; or
    - the unpaid principal balance (UPB) of the loan (or loan amount at the time of origination).

      Truist Note: When determining the loan amount or UPB, the combined loan amount or UPB of the first and all subordinate mortgages must be considered.

  - See "Insurance Requirements for Renovation and Energy Improvement Loans" in the "Property Insurance Requirements for One-to Four-Unit Properties" subtopic previously presented in this document for additional information.
  - See "Mortgagee Clause for Property and Flood Insurance" subsequently presented in this document for mortgagee clause and notice of cancellation requirements. See "Evidence of Property Insurance" previously presented in this document for named insured requirements.

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Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, continued

Non-AUS, continued

- **Requirements for Project Developments**
  - When a loan is secured by a unit in an attached condo project and flood insurance is required as described in the "Determining if a Property Requires Flood Insurance" requirements previously presented in this subtopic, the lender must verify that the HOA maintains a master flood insurance policy with premiums paid as a common expense, unless otherwise indicated in the table below.
  - The following table provides additional requirements based on the project type.

Project Type	Coverage Requirements
Condo	The lender must verify that the HOA maintains a Residential Condominium Building Associated Policy (RCBAP) or equivalent private flood insurance coverage for a condo building consisting of attached units located within an SFHA. The only building that must be verified is the subject unit's building. Fannie Mae does not require evidence of a master flood insurance policy, provided the unit owner maintains an individual flood dwelling policy that meets the coverage requirements outlined in this document for the following loans or project types: • units in a two- to four-unit project, and • detached condo properties. The master flood insurance policy maintained by the HOA must cover the subject unit's: • entire building; and • all of the common elements and property, including machinery and equipment that are part of the building. The coverage amount for the building must be at least equal to the lesser of: • 80% of the replacement cost value[(1)], or • the maximum coverage amount available from NFIP per unit[(2)]. [(1)]If the master flood insurance policy meets the minimum coverage requirement of 80% of the replacement cost value, but the per unit coverage amount does not meet the requirement for loans secured by one- to four-unit properties, as described in "Requirements for One- to Four Unit Properties" above, the unit owner must maintain a supplemental policy for the difference. [(2)]If the commercial space of an attached condo is over 25%, coverage provided by the General Property Form (or equivalent coverage) is insufficient. A private flood insurance policy, or a private flood insurance policy in conjunction with a General Property Form policy (or equivalent coverage) must be maintained by the HOA to equate to coverage requirements for projects eligible for an RCBAP. The contents coverage must equal the lesser of: • 100% of the replacement cost value of all contents owned in common by the association members, or • the maximum coverage amount available from NFIP.

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Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, continued

Non-AUS, continued

- **Requirements for Project Developments**, continued

Project Type	Coverage Requirements
PUD	The lender must verify that each attached or detached individual PUD unit maintains a Dwelling Form policy or equivalent private flood insurance policy on the subject property. See "Requirements for One- to Four-Unit Properties" above for the required amount of coverage.

  - See "Evidence of Property Insurance" previously presented in this document for additional information on named insured requirements. See "Mortgagee Clause for Property and Flood Insurance" subsequently presented in this document for additional information on mortgagee clause and notice of cancellation requirements.

- **Deductible Requirements**
  - The following table describes the maximum deductible allowed by Fannie Mae for an NFIP or a private flood insurance policy.

Property Type	Deductible Requirement
One- to four-unit properties	The deductible must not exceed the maximum deductible amount currently offered by NFIP for one- to four-unit properties insured under an NFIP Dwelling Form.
Condo projects	The deductible must not exceed the maximum deductible amount currently offered by NFIP for condo projects insured by an RCBAP. This deductible requirement applies to all condo projects, regardless of the percentage of commercial space.
PUDs	The deductible on individual attached or detached PUD units must not exceed the maximum deductible amount currently offered by NFIP for one- to four-unit properties insured under an NFIP Dwelling Form.

Truist Note: Unless a higher maximum amount is required by state law, see the table below for the maximum allowable FEMA flood insurance deductibles. Lower deductibles are permitted.

Property Type	Maximum Allowable FEMA Deductible
Single-Family 1-4 Unit Dwelling	$10,000
Condominium Building	$25,000

- **Requirements During a National Flood Insurance Program Lapse**
  - The NFIP may lapse due to a shutdown of the federal government or if Congress does not renew the NFIP's authorization to issue new policies, increase coverage on existing policies, or issue renewal policies.

Continued on next page

Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, continued

Non-AUS, continued

- **Requirements During a National Flood Insurance Program Lapse,** continued
  - For the duration of such a lapse, a lender may deliver a loan where flood insurance is otherwise required without an active flood insurance policy provided the requirements below are met.
  - During the lapse, lenders must have a process in place to identify properties securing loans delivered without proper evidence of active flood insurance on the conditions that the borrower must provide acceptable evidence of:
    - a completed application for NFIP flood insurance and proof of the premium payment or the final settlement statement reflecting payment of the initial premium, or
    - the assignment of an existing NFIP flood insurance policy from the property seller to the purchaser.
  - The following table provides additional requirements that lenders must follow during the lapse.

✓	Lenders Must . . .
	Continue to make flood determinations, provide timely, complete and accurate notices to borrowers in accordance with applicable laws, and comply with all other flood insurance requirements.
	Take all steps (as permitted by applicable law) necessary to facilitate the issuance of coverage once the lapse has ended.
	Retain documentation to support acceptable evidence of flood insurance.

  - Refinance loans secured by properties where flood insurance is required typically already have acceptable flood insurance coverage in place at the time of closing. Specific requirements for refinance loans are listed below.

If a refinance loan . . .	Then the lender . . .
has acceptable flood insurance coverage in place at the time of closing that does not expire prior to sale to Fannie Mae	must be accurately reflected as the mortgagee named on the policy.
has a flood insurance policy that expires during the lapse and before sale to Fannie Mae	must follow all requirements in this topic adapted appropriately to a renewal.
requires more coverage as a result of the refinance	may deliver a loan on the condition that the borrower provide acceptable evidence of an endorsement request and proof of the additional premium payment.

Continued on next page

Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, continued

Non-AUS, continued

- **Requirements During a National Flood Insurance Program Lapse,** continued
  - When delivering loans affected by a lapse of the NFIP, lenders must provide all applicable loan delivery data elements as if a required flood insurance policy was in place.
  - The lender remains obligated for all selling representations and warranties concerning the existence of a standard policy issued under the NFIP or an equivalent private flood insurance policy.

    Note: Fannie Mae accepts flood insurance policies from private insurers as listed in "Acceptable Flood Insurance Policies," but such private flood insurance policy coverage is not a required alternative in the event of a lapse of NFIP coverage.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Determining if a Property Requires Flood Insurance**
  - A flood zone determination (FZD) must be made for each property securing a mortgage sold to Freddie Mac.
  - An FZD must be documented by a completed FEMA Standard Flood Hazard Determination Form, FEMA Form 086-0-032 (Exhibit 13, Standard Flood Hazard Determination Form [SFHDF]) in accordance with federal law. The SFHDF may be used in a printed, computerized or electronic manner and must be retained for the life of the mortgage in either hard copy or electronic format. Any alternative electronic format must contain all mandatory fields indicated on the SFHDF.
  - The loan number or other identifying information in the "Loan Identifier" field on the SFHDF must be the loan number or other identifying information for the mortgage or, if applicable, the refinance mortgage.
  - The lender/servicer warrants that any FZD made by a party other than the lender/servicer is guaranteed by the FZD maker to be accurate, in accordance with federal law. The lender/servicer, however, remains responsible to Freddie Mac for the accuracy of any FZD made by the lender/servicer or any party other than the lender/servicer.

    Truist Note: The flood zone determination must be dated no more than 120 days before the note date of the mortgage.

  - If the SFHDF identifies the insurable improvements on the mortgaged premises as located in an area that has been identified as a Special Flood Hazard Area (SFHA) containing the letter "A" or "V" within its designated zone on a flood map (Flood Hazard Boundary Map or Flood Insurance Rate Map) of FEMA, the lender/servicer must ensure that flood insurance is obtained and maintained on such improvements for the term of the mortgage.

Continued on next page

Flood Insurance Coverage Requirements, (continued)

Freddie Mac LPA, continued

- **Determining if a Property Requires Flood Insurance**, continued
  - The lender/servicer may waive or discontinue the flood insurance requirement if:
    - The borrower and the lender/servicer have obtained, following a joint request to FEMA as provided under federal law, a Letter of Determination Review (LODR) concluding that the insurable improvements are not in the SFHA, or
    - The borrower has provided the lender/servicer with a Letter of Map Amendment (LOMA) from FEMA excluding the insurable improvements or the entire property from the SFHA, or
    - The borrower has provided the lender/servicer with a Letter of Map Revision (LOMR) from FEMA removing the community's SFHA designation

    Truist Note: In all instances, a revised flood zone determination must be obtained removing the property from a special flood hazard area.

  - The borrower must maintain flood insurance on the insurable improvements until FEMA issues a LOMA, LOMR or LODR. Upon issuance of a LOMA, LOMR or LODR, the borrower may request from FEMA a refund of paid flood insurance premiums through the insurance agent servicing the flood insurance policy. A copy of the LOMA, LOMR or LODR, as applicable, must be maintained in the mortgage file.
  - If the insurable improvements on the mortgaged premises are located in an SFHA but the community does not participate in the National Flood Insurance Program (NFIP) ("nonparticipating community"), the mortgage is not eligible for sale to Freddie Mac.
  - If the insurable improvements on the mortgaged premises are located in an area that has not been mapped by FEMA and the lender/servicer is not aware of any flood risks to which the improvements are exposed, the mortgage is eligible for sale to Freddie Mac without the benefit of flood insurance. If the area has not been mapped by FEMA but the lender/servicer is aware that the insurable improvements are exposed to flood risks, the mortgage is not eligible for sale to Freddie Mac without flood insurance on the improvements.

- **Acceptable Flood Insurance Policies**
  - The flood insurance policy may be one of the following:
    - A standard policy issued by the NFIP, or
    - A policy issued by a private insurer that is qualified under the "General Property Insurance Requirements" section, with at least equivalent terms and conditions to the standard NFIP policy for the types of improvements insured, including coverage, deductibles and exclusions and conditions offered.

Continued on next page

Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, (continued)

Freddie Mac LPA, continued

- **Maximum Coverage Limits Available under the National Flood Insurance Program**
  - Truist clarifies the current maximum coverage limits available under the NFIP, as outlined in the table below:

Program Type	NFIP Maximum Limit of Coverage
Regular Program	$250,000
Emergency Program	$35,000

- **Insurable Value**
  - Truist provides the following clarifications regarding "insurable value."
    - Per Regulation H, flood insurance coverage under the NFIP is limited to the building and any personal property that secures the loan and not the land itself.
    - The insurable value of a building is the overall value of a property ***minus*** the value of the land on which the property is located.
    - To establish the insurable value, use the ***greater of*** the below values:
      - **Appraisal -** *Total Estimated Cost New* from the cost approach section of the appraisal:
        - Less line amount for clearly identified uninsurables. These are recorded on one of the section blank lines with a total,

          Examples: Pool, porch, patio, fence, fireplace, deck, outside bath, balconies, piers, boathouse, appliances, ceiling fans, drapes, central air/heat and generators.

        - Less the value recorded for a non-garage, detached structure (for example: garage apartment, guesthouse, workshop, horse barn, etc.).
      - **Homeowners Policy -** *Building Coverage Amount* from the homeowners policy declaration page or application for insurance

    Note: If the agent disagrees with the calculated required amount of flood coverage, a written certification of the "maximum insurable value" is acceptable and replaces the above calculation. The certification can be by mail with full signature line or on the agent's letterhead and signed by the agent.

    Certification Statement: The maximum insurable value of the house (structure type) is $____________________.

Continued on next page

Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, (continued)

- **Coverage Required**
  - **1- to 4-unit properties**
    - If the community where the mortgaged premises are located participates in the Emergency Program of the NFIP, the flood insurance coverage on the insurable improvements must at least equal the lowest of the following:
      - The UPB of the mortgage

        Truist Note: When determining the unpaid principal balance of the mortgage, the combined unpaid principal balance of the first and all subordinate mortgages must be considered.

      - The maximum amount of coverage currently sold under the Emergency Program of the NFIP for the type of improvements insured
      - The replacement cost of the insurable improvements (see the "Insurable Value" section outlined above for additional information)

      Note: The lender/servicer must ensure that the borrower increases flood insurance coverage on the insurable improvements when the community moves into the Regular Program of the NFIP as described below.

    - If the community where the mortgaged premises are located participates in the Regular Program of the NFIP, the flood insurance coverage on the insurable improvements must at least equal the lowest of the following:
      - The UPB of the mortgage

        Truist Note: When determining the unpaid principal balance of the mortgage, the combined unpaid principal balance of the first and all subordinate mortgages must be considered.

      - The maximum amount of coverage currently sold under the Regular Program of the NFIP for the type of improvements insured
      - The replacement cost of the insurable improvements (see the "Insurable Value" section outlined above for additional information)

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Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, (continued)

Freddie Mac LPA, continued

- **1- to 4-unit properties**, continued
  - The deductible may not exceed the maximum deductible amount currently allowed under the NFIP for the type of improvements insured.

    Truist Note: Unless a higher maximum amount is required by state law, see the table below for the maximum allowable FEMA flood insurance deductible. Lower deductibles are permitted.

Property Type	Maximum Allowable FEMA Deductible
Single-Family 1-4 Unit Dwelling	$10,000

  - For 1- to 4-unit properties, the lender/servicer may waive the flood insurance requirements for structures on the mortgaged premises that are detached from the primary residential structure and do not serve as a residence.
    - ***Truist's Definition of Residential Structure:*** A structure generally serves as a residence if it includes sleeping, bathroom, or kitchen facilities. A structure with more than one of these facilities may serve as an individual's residence. A structure with only one of these facilities would render the structure non-residential.

- **PUD or Ground Lease Community Units**
  - Flood insurance requirements for 1- to 4-unit properties apply to similar residential properties within a PUD or ground lease community.

Continued on next page

Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, (continued)

Freddie Mac LPA, continued

- **Condominium Units**
  - Flood insurance requirements for 1- to 4-unit properties apply to similar residential properties in a 2- to 4-unit condominium project or detached condominium project.

    Truist Note: The acceptability of insuring a detached condominium with an individual dwelling form flood insurance policy may be subject to a review of the project's legal documents to determine whether or not the entire structure of the building is contained within the boundaries of the "unit", or the structure of the building is considered to be a "common element."

  - If the condominium unit securing a mortgage sold to or serviced for Freddie Mac is in a building in a condominium project other than a 2- to 4-unit condominium project or detached condominium project and all or part of the building is in an SFHA, the following flood insurance coverage, as applicable, is required:
    - **Condominium Homeowners Association's Coverage**
      - The condominium homeowners association must maintain building coverage on the building for the lower of (i) 80% of the building's replacement cost or (ii) the maximum coverage amount available from the NFIP per unit.
      - The condominium owners association must maintain contents coverage on the building for the lower of (i) the actual cash value of the contents in the building that are owned in common by the association members or (ii) the maximum amount of contents coverage sold by the NFIP for a condominium building.
      - The deductible of the condominium owners association's coverage may not exceed the maximum deductible amount currently allowed under the NFIP for condominium association building coverage. The deductible for association building contents may not exceed the maximum deductible amount currently allowed under the NFIP for association building contents.

        Truist Note: Unless a higher maximum amount is required by state law, see the table below for the maximum allowable FEMA flood insurance deductibles. Lower deductibles are permitted.

Property Type	Maximum Allowable FEMA Deductible
Condominium Building	$25,000

Continued on next page

Property and Flood Insurance, Continued

Flood Insurance Coverage Requirements, (continued)

Freddie Mac LPA, continued

- **Condominium Units,** continued
    - **Unit Owner's Coverage**
        - To the extent the condominium owners association's building coverage meets the minimum requirements above, but the condominium unit allocation does not meet the 1- to 4-unit coverage requirement, the borrower must maintain supplemental coverage on the condominium unit. The coverage must be at least equal to the difference between the condominium associations' building coverage allocated to that condominium unit and the amount required on a 1- to 4-unit property.
        - The deductible may not exceed the maximum deductible allowed for a 1- to 4-unit property.

Rent Loss Insurance

Non-AUS
Rent loss insurance is not required.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- Rent loss insurance is not required.

Mortgagee Clause for Property and Flood Insurance

Non-AUS
- **Mortgage Clause for Property and Flood Insurance**
    - The following requirements apply to individual property and flood insurance policies maintained by the borrower and do not apply to master property and flood insurance policies for project developments.
    - Fannie Mae must not be named in the mortgagee clause unless the coverage or its interest would be impaired by Fannie Mae not being named. If Fannie Mae is named, the clause must read: "Fannie Mae, in care of (insert servicer's name and address here)." This ensures that all matters related to the applicable insurance policy are referred directly to the servicer and not to Fannie Mae.
    - When Fannie Mae is not named in the mortgagee clause, the lender's name, followed by the phrase "its successors and/or assigns," and mailing address must be shown as the mortgagee. If the lender is not the servicer, the servicer's name, followed by "its successors and/or assigns," and mailing address must be specified. In all cases, the insurer must be instructed to send all correspondence, policies, and bills to the servicer (or to both the first and second mortgage servicers).
    - If the mortgage is registered with MERS and is originated naming MERS as the original mortgagee of record, MERS must not be named as mortgagee or loss payee on any property insurance policy. The mortgagee clause must name the servicer (unless Fannie Mae must be named because the coverage or its interest would be impaired as mentioned above).

Continued on next page

Property and Flood Insurance, Continued

Mortgagee Clause for Property and Flood Insurance, continued

Non-AUS, continued

- **Mortgage Clause for Property and Flood Insurance**, continued
  - The following table provides additional requirements for mortgagee clauses.

Property Type	Mortgagee Clause Requirements
One- to four-unit property	The applicable insurance policy must include (or have attached) a "standard" or "union" mortgagee clause (without contribution) in the form customarily used in the area in which the property is located. A loss payable clause in lieu of a mortgagee clause is not acceptable. **Notes**: Truist's mortgagee clause is as follows: Truist Bank, its successors and/or assigns (ISAOA) P.O. Box 7952 Springfield, OH 45501-7952 • It is acceptable for the mortgagee clause to include As Their Interest May Appear (ATIMA) in addition to Its Successors And/Or Assigns (ISAOA); however, the As Their Interest May Appear (ATIMA) language is not required to be present. • Its Successors And/Or Assigns (ISAOA) is required to be present. • It is acceptable for ISAOA to be spelled out: Its Successors And/Or Assigns.
Unit in a project development	If a unit owner maintains an individual property insurance policy (as indicated by the project's legal documents) or if an individual property insurance policy is required in accordance with "Determining if a Master Property Insurance Policy is Required" requirements (previously presented in the "Property Insurance Coverage Requirements for Units in Condominium and PUD Project Developments" subtopic) for interior coverage, it must include the standard mortgagee clause as defined above. If an individual flood insurance policy is required in accordance with "Requirements for Project Developments" previously outlined in the "Flood Insurance Coverage Requirements" subtopic, it must include the standard mortgagee clause as defined above. A mortgagee clause naming Fannie Mae, the lender, or the servicer is not required for a master property insurance policy, an NFIP RCBAP, or equivalent master flood insurance policy issued by a private insurer.

- **Named Insured for Property and Flood Insurance**
  - See "Evidence of Property Insurance" previously outlined in this document for requirements.

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Property and Flood Insurance, Continued

Mortgagee Clause for Property and Flood Insurance, continued

Non-AUS, continued

- **Notice of Cancellation for Property Insurance**
  - The following requirements apply to individual property insurance policies maintained by the borrower and do not apply to master property insurance policies for project developments.
  - The following table provides the requirements for notice of cancellation on property insurance policies.

Property Type	Requirement for Notice of Cancellation
One- to four-unit properties	The property insurance policy must provide for at least 10 days' written notice to the named insured and mortgagee(s) before the insurer can cancel the policy.
Individual units in a project development	

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- All policies documenting insurance coverage(s) obtained in accordance with Freddie Mac's requirements for 1- to 4-unit properties must have the insurance industry's standard mortgage clause. Such clause must provide that the insurer will notify the named mortgagee at least 10 days before cancellation of the policy.

  Truist Note: All flood policies must meet NFIP written notice of cancellation or non-renewal timeframe requirements.

- If the mortgage is owned by Freddie Mac, "(name of lender/servicer), its successors and assigns" should be named as mortgagee instead of Federal Home Loan Mortgage Corporation.

  Notes: Truist's mortgagee clause is as follows:

  Truist Bank, its successors and/or assigns
  (ISAOA)
  P.O. Box 7952
  Springfield, OH 45501-7952

  - It is acceptable for the mortgagee clause to include As Their Interest May Appear (ATIMA) in addition to Its Successors And/Or Assigns (ISAOA); however, the As Their Interest May Appear (ATIMA) language is not required to be present.
  - Its Successors And/Or Assigns (ISAOA) is required to be present.
  - It is acceptable for ISAOA to be spelled out: Its Successors And/Or Assigns.

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Property and Flood Insurance, Continued

Mortgagee Clause for Property and Flood Insurance, continued

Freddie Mac LPA, continued

- If the Federal Home Loan Mortgage Corporation must be named as mortgagee, the endorsement must show the lender's address in lieu of Freddie Mac's, as shown in the example below:

  FEDERAL HOME LOAN MORTGAGE CORPORATION
  C/O ABC SAVINGS AND LOAN ASSOCIATION
  100 MAIN STREET
  HOMETOWN USA 12345

- If the mortgage is registered with MERS® and is originated naming MERS as the original mortgagee of record, under no circumstances may MERS be named as loss payee on any property insurance policy.
- Regardless of how the mortgage clause is endorsed, or if the mortgage is registered with MERS, the lender/servicer must arrange for all insurance drafts, notices, policies, invoices, etc. to be delivered directly to the lender/servicer. Although the MERS address appears in county land records, the address for MERS must not be given to organizations that normally direct mail to the lender/servicer or subservicer.
- When a mortgage clause is not applicable (e.g., in a separate policy of commercial general liability), a certificate of insurance must be provided to the lender/servicer. This certificate must contain the information required for certificates or other evidence of insurance, with the lender/servicer named as certificate holder instead of mortgagee.

Localized Perils Insurance

Non-AUS

- Truist clarifies that if the lender becomes aware of localized perils (i.e., sinkhole, mine subsidence, volcanic eruption, landslides) that are not covered by standard property insurance, then the lender must require the borrower to obtain appropriate insurance coverage in accordance with the terms of the security instrument and applicable law.
- See "Coverage Requirements" in the "Property Insurance Requirements for One-to Four-Unit Properties" subtopic previously presented in this topic for additional guidance related to property insurance policy/coverage requirements for perils.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- If the lender/servicer becomes aware of localized perils (i.e., sinkhole, mine subsidence, volcanic eruption, landslides) that are not covered by standard property insurance, then the lender must require the borrower to obtain appropriate insurance coverage in accordance with the terms of the security instrument and applicable law.

Underwriting the Borrower

Non-AUS Loans

- **Overview**
  - Lenders that choose to manually underwrite a mortgage application are expected to follow the comprehensive risk assessment approach. Under this approach, lenders evaluate certain key risk elements to assess the overall level of delinquency risk.

    Note: Lenders with Level II underwriting authority must submit loans to Truist whenever manual underwriting is required.

  - Lenders are fully responsible for:
    - evaluating the delinquency risk of each loan;
    - reviewing the credit report, as well as all other credit information, to determine that the credit report meets Fannie Mae's requirements, that the data evaluated was accurate, and that the borrower has the capacity to repay the mortgage loan;
    - assessing the adequacy of the property as collateral for the mortgage requested;
    - determining whether or not the loan meets Fannie Mae's eligibility requirements as fully described in this Guide;
    - determining whether or not it is appropriate to deliver the mortgage loan to Fannie Mae; and
    - fully documenting the assessment and the documentation on which the assessment was based.

- **Comprehensive Risk Assessment**
  - Lenders must evaluate the overall level of serious delinquency risk that is present in each mortgage application by taking into consideration any layering of risk factors, the significance of risk factors, and the overall risks present in the mortgage application. A review of the following terms provides a solid foundation for assessing the risk of a manually underwritten loan,
    - LTV, TLTV, and HTLTV ratios ("LTV ratios");
    - credit score;
    - occupancy;
    - loan purpose;
    - loan amortization type;
    - property type and number of units;
    - product type (if applicable);
    - debt-to-income (DTI) ratio; and
    - financial reserves.
  - The lender's determination of the mortgage delinquency risk, the assessment of the adequacy of the property as security for the mortgage, the determination of whether the mortgage satisfies mortgage eligibility criteria, and the acceptability of the documentation in the mortgage file should all enter into the decision on whether the mortgage is eligible.
  - The lender must fully document the results of its comprehensive risk assessment and final underwriting decision, and ensure that the information used to reach its comprehensive risk assessment is valid, accurate, and substantiated.
  - The *Uniform Underwriting and Transmittal Summary* (Form 1008) summarizes key data from the loan application package. Lenders use this information in reaching the underwriting decision. Form 1008 (or a similar document) must be retained in the mortgage file for manually underwritten mortgage loans.

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Fannie Mae DU Loans

Fannie Mae DU

Follow DU requirements, which are as follows:

- **Overview**
  - For a more precise or definitive recommendation for determining whether to deliver a given mortgage to Fannie Mae, the lender should submit the mortgage application to DU.
  - Fannie Mae's automated underwriting system, Desktop Underwriter (DU), evaluates mortgage delinquency risk and arrives at an underwriting recommendation by relying on a comprehensive examination of the primary and contributory risk factors in a mortgage application. See the "Risk Factors Evaluated by DU" section below for additional details. It analyzes the information in the loan casefile to reach an overall credit risk assessment to determine eligibility for delivery.
  - No one factor determines a borrower's ability or willingness to make his or her mortgage payments. DU identifies low-risk factors that can offset high-risk factors. When several high-risk factors are present in a loan casefile without sufficient offsets, the likelihood of serious delinquency increases.
  - DU conducts its analysis uniformly, and without regard to race, gender, or other prohibited factors. DU uses validated, statistically significant variables that have been shown to be predictive of mortgage delinquency across all groups.
  - DU does not evaluate a loan's compliance with federal and state laws and regulations including, without limitation, a loan's potential status as a qualified mortgage under applicable laws and regulations. Lenders bear sole responsibility for complying with applicable laws and regulations, and these compliance obligations may not be imposed upon or shared by Fannie Mae.

- **Underwriting with DU**
  - Loans may be submitted to DU before or after the closing of the mortgage loan; however, the first submission to DU for underwriting purposes must occur before closing of the mortgage loan.
  - When the mortgage loan or borrower information changes and it no longer matches the information used when the loan casefile was last underwritten with DU, the lender must update the data and resubmit the loan casefile to DU. Exceptions are specified in the "Ensuring DU Data and Delivery Information Accuracy" section subsequently presented in this subtopic.
  - When the loan casefile is resubmitted to DU after closing and prior to delivery to Fannie Mae, the lender is responsible for ensuring that:
    - all information provided in the final submission to DU matches the terms of the closed loan;
    - the loan delivery data matches both the closed loan and the final data submitted to DU; and
    - the loan casefile receives an eligible recommendation from DU on the final submission.

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Underwriting the Borrower, Continued

Fannie Mae DU Loans, continued

- **Underwriting with DU,** continued
  - The lender may request a new credit report after closing when the loan casefile is resubmitted and, as with all loan casefiles, must comply with the Fair Credit Reporting Act with regard to the purpose and nature of the inquiry. If the new credit report contains information that is different than the information used to prepare the final loan application that was signed by the borrower at closing, the loan application must be updated. (Borrower signature(s) are not required due to the update occurring post-closing.) The lender must include both the final signed and the updated unsigned loan applications in the loan file.

    Note: The credit report must meet the allowable age of documents as of the note date. If the credit report expired prior to the note date and the loan casefile is being resubmitted to DU, a new credit report must be requested.

  - In certain instances, the lender may not be able to access the original DU loan casefile for resubmission purposes. Lenders may create a new loan casefile in DU after closing to ensure that all information in the final DU submission matches the terms of the closed loan, provided all of the following conditions are met:
    - the above lender responsibilities are met, including the updating of the final loan application, if applicable;
    - the loan has not yet been delivered to Fannie Mae;
    - the loan has the same information (for example, the same borrower(s) and property) as had previously been underwritten through DU prior to closing using another loan casefile, and that loan casefile received an eligible recommendation from DU;
    - the lender retains the DU Underwriting Findings Report from the original loan casefile ID in the loan file;
    - the DU submission using the new loan casefile occurs no more than 60 days after closing (based on the note date) or 12 months after initial closing for single-closing construction-to-permanent loans; and
    - as stated above, when a new credit report is requested, the lender complies with the Fair Credit Reporting Act.
  - If the resubmission to DU results in an “ineligible” recommendation, the mortgage loan may not be delivered to Fannie Mae.

Continued on next page

Fannie Mae DU Loans, continued

- **DU Underwriting Reports**
  - DU issues two types of reports:
    - The DU Underwriting Findings report summarizes the overall underwriting recommendation and eligibility component of the loan casefile and lists certain steps necessary for the lender to complete the processing of the loan file. This is typically the first report viewed by an underwriter or a loan officer after the loan casefile has been underwritten with DU.
      - Specific messages are provided for each individual loan casefile. These detailed messages are designed to assist lenders in processing and closing loans. However, the level of documentation recommended by DU may not be adequate for every borrower and every situation.
      - The DU Underwriting Findings report is divided into sections. Each section contains a different type of message. Certain messages will be provided based on the DU credit risk assessment. For example, some messages are returned only on Approve recommendations, while other messages are returned only on Refer with Caution recommendations.
      - The Underwriting Analysis report contains much of the same information requested on the Uniform Underwriting and Transmittal Summary (Form 1008).
  - Each time a loan casefile is resubmitted to DU, the information in these reports is updated with information from the most recent submission. The date and time of each submission are recorded on each report, along with the unique loan casefile ID.

- **Loan Casefile Archival Requirements**
  - DU loan casefiles are archived and no longer retained in DU from the earlier of:
    - 270 days from the date on which the loan casefile was last updated, or
    - 540 days from the date on which the loan casefile was created.
  - These time frames are intended to ensure that the total volume of loans in the system is at a manageable level, reducing the time required by DU to search for and retrieve loan casefiles.
  - After a loan casefile is archived from DU, it cannot be restored. If a loan casefile that has been archived must be re-underwritten, a new loan casefile must be created and submitted to DU. The loan casefile will be subject to the requirements in effect for the current version of DU. Fannie Mae is not responsible for retaining loan casefiles for the lender.

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Fannie Mae DU Loans, continued

- **General Lender Requirements**
  - When underwriting loans with DU, the lender must:
    - employ prudent underwriting judgment in assessing whether a loan casefile should be approved and delivered to Fannie Mae;
    - confirm the accuracy of the data it submits, making sure that it 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
    - 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 DU delivered.
  - For example, if a foreclosure was reported in the credit report but was not detected by DU (that is, it was not referenced in any verification messages), the lender must determine if the loan complies with the applicable requirements.

- **DU Validation Service**
  - **General Information**
    - The DU validation service offers lenders an opportunity to deliver loans with more certainty. Certain components of the loan file - income, employment, and assets - are eligible for validation by DU using electronic verification reports obtained from vendors. When a component of the loan is validated by DU, the loan may be eligible for representation and warranty enforcement relief related to that component.
    - The DU validation service is an optional service available only for conventional loans underwritten through DU. Lenders are not required to participate in the DU validation service in order for a loan to be underwritten through DU, and may not require a borrower to participate in the DU Validation Service

  - **Authorized Vendors and Verification Reports**
    - A lender may obtain a verification report directly from a "report supplier" or from a "report distributor" as described below:
      - Report suppliers have entered into an agreement with Fannie Mae to participate in the DU validation service. Report suppliers generate the report and send the report data electronically to the DU validation service. This report reflects the report supplier's name and/or logo.
      - Report distributors have not entered into an agreement with Fannie Mae, but have an agreement with an eligible report supplier. The report supplier (not the distributor) sends the report data electronically to the DU validation service. The verification report reflects both the report distributor's name and the name and/or logo of the applicable report supplier.

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Fannie Mae DU Loans, continued

- **DU Validation Services, continued**
  - **Authorized Vendors and Verification Reports**, continued
    - The DU Validation Service Verification Report Vendors list provides a listing of authorized report suppliers and report distributors and is available on Fannie Mae's website.
  - **Asset Verification Reports**
    - Asset verification reports provided by third-party vendors may include:
      - a 30- or 60-day report;
      - data covering up to 12 months (or more) of asset account data;
      - a report showing a subset of information typically found on an asset verification report (for example, deposit transaction information with no corresponding amount or account balance) intended to be used to verify employment using direct deposit transactions (a "supplemental asset report").
    - To validate income or employment using an asset verification report, the lender must order an asset verification report with a minimum of 12 months of data from an authorized vendor.
  - **Lender Requirements**
    - No special approval is required from Fannie Mae to use the DU Validation service, however, lenders must "opt-in" to validate income and employment using an asset verification report.
    - When a lender provides the required reports, all loans that are submitted to DU will automatically be assessed through the DU Validation service for validation of the related component.
    - To participate in the DU validation service, the lender must:
      - have a relationship with, and have entered into a contract for the services provided by, a vendor(s) –either a report supplier or a report distributor – that is authorized to obtain a verification report;
      - have an agreement with a vendor(s) that:
        - allows for the report supplier to share the information contained within the verification report (obtained by the lender) with Fannie Mae electronically for use by the DU validation service; and
        - ensures the lender receives, or has access to, the same data that is shared with Fannie Mae electronically, and
      - establish controls to manage and monitor the vendors in accordance with its own regulatory requirements.
    - For loans assessed by the DU validation service, the lender must:
      - obtain borrower authorization to receive the information from the vendor;
      - confirm that the verification report matches the borrower;
      - ensure information entered by the lender 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 the lender obtains an updated verification report, the lender must resubmit the loan to DU and receive a message that the component has been validated in order for the representation and warranty enforcement relief to apply.

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Underwriting the Borrower, Continued

Fannie Mae DU Loans, continued

- **DU Validation Services, continued**
  - **Validation Results**
    - When a component of the loan file is assessed by the DU validation service, three results are possible: validated, not validated, or unable to be validated. DU will issue a message providing the validation results.
    - **Validated**
      - DU has determined that the information provided on the verification report supports the information entered into DU for the component being validated.
      - The DU message(s) will indicate that the verification report is acceptable documentation to support the component that has been validated.
    - **Not Validated**
      - DU has determined that the information provided on the verification report does not fully support the information entered into DU for the component of the loan file eligible for validation.
      - The DU message(s) will indicate what documentation, in addition to the verification report, is required.
    - **Unable to Validate**
      - DU is unable to validate the information entered into DU for the component eligible for validation. This could be due to DU's inability to access the verification report data, or insufficient data in the report.
      - The DU message(s) will indicate what documentation is required.

        Note: Regardless of the validation result, DU will continue to use the information provided by the lender in determining the DU underwriting recommendation. The results of the validation service do not override, impact, or alter any information submitted by the lender.

  - **Income Validation**
    - 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 required. For all eligible income types, the lender must determine the income type, amount, and source and enter this information in the applicable field in DU.

      Note: Income types not listed below are not eligible for income validation by DU.

Eligible Income Types	Eligible Verification Report
Base (non-self-employed) Bonus Overtime Commission	• Asset Verification Report • Employment and Income Verification Report
Alimony	• Asset Verification Report
Child Support	• Asset Verification Report
Military Income	• Asset Verification Report
Retirement (pension)	• Asset Verification Report • Tax Return Transcript (Taxpayer Tax Return Summary Report)
Social Security (retirement, disability, supplemental, survivor benefits)	• Asset Verification Report • Tax Return Transcript (Taxpayer Tax Return Summary Report)
Self-employed (IRS Form 1040 Schedules C or C-EZ for sole proprietorships only)	• Tax Return Transcript (Taxpayer Tax Return Summary Report)
VA Benefits (non-educational)	• Asset Verification Report

Note: Additional supporting documentation may be required for some income types (such as child support or alimony).

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Underwriting the Borrower, Continued

Fannie Mae DU Loans, continued

- **DU Validation Services, continued**
  - **Income Validation**, continued
    - **Income - Additional Information**
      - The following additional information applies to income validated by DU:
        - If an employment and income verification report is used, the vendor must obtain income information using data obtained from the report supplier's existing database of employer-provided information.
        - All income or direct deposit amounts shown on the income or asset verification report must be reflected in U.S. dollars.
        - When DU validates income, the lender:
          - is not required to determine if the borrower is employed by a family member or interested parties to the property sale or purchase.
          - must continue to obtain employment verification as described in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic in the "Income" topic previously presented in this document.

            Note: The verification report may contain sufficient information to satisfy this requirement. See "Employment - Additional Information" below for guidance.

          - must review the verification report relied upon by DU for validation, and:
            - investigate and resolve any conflicting or contradictory information, and
            - when an asset verification report is used to validate income, the lender must confirm that the borrower is listed as an owner of the asset account and that the report reflects the borrower's name as account holder. The lender need only review the report covering the period of time (30- or 60-days) required for asset verification for the transaction type, or if no asset verification is required for the transaction, the account activity covering the most recent 30-day period, for these purposes.

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Fannie Mae DU Loans, continued

- **DU Validation Services, continued**
  - **Income Validation**, continued
    - **Age of Income Document Requirements**
      - **Asset Verification Reports and Employment and Income Verification Reports**: The date of the report must comply with standard age of credit document requirements as outlined in the "Allowable Age of Credit Documents" requirements previously presented in the "Income" topic.
      - **Tax Return Transcripts**: To ensure that the income validation is completed using the most recent tax transcripts, the following will be used to determine if the transcript contains the most recent tax return information. Lenders are not required to comply with the "Allowable Age of Credit Documents" requirements when DU issues the message that income has been validated.
        - For loan casefiles created on or before April 30, the most recent tax transcript must be provided. The most recent tax transcript would be for the prior year (current year minus 1). If the prior year tax return has not yet been filed or the transcript is not yet available, the most recent tax transcript will be the current year minus two.
        - For loan casefiles created after April 30, the most recent year tax transcript must be provided for validation to be completed. The most recent tax transcript will be for the prior year (current year minus one).
  - **Employment Validation**
    - The following table describes the employment that can be validated and the documentation that DU will require, which may be different than the standard documentation required.

Eligible Employment	Eligible Verification Report
Employment related to the following income types: • Base • Bonus • Overtime • Commission	• Asset Verification Report • Supplement Asset Report • Employment and Income Verification Report, or • Employment Verification Report
Military Employment	• Asset Verification Report

    - **Employment – Additional Information**
      - The following additional information applies to employment validated by DU:
        - If an employment and income verification report is used, the vendor must obtain employment information using data obtained from the report supplier's existing database of employer-provided information.
        - Income and employment are assessed independently; however, the results of the employment validation may impact income validation.
        - When employment is validated by DU, the validation satisfies the requirement for verbal verification of employment. Lenders must comply with all DU messages, including ensuring the loan closes by the "Close by Date" stated in the DU employment validation message.
        - The lender must review the verification report relied upon by DU, including any Employer Disclaimer information, if applicable, and:
          - investigate and resolve any conflicting or contradictory information, and

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Underwriting the Borrower, Continued

Fannie Mae DU Loans, continued

- **DU Validation Services, continued**
  - **Employment Additional Information**, continued
      - when an asset verification report is used to validate employment, the lender must confirm that the borrower is listed as an owner of the asset account and that the report reflects the borrower's name as account holder. The lender need only review the report covering the period of time (30- or 60-days) required for asset verification for the transaction type, or if no asset verification is required for the transaction, the account activity covering the most recent 30-day period, for these purposes.
  - **Verbal Verification of Employment Alternative for Employment Validated Using and Asset Verification Report**
    - When employment is initially validated using an asset verification report and the loan will not close by the "Close by Date" stated in the DU employment validation message, the lender may obtain a supplemental asset report from an asset verification report vendor and either submit it to DU or perform a manual review of the report to satisfy the verbal verification of employment described in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic in the "Income" topic previously presented in this document.
    - When used to reverify employment (whether through an automated or a manual review), the supplemental asset report must contain:
      - the account numbers and the account holder name for each account included in the report,
      - the date of the report, and
      - the date and deposit details of the deposits reflected on the report.
    - The lender must review the report to confirm the borrower is listed as an account holder. The lender must not have any information indicating the borrower may no longer be employed and must investigate and resolve any contradictory or conflicting information.
    - When a manual review is performed, the lender must obtain the report within the same timeframe required for a verbal verification of employment and additionally, review the report to confirm:
      - the deposit details of the direct deposits that are being used to reverify employment:
        - match the ACH details identified in the DU findings messages for the direct deposit streams used by DU to validate employment, and
        - are consistent with the income source provided in DU;
      - the pattern of receipt of the identified direct deposits used to reverify employment does not reflect missed payments, and the latest expected payment prior to the date of the report is present.

      Note: When a lender performs a manual review of the supplemental asset report to reverify employment, the enforcement relief from representations and warranties related to the employment validation through the DU validation service described in the "Enforcement Relief of Representations and Warranties for Loans with Data Validated by the DU Validation Service" section outlined below, does not apply.

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

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Fannie Mae DU Loans, continued

- **DU Validation Services, continued**
  - **Asset Validation**
    - The following table lists the asset types that can be validated and the documentation that DU will require, which may be different than the standard documentation required.

Eligible Asset Types	Eligible Verification Report
Assets held in the following accounts: • Checking • Savings • Certificates of Deposit • Stocks • Money Market • Mutual funds • Retirement	Asset Verification Report **Note**: Additional documentation may be required depending on the type of asset account and the assessment conducted by DU for validation purposes.

    - **Asset – Additional Information**
      - The following additional information applies to asset validation:
        - All assets shown on the asset verification report must be in U.S. dollars and held in a U.S. or state regulated financial institution.
        - The account statements obtained from the vendor must cover the most recent:
          - 30 days of account activity for refinance transactions
          - 60 days of account activity for purchase transactions
          - The most recent quarter, if account information is reported on a quarterly basis
        - The lender must review the verification report (covering the account activity for the period of time required) and investigate and resolve any conflicting or contradictory information. The lender must also confirm that the borrower is listed as an account holder for each asset account.

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Fannie Mae DU Loans, continued

- **DU Validation Services, continued**
  - **Asset – Additional Information**, continued
    - The DU validation service automates the assessment of large deposits on purchase transactions. When a large deposit needs to be documented, DU will issue a message specifying the amount of the large deposit, as well as the institution name and account number of the account that includes the large deposit. If no message is issued by DU, then no documentation of any large deposit appearing on the asset report is required when assets have been validated.
    - When the DU validation service validates assets on transactions with gift funds, the lender must ensure that the gift funds that appear as deposits on the asset verification report (if any) meet the requirements outlined in the "Gift Funds" subtopic previously presented in this document.
    - If the actual amount of funds required to complete the transaction is greater than the Funds Required to Close specified in DU, the lender must document liquid assets to cover the additional amount. See the "Ensuring DU Data and Delivery Information Accuracy/DU Tolerances" guidance subsequently presented in this subtopic for additional details on whether the loan must be resubmitted to DU.
    - For self-employed borrowers, if an eligible asset account is reflected as a business account on the verification report, the lender must perform a business cash flow analysis to confirm that the withdrawal of funds for this transaction will not have a negative impact on the business. If the lender determines the withdrawal would have a negative impact on the business, the lender must remove the assets from the online loan application, obtain an updated verification report that excludes the business account, and resubmit the loan to DU.
    - When retirement assets are entered in DU, DU issues a message requiring the lender to ensure that withdrawals are permitted, and that withdrawals are not limited to those completed in connection with the borrower's employment termination, retirement, or death. If any of these conditions are present, the lender must remove the retirement account assets from the online loan application, obtain an updated verification report that excludes the retirement account, and resubmit the loan to DU.

Note: If the lender would like to use the asset verification report to supplement the credit risk assessment in DU, see "Rent Payment History" in the "Risk Factors Evaluated by DU" guidance, subsequently outlined in this subtopic, for additional information.

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Underwriting the Borrower, Continued

Fannie Mae DU Loans, continued

- **DU Validation Services, continued**
  - **Enforcement Relief of Representations and Warranties for Loans with Data Validated by the DU Validation Service**
    - "Approve/Eligible" loans for which DU validated a loan component may benefit from certain representation and warranty enforcement relief. The table below describes the validated component, the related enforcement relief, and other details.

Component Validated by DU	Fannie Mae Will Not Enforce Representations and Warranties On	Details
Income	• the accuracy of the lender's income calculations related to the validated income, and • the integrity of the data provided on the verification report.	The DU message must indicate that the amount of income entered into DU was validated and that the verification report is acceptable documentation. For loans with income validated using an employment and income verification report, this applies on a per-borrower, per-income-type basis. For loans with income validated using an asset verification report, this applies on a per-borrower, per-income-source basis.
Employment	• the borrower's employment, through the time of closing, with the employer attested to on the loan application, and • the integrity of the data provided on the verification report.	The DU message must indicate that the employment entered into DU was validated. Applies on a per-borrower, per-employer basis.
Assets	• the sufficiency of the borrower's assets to satisfy Total Funds to be Verified as required by DU or a greater amount if stated in the DU message, and • the integrity of the data provided on the verification report.	The DU message must indicate that assets were validated. Applies on a loan-level basis.

- The lender must comply with the following additional requirements in order for the representation and warranty enforcement relief to apply:
  - All of the requirements that pertain to the DU validation service must be met.
  - All Verification Messages and Approval Conditions that appear in the DU Underwriting Findings report, including any related to the DU validation service, must be satisfactorily resolved and documented accordingly.
  - The loan must close by the "Close by Date" stated in the DU message.
- If there is information that is conflicting with or contradictory to the data that was submitted to DU, the lender must perform due diligence to investigate and ensure that accurate data is entered into DU. Enforcement relief will not apply, regardless of DU's issuance of validation messages, if the lender's investigation of conflicting or contradictory information contained in the loan file or within the verification report would have impacted the information entered by the lender in DU.

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Fannie Mae DU Loans, continued

- **Risk Factors Evaluated by DU**
  - DU considers the following characteristics in the credit report to assess the creditworthiness of borrowers who have traditional credit histories: credit history, delinquent accounts, installment accounts, revolving credit utilization, public records, foreclosures, collection accounts, and inquiries.
  - The non-credit risk factors evaluated by DU include: the borrower's equity and LTV ratio, liquid reserves, loan purpose, loan term, loan amortization type, occupancy type, debt-to-income ratio, housing expense ratio, property type, and first-time homebuyer status.
  - DU performs a comprehensive evaluation of these factors, weighing each factor based on the amount of risk it represents and its importance to the recommendation. DU analyzes the results of this evaluation along with the evaluation of the borrower's credit profile to arrive at the underwriting recommendation for the loan casefile.
  - More information on these risk factors is provided below.
    - **Credit History**
      - A borrower's credit history is an account of how well the borrower has handled credit, both now and in the past. An older, established history—even though the accounts may have zero balances—will have a more positive impact on the borrower's credit profile than newly established accounts.
      - A borrower who has no open credit accounts or a relatively new credit history (a few recently opened accounts) is not automatically considered a high credit risk. Successfully managing newly established accounts, including making payments as agreed, signifies lower risk.
    - **Delinquent Accounts**
      - Payment history is a significant factor in the evaluation of the borrower's credit. DU considers the severity of the delinquencies (30, 60, 90, or more days late), the length of time since the delinquencies, and the number and type of accounts that were not paid as agreed.
      - A payment history that includes bills that are 30 days or more past-due, or a history of paying bills late as evidenced by a number of accounts with late payments, will have a negative impact on the borrower's credit profile. The amount of time that has elapsed since an account was delinquent is an important factor included in the evaluation of the payment history. For example, a 30-day late payment that is less than three months old indicates a higher risk than a 30-day late payment that occurred several years ago.
    - **Installment Loans**
      - DU evaluates how well a borrower manages debt for all types of installment loans such as mortgage, second lien, auto, unsecured, and student loans. Research has shown that borrowers with no active installment accounts, or installment accounts that have a minimal reduction in balance, represent a higher risk than borrowers who have active installment accounts that have either paid down or paid off the installment debt.
    - **Rent Payment History**
      - For certain loan casefiles, DU can consider a borrower's rent payment history identified on a 12-month third-party asset verification report or a credit report. When DU logic can identify rent payments in the asset verification or a credit report, it will use the rent payment history to positively supplement the credit risk assessment.
      - The following requirements apply when using rent payment history in DU:
        - At least one borrower on the transaction must have a credit score.

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Fannie Mae DU Loans, continued

- **Risk Factors Evaluated by DU**, continued
  - **Rent Payment History,** continued
    - At least one borrower must have been renting for at least 12 months with a monthly rent payment of at least $300 or more and one of the following:
      - have no mortgage reported on their credit report,
      - have a limited credit history, or
      - have no credit score.
    - When the rent payment history does not appear on the credit report, for DU to be able to identify rent payments using an asset verification report, the lender must:
      - enter the monthly rent paid by the borrower in the online loan application,
      - obtain an asset verification report with 12 months of bank statement data through an authorized DU validation service asset verification report vendor, and
      - confirm the borrower is an account holder and that the account provided in the asset verification report is the one from which the borrower pays rent.
    - At the time of loan origination, the originating lender must have access to the full asset verification report containing the data covering the period of time provided to DU for assessment.
  - When an asset verification report is used for both rent history and asset documentation, including asset validation through the DU validation service, only the most recent 60 days of account activity must be reviewed in accordance with the requirements outlined in the “General Asset Documentation Requirements” subtopic and “DU Validation Service” requirements previously presented in this “Fannie Mae DU Loans” subtopic, and retained in the loan file.
  - **Revolving Credit Utilization**
    - The establishment, use, and amount of revolving credit a borrower has available are important. Trended credit data is used to evaluate the borrower’s ability to manage revolving accounts. A borrower who uses revolving accounts conservatively, meaning low revolving credit utilization or regular payoff of revolving balance, is considered lower risk. A borrower whose revolving credit utilization is high or who has low available revolving credit is considered higher risk.
  - **Public Records, Foreclosures, and Collection Accounts**
    - A credit history that includes any significant derogatory credit event is considered high risk. Significant derogatory credit events include bankruptcy filings, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, mortgage charge-offs, or accounts that have been turned over to a collection agency.

      Note: Collection accounts reported as medical collections are not used in the DU risk assessment.

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Underwriting the Borrower, Continued

Fannie Mae DU Loans, continued

- **Risk Factors Evaluated by DU**, continued
  - **Inquiries**
    - DU evaluates inquiries on the credit report. Research has shown that a high number of inquiries can indicate a higher degree of risk. However, multiple inquiries made by different mortgage lenders or different auto loan creditors within the same time frame is not viewed by DU as multiple inquiries (these types of inquiries generally reflect borrowers shopping for favorable rates or terms). A borrower who has frequently applied for, or obtained, new or additional credit represents a higher risk.
  - **Borrower's Equity and LTV Ratio**
    - The amount of equity in the property is a very important component of the risk analysis. Research has shown that a borrower who makes a large down payment or who has considerable equity in their property is less likely to become delinquent on a mortgage loan than a borrower who makes a small down payment or has a small amount of equity in the property. In other words, the more equity a borrower has in the property, the lower the risk associated with the borrower's mortgage loan.
    - DU may use a low LTV ratio to offset other risks that it may identify in the loan application.
  - **Liquid Reserves**
    - Liquid reserves are those financial assets that are available to a borrower after a loan closes. Reserves are calculated as the total amount of liquid assets remaining after the loan transaction closes divided by the qualifying payment amount.
    - DU considers higher amounts of liquid reserves as more favorable than lower amounts or no reserves. Research has shown that mortgages to borrowers with higher amounts of liquid reserves tend to have lower delinquency rates. As with a low LTV ratio, DU may consider high amounts of reserves as an offset for other risks that it may identify in the loan application.
  - **Loan Purpose**
    - There is a certain level of risk associated with every transaction, whether it is a purchase or a refinance. Purchase transactions represent less risk than refinance transactions. When evaluating refinance transactions, a limited cash-out refinance transaction represents less risk than a cash-out refinance transaction.
  - **Loan Term**
    - Research has shown that mortgages to borrowers who choose to finance their mortgages over shorter terms and build up equity in their properties faster generally tend to perform better than mortgages with longer amortization periods.
  - **Loan Amortization Type**
    - Research has shown that there is a difference in loan performance based on the manner in which the mortgage amortizes. Fixed-rate mortgages will be viewed as representing less risk than adjustable-rate mortgages.

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Underwriting the Borrower, Continued

Fannie Mae DU Loans, continued

- **Risk Factors Evaluated by DU**, continued
  - **Occupancy Type**
    - Performance statistics on investor loans are notably worse than those of owner-occupied or second home loans. Owner-occupied transactions represent the least risk, followed by second home transactions, and investment property transactions having the highest risk level.
  - **Debt-to-Income Ratio**
    - In DU's evaluation, generally, the lower the borrower's debt-to-income ratio (DTI ratio), the lower the associated risk. As the ratio increases, the level of risk also tends to increase; and a high ratio will have the greatest adverse impact on the recommendation when there are also other high-risk factors present.
    - The composition of the borrower's debt is also taken into consideration, specifically those with student loan debt.
  - **Housing Expense**
    - Borrowers whose housing expense makes up a smaller portion of their total expenses are considered lower risk, while those with a housing expense that makes up a higher portion of their total expenses are considered higher risk. Research has shown that borrowers whose total monthly expenses are composed primarily of their housing expense may find it more difficult to pay this expense when experiencing an event that would cause financial distress, such as the loss of a job.
  - **Property Type**
    - Another important factor that DU considers in the risk analysis is the collateral or property type. DU differentiates the risk based on the number of units, and in some cases the property type.
    - The level of risk associated with each property type is as follows, starting with those property types representing the least amount of risk:
      - one-unit properties;
      - condo properties;
      - two-, three-, and four-unit properties.
  - **First-Time Homebuyer**
    - The presence of a first-time homebuyer on the loan application is considered a mitigating factor in the DU risk assessment.
  - **Cash Flow Assessment for Certain Loan Casefiles**
    - For certain loan casefiles, DU can conduct a cash flow assessment when the lender provides a 12-month third-party asset verification report for the borrower. DU will assess the borrower's cash flow management history to determine whether it can be used to positively supplement the credit risk assessment.
    - To be eligible for the cash flow assessment in DU:
      - <u>At least one borrower on the transaction must have a credit score.</u>

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Underwriting the Borrower, Continued

Fannie Mae DU Loans, continued

- **Risk Factors Evaluated by DU**, continued
  - **Cash Flow Assessment**, continued
    - The lender must obtain an asset verification report with 12 months of bank data through an authorized DU validation service asset verification report vendor and confirm the borrower is an account holder.
    - At the time of loan origination, the originating lender must have access to the full asset verification report containing the data covering the timeframe provided to DU for the cash flow assessment.
  - When DU conducts a cash flow assessment and provides an Approve/Eligible recommendation, the 12-month asset verification report may also be used to satisfy the nontraditional credit history requirements when one is required for any borrower without a credit score as outlined in the “Documentation and Assessment of a Nontraditional Credit History” section within the “Nontraditional Credit History” subtopic previously presented in this document.
  - When an asset verification report is used for both the cash flow assessment and asset documentation, including asset validation through the DU validation service, only the most recent 30 or 60 days of account activity must be reviewed in accordance with the requirements outlined in the “General Asset Documentation Requirements” subtopic and “DU Validation Service” requirements previously presented in this “Fannie Mae DU Loans” subtopic, and retained in the loan file.

    Note: If a 12-month asset verification report is not obtained, non-traditional credit references may be required for each borrower without a credit score.

- **DU Documentation Requirements**
  - The following documents must be maintained in the permanent loan file:
    - the complete loan application (the full Form 1003),
    - the final DU Underwriting Findings report, and
    - the final Underwriting Analysis report produced by DU.
  - Lenders are not required to prepare a *Uniform Underwriting and Transmittal Summary* (Form 1008) for loans underwritten with DU and subsequently delivered to Fannie Mae.
  - DU indicates the minimum verification documentation requirements necessary for the lender to process the loan application. While DU may offer a reduced level of documentation, a more comprehensive level of documentation is always acceptable and in some instances should be required by lenders when circumstances in the loan file warrant it.
  - DU documentation requirements are based on the specific risk factors present in each loan file. The requirements appear in the DU Underwriting Findings report in the section titled Verification Messages/Approval Conditions. DU indicates the minimum documentation requirements for income and asset verification, credit-related documentation, and level of property fieldwork.

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Underwriting the Borrower, Continued

Fannie Mae DU Loans, continued

- **DU Underwriting Recommendations**
  - The following table describes the underwriting recommendations returned by DU:

Approve/Eligible	
Satisfies Fannie Mae's credit risk standards/assessment?	Yes
Satisfies Fannie Mae's mortgage loan eligibility criteria?	Yes
Eligible for sale to Fannie Mae?	Yes, if all approval conditions have been met.
Approve/Ineligible *Loan casefiles may receive an Ineligible recommendation for a variety of reasons, including:* • *The loan does not comply with stated product requirements or policies that apply to DU loans in Fannie Mae's Selling Guide; or* • *The loan complies with stated product requirements or policies, but has a combination of product features or risk factors that place the loan outside of Fannie Mae's current acquisition preferences and constraints for DU loans.* *The lender must determine if the reason for the ineligibility creates an additional layering of credit risk that should be considered as the lender makes the underwriting decision.*	
Satisfies Fannie Mae's credit risk standards/assessment?	Yes
Satisfies Fannie Mae's mortgage loan eligibility criteria?	No, the loan does not meet Fannie Mae's stated eligibility requirements for DU loans, or the combination of product features and risk factors place the loan outside Fannie Mae's current acquisition preferences and constraints for DU loans, with the following exception: A limited cash-out refinance transaction that includes the payoff of a PACE loan ***and*** receives an "Approve/Ineligible" recommendation satisfies Fannie Mae's mortgage eligibility criteria if the only reason for the ineligibility is that it appears that the borrower is receiving more than 2%/$2000 cash back. Additionally, the mortgage must meet the requirements outlined in the "Property Assessed Clean Energy (PACE) Loans" subtopic previously presented in this document.

Continued on next page

Fannie Mae DU Loans, continued

- **DU Underwriting Recommendations**, continued

Approve/Ineligible (continued)	
Eligible for sale to Fannie Mae?	Yes, if the lender manually underwrites the loan in accordance with requirements outlined in the applicable product standard document(s) if the loan product or transaction otherwise allows for sale of manually underwritten loans. The following exception applies: A limited cash-out refinance transaction that includes the payoff of a PACE loan ***and*** receives an "Approve/Ineligible" recommendation is eligible for sale to Fannie Mae if the only reason for the ineligibility is that it appears that the borrower is receiving more than 2%/$2000 cash back. Additionally, the mortgage must meet the requirements outlined in the "Property Assessed Clean Energy (PACE) Loans" subtopic previously presented in this document.

- **Lender Response to an Approve/Ineligible Recommendation**
  - When a loan casefile receives an Approve/Ineligible recommendation, the lender should:
    - Review the DU loan data for accuracy and verify that all income, assets, and liabilities were accurately recorded and fully disclosed by the borrower.
    - Determine if there is any information outside of the data submitted to DU that could have affected DU's recommendation. In some cases, updating information may resolve the issue that resulted in the ineligibility.
      - For example, if the loan is ineligible due to a combination of product features or risk factors that place the loan outside of Fannie Mae's current acquisition preferences and constraints, the borrower may provide documentation of additional income to lower the debt-to-income ratio of provide a larger down payment to lower the LTV ratio.
    - Update the loan application data (if applicable) and resubmit the loan casefile to DU for an updated recommendation.
  - If the loan casefile still receives an Approve/Ineligible recommendation, the lender may manually underwrite the loan in accordance with the requirements outlined above.

Continued on next page

Fannie Mae DU Loans, continued

- **DU Underwriting Recommendations**, continued

Refer with Caution *The layering and degree of risk factors that result in a Refer with Caution recommendation represent a greater risk of serious delinquency than for those loan casefiles that receive an Approve recommendation.* *Any loan casefile that receives a Refer with Caution recommendation from DU does not represent a level of risk that is acceptable to Fannie Mae for DU loans. If the data DU considered was an accurate representation of the borrower's income, assets, liabilities, and credit profile, the loan is not eligible for sale to Fannie Mae as a DU loan.*	
Satisfies Fannie Mae's credit risk standards/assessment?	No, the loan does not meet Fannie Mae's credit risk standards for DU loans.
Satisfies Fannie Mae's mortgage eligibility criteria?	No, the loan does not meet Fannie Mae's stated eligibility requirements for DU loans.
Eligible for sale to Fannie Mae?	Not as a DU loan. The lender may manually underwrite the loan in accordance with requirements outlined in the applicable product standard document(s) if the loan product or transaction otherwise allows for sale of manually underwritten loans.

- **Lender Response to a Refer with Caution Recommendation**
  - When a loan casefile receives a Refer with Caution recommendation, the lender should:
    - Review the DU loan data for accuracy and verify that all income, assets, and liabilities were accurately recorded and fully disclosed by the borrower.
    - Determine if there is any information outside of the data submitted to DU that could have affected DU's recommendation.
    - Update the loan application data (if applicable) and resubmit the loan casefile to DU for an updated recommendation.
    - Review the credit report data to determine if the information accurately represents the applicant's credit history. Erroneous data in the credit report, or contradicting or derogatory information, could have affected DU's recommendation.
    - Investigate whether there were any extenuating circumstances that contributed to serious instances of derogatory credit.
  - If the loan casefile still receives a Refer with Caution recommendation, the lender may manually underwrite the loan in accordance with the requirements outlined above.

Continued on next page

Fannie Mae DU Loans, continued

- **DU Underwriting Recommendations**, continued

Out of Scope Recommendation
• An Out of Scope recommendation indicates that DU is unable to underwrite the particular product, mortgage, or borrower described in the submission. • Any mortgage that receives an Out of Scope recommendation must be manually underwritten.

- **Erroneous Credit Report Data**
  - The lender is responsible for ensuring that credit report data used by DU in its underwriting analysis is accurate. Significant, material credit errors in a borrower's credit report may have a negative impact on the underwriting recommendation from DU.
  - When there is documented evidence of material erroneous credit data, the underwriter should work with the credit repository to correct the data and resubmit the loan casefile to DU for underwriting. If there is not enough time to obtain corrected information, or if there are extenuating circumstances that contributed to the derogatory credit, the lender may manually underwrite the mortgage.
  - If significant material credit errors in the credit report have had a negative impact on the underwriting recommendation from DU resulting in a Refer with Caution recommendation, the lender may consider underwriting the loan manually, provided that the loan product or transaction otherwise allows for a manual underwrite.
    - If the loan complies with all manually underwritten requirements, it must be delivered as a manually underwritten loan. **Special Feature Code Requirement:** Use SFC 343 to identify these loans.

- **Merged Credit Reports and the Impact on DU's Evaluation**
  - Errors that are the result of the credit merge do not typically affect the credit or risk analysis of the loan casefile.
  - DU attempts to identify duplicate tradelines, including public record items, that are the result of the merge, and ignores duplicate accounts in the credit analysis.
  - Public record information is frequently duplicated on the credit report because the credit agencies do not attempt to merge or match items of this severe nature. A public record item may appear in the credit report three times—once from each repository—but the duplication will not affect the risk analysis of the case.

- **Lender Action Regarding Derogatory Credit Reported in Error**
  - If it is determined that significant derogatory credit has been reported in error, the lender must obtain written documentation that supports the error. The following types of written documentation support erroneous information:
    - a supplement to the credit report
    - a new mortgage credit report,
    - documentation from the credit provider that reported the error.

Continued on next page

Fannie Mae DU Loans, continued

- **Ensuring DU Data and Delivery Information Accuracy / DU Tolerances**
  - 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 following table:

Data Attribute and Description	Trigger	Action Required
• Interest rate increase • Discrepancies between the credit report payments and balances and those listed on the online loan application, including the presence of debt that is on the credit report but not on the application • Additional debt(s) disclosed by the borrower or identified by the lender during the mortgage process • Verified income is less than the income on the loan application submitted to DU	DU loans — the result of these changes causes the DTI ratio recalculated by the lender to • now exceed 45%, or • increase by three (3) percentage points or more (if the recalculated DTI is 50% or less) **Note:** See "Resubmission Examples Based on DTI Triggers" below.	Loan casefile must be resubmitted to DU
Interest rate on fixed-rate and adjustable-rate mortgages	Interest rate decreases, not as the result of a permanent interest rate buydown.	No resubmission required
Interest rate on fixed-rate and adjustable-rate mortgages	Interest rate decreases as the result of a permanent interest rate buydown .	Loan casefile must be resubmitted to DU

Continued on next page

Fannie Mae DU Loans, continued

- **Ensuring DU Data and Delivery Information Accuracy / DU Tolerances,** continued

Data Attribute and Description	Trigger	Action Required
Verified income used to qualify the borrower for loans subject to income limits; for example, as with HomeReady loans.	Income is greater than the loan application indicates .	Loan casefile must be resubmitted to DU
Assets — Funds Required to Close	The actual amount of assets required to close the transaction exceeds the amount of "Funds Required to Close" per the DU Underwriting Findings report.	If the lender has documented sufficient liquid assets to cover the actual amount of assets required to close the transaction, no resubmission required. Otherwise, loan casefile must be resubmitted to DU
Assets — Reserves Required to be Verified	Due to changes in the actual amount of assets required to close the transaction, the verified amount of reserves is less than the "Reserves Required to be Verified" per the DU Underwriting Findings report.	If the lender has documented reserves that equal at least 90% of the Reserves Required to be Verified per the DU Underwriting Findings report, no resubmission required. Otherwise, loan casefile must be resubmitted to DU
Loan amount tolerances for refinance transactions	(See below)	

- **Resubmission Examples Based on DTI Triggers**

Original DTI	Recalculated DTI	Resubmission Required
35	40	Yes
44	46	Yes
46	48	No
46	50	Yes

Continued on next page

Fannie Mae DU Loans, continued

- **Ensuring DU Data and Delivery Information Accuracy / DU Tolerances,** continued
  - **DU Tolerances for Refinance Transaction Loan Amount Changes**
  - For refinance transactions, Fannie Mae allows the following tolerances to the loan amount:
    - The loan amount may increase $500 or up to 1% of the loan amount, whichever is less.
    - The loan amount may decrease 5% of the loan amount.
  - The loan amount tolerances are permitted provided the new LTV/TLTV does not result in:
    - changes to the amount of required mortgage insurance coverage,
    - different loan-level price adjustments, or
    - changes to loan eligibility.

    For example, if a loan casefile is submitted with a loan amount of $100,000 and the appraised value is $120,000 (which equals 83.3% LTV), the actual loan amount can go up to $100,500 (which equals 83.75% LTV) without requiring resubmission.

    On the other hand, if the original loan amount was $108,000 (90% LTV), an increase without resubmission is not permitted because it would result in an LTV of 91%. The higher LTV requires different mortgage insurance coverage, and may result in the loan not being eligible for delivery.

  - The loan amount tolerance does not apply to Fannie Mae's requirements regarding the amount of cash back to the borrower on a limited cash-out refinance transaction.

- **Other Errors in the Credit Data**
  - In some cases, errors are the result of reporting errors by the credit agency or individual creditors.
  - If the printed credit report contains derogatory information, and DU does not recognize or consider the derogatory information and does not reflect the derogatory information in the DU Underwriting Findings report, the lender must take action when information not considered by DU would result in a recommendation other than that returned by DU.
  - For example, if a borrower's credit report indicates that the borrower had a previous foreclosure, but the DU Underwriting Findings report does not reference the foreclosure, a reporting or data transfer error may have occurred, thus preventing DU from considering the foreclosure in its analysis of the loan. The lender must take action to ensure that the information is considered in the risk analysis.

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Fannie Mae DU Loans, continued

- **Other Errors in the Credit Data,** continued
  - **Omitted Accounts**
    - Supporting documentation is required when a credit report liability with a balance greater than zero is omitted from the loan application.
  - **Non-Applicant Debts/Accounts**
    - In a small number of casefiles, credit reports may include accounts identified as possible non-applicant accounts (or with another similar notation). DU will include these tradelines in the credit risk assessment, and will also include the accounts in the DTI ratio when provided on the loan application. See the "Non-Applicant Accounts" subtopic previously presented in the "Liabilities and Qualifying Ratios" topic within this document for the requirements.
  - **DU Debt Comparison**
    - DU compares the balances and payments of the debts on the credit report with the debts on the loan application.
    - If material differences are found, the lender must confirm that all debts from the credit report are included on the loan application and provide documentation to support the use of payments and balances lower than those on the credit report.
    - If the debt affects the debt-to-income ratio, the lender must add the debt to the loan application and resubmit the loan. Otherwise, the lender is expected to provide documentation that supports the omission from the loan application.
- **Potential Red Flag Messages**
  - DU provides a number of "potential red flag" messages designed to help the lender detect inconsistencies in the loan casefile as well as potentially fraudulent transactions.
  - Neither the presence nor absence of these messages alters the lender's responsibility to ensure accurate information in all areas of the loan process or otherwise comply with applicable law, including the Fair Credit Reporting Act.

    Note: The appearance of these messages does not affect the underwriting recommendation from DU. Rather, they are designed to help lenders detect inconsistencies. Furthermore, the absence of any of these messages does not indicate or imply Fannie Mae's acceptance of the data submitted to DU.

  - The following lists potential red flag messages:
    - **Excessive resubmissions**: A message alerts lenders when an unusually high number of loan resubmissions may be the result of data manipulation.
    - **Manufactured home caution**: A message alerts users when a property type was not submitted as a manufactured home, but Fannie Mae's property database indicates that it may be a manufactured home.
    - **Potential casefile reuse**: A message alerts lenders that the same loan casefile may not be used to underwrite more than one mortgage.

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Freddie Mac LPA Loans

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Use of Loan Product Advisor**
    - Loan Product Advisor is an automated loan assessment system that indicates whether a mortgage will be eligible for purchase by Freddie Mac, provided other conditions are met.
    - Loan Product Advisor utilizes the information obtained from:
        - Data input by the originator
        - Credit repositories
        - Home Value Explorer (HVE®)
    - Loan Product Advisor uses statistical models and judgmental rules to analyze the data received and then returns a Feedback Certificate. Loan Product Advisor will return credit information and for certain mortgages will provide HVE support for the mortgaged premises.

- **Loan Product Advisor Mortgages**
    - In order for a mortgage to qualify as a Loan Product Advisor mortgage, the mortgage must meet all of the following criteria:
        - Be submitted to Loan Product Advisor no more than 120 days before and no later than the note date
        - Have all credit reports (including the Loan Product Advisor credit reports) dated no more than 120 days before and no later than on the note date
        - Receive an automated underwriting service (AUS) status of "complete" on the Feedback Certificate based on the last submission to Loan Product Advisor on or before the note date
        - Comply with all of the requirements of this “Underwriting the Borrower” topic
        - Have a settlement date that is not more than 12 months after the note date
    - For each mortgage submitted, or to be submitted, to Loan Product Advisor, the lender must consider each application without regard to the borrower's race, color, religion, national origin, age, sex, marital status, familial status or handicap.
    - A completed *Uniform Underwriting and Transmittal Summary* (Form 1077), or equivalent form (e.g., a Feedback Certificate), must be included in the mortgage file.

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Freddie Mac LPA Loans, continued

- **Last Feedback Certificate**
  - The last Feedback Certificate:
    - Is, except as stated in the "Resubmission Requirements/Loan Product Advisor Tolerances" section below, based on true, complete and accurate data as required by the lender's purchase documents
    - Is used by Freddie Mac to determine the Risk Class, Documentation Level and, Credit Fees in Price
    - Must be retained in the mortgage file
  - In delivering the mortgage, the lender represents and warrants that the applicable Feedback Certificates are retained in the mortgage file and meet all of the requirements of this "Underwriting the Borrower" topic. If Freddie Mac subsequently determines that the Feedback Certificates are not in the mortgage file, any representation and warranty relief, documentation levels granted and/or payment or non-payment of fees are subject to change based on the actual contents of the mortgage file.
  - The last Feedback Certificate may be transferred without restriction prior to delivery of the mortgage to Freddie Mac. However, the last Feedback Certificate and the conditions indicated on it are effective only with respect to Freddie Mac and only when the mortgage is delivered to Freddie Mac by a Freddie Mac lender in compliance with the lender's Purchase Documents. (An example of a Feedback Certificate is included in the *Loan Product Advisor User Guide*.)

- **Key Number**
  - The Key Number is a unique identifier assigned to a mortgage by Loan Product Advisor when the mortgage is first submitted to Loan Product Advisor. The Key Number is returned to the lender on the Feedback Certificate and is used by the lender and Freddie Mac to identify an individual mortgage (e.g., a purchase, a refinance, etc.) from application through closing and delivery.
  - A Key Number is valid for use with only one mortgage. Once that mortgage has been closed, regardless of whether the mortgage is sold to Freddie Mac, the Key Number may be used only in delivering that mortgage to Freddie Mac or for the lender's quality control process. The Key Number from a previously closed mortgage may not be re-used to process or originate another mortgage. Additionally, if the borrower has more than one mortgage in process, each loan must have a separate application and a different Key Number.
  - The lender may resubmit the mortgage to Loan Product Advisor using the original Key Number, provided Freddie Mac has not removed the Key Number from Loan Product Advisor.

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Underwriting the Borrower, Continued

Freddie Mac LPA Loans, continued

- **Transaction processing issues**
  - Loan Prospector may return an evaluation status of invalid, ineligible or incomplete. If resubmission with new and/or corrected information does not correct the status, the Mortgage cannot be processed through Loan Prospector.
- **Invalid, Ineligible or Incomplete Status**
  - Loan Product Advisor may return an assessment status of invalid, ineligible or incomplete. If resubmission with new and/or corrected information does not correct the status, the mortgage cannot be processed through Loan Product Advisor.
- **Number of Borrowers**
  - See "Number of Borrowers on Loan Application" in the "Eligible Borrowers" topic, previously presented in this document, for guidance.
- **Compliance with Loan Product Advisor Requirements**
  - If the mortgage and/or the lender fail to comply with all Loan Product Advisor requirements, including, except as stated in the "Resubmission Requirements/Loan Product Advisor Tolerances" section below, submission of true, complete and accurate data to Loan Product Advisor, the benefits and terms associated with the Loan Product Advisor mortgage may not apply.
- **Required and Optional Data Fields**
  - Loan Product Advisor requires submission of specific data elements in order to process the information and return a complete result with a Risk Class and Documentation Level. Complete details of the required and optional data fields as well as the data field specifications can be found in the *Loan Product Advisor User Guide*.
- **Accuracy of Data Submitted to Loan Product Advisor**
  - Because Loan Product Advisor is an automated system, it relies heavily on information from other sources. Consequently, accurate data and accurate data entry are critical. The lender is responsible for the accuracy and completeness of the data it submits to Loan Product Advisor. The lender must ensure that the identifying information for any borrower and property (name, current and previous address and social security number and property address) are true, complete and accurate and that they are properly input into Loan Product Advisor on or before the note date. Except as stated in the "Resubmission Requirements/Loan Product Advisor Tolerances" section below, all data that was submitted to Loan Product Advisor for the last Feedback Certificate must be true, complete and accurate, as required by the purchase documents.

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Freddie Mac LPA Loans, continued

- **Loan Product Advisor Risk Class**
  - The Risk Class on the last Feedback Certificate establishes the extent of underwriting required. Based on its analysis of the data, Loan Product Advisor will return a Risk Class of:
    - Accept, or
    - Caution
  - **Accept Mortgage**
    - An Accept Mortgage is a Loan Product Advisor mortgage that receives a Risk Class of Accept. An Accept Risk Class confirms that Loan Product Advisor has determined that the borrower's creditworthiness is acceptable, provided that the requirements applicable to Accept Mortgages are met.
  - **Caution Mortgage**
    - A Caution Mortgage is a Loan Product Advisor mortgage that receives a Risk Class of Caution. A Caution Mortgage may be eligible for A-minus. The Feedback Certificate will specify if a mortgage is eligible for A-minus. An LPA loan that receives a Risk Class of Caution (including a Caution Mortgage eligible for A-minus) is not eligible for purchase by Truist. All LPA processed loans must receive an LPA "Accept/Eligible" recommendation.
- **Documentation Requirements when Using Loan Product Advisor**
  - The Documentation Level shown on the last Feedback Certificate indicates the minimum level of documentation that Freddie Mac will accept for the mortgage.
  - **Streamlined Accept Documentation**
    - A Streamlined Accept Documentation Mortgage requires significantly less documentation than a Standard Documentation Mortgage.
  - **Standard Documentation**
    - Standard Documentation is required for higher-risk Accept Mortgages. This is the most comprehensive level of documentation.
  - Specific feedback messages will describe the type of documentation needed for employment, income and asset verification based on the data input into Loan Product Advisor. The specific feedback messages are for guidance purposes only. For complete details regarding employment and income documentation requirements using Streamlined Accept and Standard Documentation Levels, see the applicable income subtopic previously presented in this document. For complete details regarding asset documentation requirements using Streamlined Accept and Standard Documentation Levels, see the applicable asset subtopic previously presented in this document.
  - The lender is responsible for documenting information in the mortgage file and, except as stated in the "Resubmission Requirements/Loan Product Advisor Tolerances" section below, must make sure that the information submitted to Loan Product Advisor matches what is documented in the mortgage file.
  - The lender must have processes in place to ensure that the requirements on the Feedback Certificate and other applicable product requirements are met. If the mortgage delivered to Freddie Mac does not comply with the requirements of the last Feedback Certificate and other applicable product requirements, Freddie Mac may require additional documentation.

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Freddie Mac LPA Loans, continued

- **Property and Collateral Feedback Messages**
  - The Feedback Certificate will advise the lender of the minimum collateral assessment required.

- **Rent Payment History Included in the Loan Product Advisor Assessment**
  - **Overview**
    - For certain mortgages, Loan Product Advisor's assessment of a borrower's rent payment history identified on a verification report and submitted to Loan Product Advisor may positively impact the credit assessment. For any such mortgage, the Feedback Certificate will return a feedback message indicating the borrower's rent payment history was included in the assessment.

  - **Eligibility Requirements**
    - For Loan Product Advisor to consider a borrower's rent payment history in the credit assessment, the following requirements must be met:
      - The mortgage must be a purchase transaction mortgage
      - At least one borrower with a rent payment history must:
        - Have a usable credit score, as determined by Loan Product Advisor,
        - Be a first-time homebuyer who intends to occupy the subject property as their primary residence, and
        - Have been renting for a minimum of 12 months with a monthly rent payment of at least $300 paid from the depository account(s) on the verification report
      - The lender must submit to Loan Product Advisor the current monthly rent amount paid by the borrower. Additionally, the lender must obtain a verification report of the depository account(s) from which the rent payments are made.

  - **Documentation Requirements**
    - For each verification report obtained, the lender must:
      - Confirm that each depository account is owned by the borrower and that the account(s) is the one from which the borrower pays rent.
      - Ensure that the most current version of the verification report is used by Loan Product Advisor. If the lender obtains an updated report, the mortgage must be resubmitted to Loan Product Advisor to ensure assessment of the most current information.
      - Maintain the verification report in the mortgage file for transactions where the last Feedback Certificate includes a feedback message that the rent payment history was successfully identified in Loan Product Advisor, resulting in a Risk Class of Accept.
    - The expiration date of the verification report reflected in feedback messaging complies with the age of documentation requirements.

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Freddie Mac LPA Loans, continued

- **Rent Payment History Included in Loan Product Advisor's Assessment,** continued
- **Automated Income and Asset Assessment**
  - **Automated Income Assessment Using Employed Income Data**
    - **Overview**
      - Representation and warranty relief eligibility is contingent on the lender's compliance with all requirements as set forth in this section.

      - **Automated Income Assessment**
      - Asset and income modeler (AIM) automated income assessment using employed income data provides lenders with the option to use Loan Product Advisor or the Freddie Mac Income Calculator to determine whether the lender is eligible for relief from enforcement of certain representations and warranties related to the borrower's income.
      - The lender must obtain the borrower's employed income data and submit all required data and information to Loan Product Advisor or the Freddie Mac Income Calculator. Based on the data submitted, Loan Product Advisor or the Freddie Mac Income Calculator will assess for representation and warranty relief eligibility and return the results of the assessment.

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Underwriting the Borrower, Continued

Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Employed Income Data**, continued
    - **Eligible Income Types**
      - The following tables describes income types that are eligible for an automated income assessment using employed income data:

Eligible Income Types for an Automated Income Assessment	
Eligible Income Types	**Ineligible Employment/Income Characteristics**
Base non-fluctuating employment earnings, except military earnings (base, entitlements, reserve, National Guard)	Earnings with the following employment/income characteristics are not eligible for an automated income assessment using employed income data: • 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 • Income reported on IRS Form 1099 for services performed • Borrowers with business ownership interest(s) less than 25%
The following fluctuating employment earnings: • Base fluctuating hourly employment earnings • Bonus • Commission • Overtime	

- **Underwriting Requirements**
  - **General Underwriting Requirements**
    - The lender must have no knowledge, information or documentation that contradicts an expectation that the income will continue for at least the next three years.
    - The lender must confirm that the information on the third-party verification report ("verification report") or paystub(s) and W2 form(s) is for the correct borrower and employer, and all employed income data must be in U.S. dollars.
  - **Temporary Leave of Absence**
    - In the event the borrower has taken a temporary leave of absence from their employment:
      - When a verification report is obtained, the verification report must indicate that, as of the date of the verification report, the borrower has returned to work
      - When the employed income data is from the borrower's paystub(s) and W2 form(s), the lender must maintain documentation in the mortgage file showing the borrower has returned to work

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Employed Income Data**, continued
    - **Underwriting Requirements**, continued
      - **Age of Documentation**
        - For the age of the documentation:
          - When a verification report is obtained, the expiration date of the verification report reflected in feedback messaging on the Last Feedback Certificate complies with the "Age of Documentation" requirements outlined in the "General Income Documentation Requirements" subtopic previously presented in this document.
          - When the employed income data has been obtained from the borrower's paystub(s) and W2 form(s), the paystub and W2 must comply with the "Age of Documentation/Age of Verifications" requirements outlined in the "General Income Documentation Requirements" subtopic previously presented in this document.
      - **Verification Reports**
        - When a verification report is obtained, the method used to obtain the verification report must be an automated process where the employed income data is accessed directly from an electronic database of employer-provided income information.
        - The employed income data on the verification report cannot be obtained from a written, verbal or e-mail verification of income performed by the service provider.
    - **Data Submission Requirements, Representation and Warranty Relief Eligibility, and Documentation Requirements**
      - **Data Submission Requirements**
        - The lender must submit the most current employed income data to Loan Product Advisor or the Freddie Mac Income Calculator. If after the initial submission, the lender obtains an updated verification report, paystub(s), or W-2 form(s), the lender must resubmit the employed income data.
        - For Loan Product Advisor submissions, the lender must submit the income amount used to underwrite the mortgage.
        - When a verification report is submitted to Loan Product Advisor, the lender must investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, *Uniform Residential Loan Application* (including the borrower's income and employment representations), and the mortgage file and, if applicable, resubmit the correct information to Loan Product Advisor

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Employed Income Data**, continued
    - **Representation and Warranty Relief Results on Feedback Certificate**
      - If multiple Loan Product Advisor submissions are made, lender's eligibility for representation and warranty relief will be based on the results on the Last Feedback Certificate.
      - When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the representation and warranty relief available is described in the following table:

Income Representation and Warranty Relief Based on Feedback Certificate Result	
Eligibility Result	**Representation and Warranty Relief**
Eligible	The lender is relieved from enforcement of the following representations and warranties: • Accuracy of the income calculation related to eligible income types on the verification report or paystub(s) and W2 form(s), and • Accuracy and integrity of the data represented on the verification report **Note:** The lender is not relieved from the representations and warranties related to the accuracy and integrity of the data when obtained from the borrower's paystub(s) and W2 form(s).
Partial	When partial income representation and warranty relief is granted for a source(s), as confirmed by the feedback message, the lender is relieved from enforcement of the following representations and warranties: • Accuracy of the income calculation related to eligible income types on the verification report or paystub(s) and W2 form(s), and • Accuracy and integrity of the data on the verification report **Note:** The lender is not relieved from the representations and warranties related to the accuracy and integrity of the data when obtained from the borrower's paystub(s) and W2 form(s).
Not Eligible	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's income. **Exception:** The lender is relieved from enforcement of representations and warranties related to the borrower's income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled "Representation and Warranty Relief Based on Freddie Mac Income Calculator Certificate Result".
Unable to Assess	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's income. **Exception:** The lender is relieved from enforcement of representations and warranties related to the borrower's income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled "Representation and Warranty Relief Based on Freddie Mac Income Calculator Certificate Result".

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Employed Income Data**, continued
    - **Documentation Requirements Based on Representation and Warranty Relief Result on Feedback Certificate**
      - When income representation and warranty eligibility results are provided on the Last Feedback Certificate, the documentation requirements are described in the following table:

Documentation Requirements Based on Representation and Warranty Relief Result on Feedback Certificate	
Eligibility Result	**Income Documentation Requirements**
Eligible	The lender must maintain in the mortgage file, as applicable: • Submitted verification report, if obtained • Paystub(s) and W-2 form(s) except when a verification report is obtained • Last Freddie Mac Income Calculator Certificate, if obtained Paystub and W2 documentation must meet the "Employed Income Documentation and Verification Requirements" previously presented in the "General Income Documentation Requirements" subtopic. When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the lender must either: • Verify and document the income as required by the applicable income type, or • Remove the income and resubmit the mortgage to Loan Product Advisor
Partial	The lender must maintain in the mortgage file, as applicable: • Submitted verification report, if obtained • Paystub(s) and W-2 form(s), except when a verification report is obtained • Last Freddie Mac Income Calculator Certificate, if obtained Paystub and W2 documentation must meet the "Employed Income Documentation and Verification Requirements" previously presented in the "General Income Documentation Requirements" subtopic. When there are multiple income sources and one or more income sources are needed to qualify the borrower, document the income source(s) as required by the feedback messages.
Not Eligible	The income must be verified and documented as required by the applicable income type.
Unable to Assess	The income must be verified and documented as required by the applicable income type.

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Employed Income Data**, continued
    - **Representation and Warranty Relief Results on Freddie Mac Income Calculator Certificate**
      - When income representation and warranty eligibility results are provided on the Freddie Mac Income Calculator Certificate, the representation and warranty relief available is described in the following table:

Income Representation and Warranty Relief Based on Freddie Mac Income Calculator Certificate Result	
Eligibility Result	**Representation and Warranty Relief**
Eligible	The lender is relieved from enforcement of the representation and warranty for the accuracy of the income calculation related to each eligible income type that is on the paystub(s) and W-2 form(s).
Not Eligible	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's income.

    - **Documentation Requirements Based on Representation and Warranty Relief Result on Freddie Mac Income Calculator Certificate**
      - When income representation and warranty eligibility results are provided on the Freddie Mac Income Calculator Certificate, the documentation requirements are described in the following table:

Documentation Requirements Based on Representation and Warranty Relief Result on Freddie Mac Income Calculator Certificate	
Eligibility Result	**Income Documentation Requirements**
Eligible	The lender must maintain in the mortgage file: • The Freddie Mac Income Calculator Certificate reflecting the calculated income amount for each income source used to underwrite the mortgage • Paystub(s) and W-2 form(s) Paystub and W-2 documentation must meet “Employed Income Documentation and Verification Requirements” previously presented in the “General Income Documentation Requirements” subtopic. When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the lender must verify and document the income as required by the applicable income type.
Not Eligible	The income must be verified and documented as required by the applicable income type.

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Employed Income Data**, continued
    - **IRS Form 4506-C Requirements**
      - For mortgages using employed income data obtained from paystub(s) and W-2(s), the "IRS Form 4506-C Requirements for all Income and Asset Qualification Sources" outlined in the "General Income Documentation Requirements" subtopic previously presented in this document apply.
      - For mortgages that receive an income representation and warranty result of either "Eligible" or "Partial" with a feedback message indicating that no further documentation is required for the income reflected on the verification report, if all the income of a borrower is from an eligible income type described in the "Eligible Income Types" subsection above and is on the verification report, the lender does not need to obtain the following:
        - A signed IRS Form 4506-C (or an alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party), or
        - A signed Commonwealth of Puerto Rico Form 2907 or Form 4506-C (or an alternate form that authorizes the release of comparable tax information to a third party) for income that is derived from sources in Puerto Rico, Guam or the U.S. Virgin Islands and is exempt from federal income taxation under the Internal Revenue Code

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Asset Assessment Using Account Data**
    - **Overview**
      - Automated asset assessment with Loan Product Advisor using account data, part of asset and income modeler (AIM), provides lenders with the option to use Loan Product Advisor to determine whether the lender is eligible for relief from enforcement of certain representations and warranties related to the borrower's assets. The lender must obtain a verification report as described below in the "Verification Reports" subsection. Based on information submitted, Loan Product Advisor will retrieve the verification report, assess for asset representation and warranty relief eligibility, and return the results of the assessment on the Feedback Certificate.
    - **Eligibility Requirements**
      - **Eligible Mortgages**
        - To be eligible for automated asset assessment with Loan Product Advisor using account data, the mortgage must be:
          - A conventional mortgage
          - An Accept mortgage
      - **Eligible Asset Types and Eligible Sources of Funds**
        - The following asset types are eligible for automated asset assessment with Loan Product Advisor using account data:
          - Depository accounts
          - Borrower's business checking, savings, and/or money market accounts

            Reference: See "Business Assets" in the "Cash Requirements" topic for additional requirements when self-employed income from a business is used for qualifying.
          - Securities
          - Retirement accounts
        - The following sources of funds are eligible for automated asset assessment with Loan Product Advisor using account data:
          - Gift funds or a gift of equity
          - Gift funds received as a wedding gift
          - Gift funds received as a graduation gift
          - A gift or grant from an Agency

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Asset Assessment Using Account Data**, continued
    - **Eligible Asset Types and Eligible Sources of Funds**, continued
        - The mortgage must not be a mortgage for which any of the following are being used to qualify the borrower:
          - Cash on hand
          - Assets that will be used by the borrower for repayment of borrower's monthly obligations, as described in the “Assets as Qualifying Income / Assets as a Basis for Repayment of Obligations (LPA Terminology)” subtopic previously presented in this document.
        - For details related to asset documentation requirements, see the “Asset Verification and Documentation Requirements” subsection outlined below.

    - **Verification Reports**
      - The lender must obtain a verification report that is produced:
        - By a third-party service provider designated by Freddie Mac
        - Through a Freddie Mac-supplied application programming interface (API) using data transmitted by a third-party service provider designated by Freddie Mac, or
        - Through a Freddie Mac-supplied API using data submitted by the lender. The lender must obtain Freddie Mac's written approval to transmit data through the API.
      - The verification report must comply with the age of documentation requirements as described in the “General Asset Documentation Requirements” subtopic previously presented in this document.
      - For each verification report obtained, the lender must confirm:
        - Each asset on the verification report is owned by at least one borrower and such borrower has access to the funds in the asset account
        - All assets shown on the verification report are in U.S. dollars located in a U.S. or State-regulated financial institution
        - There are no outstanding loans secured by any of the asset accounts included on the verification report
      - For mortgages that are eligible for asset representation and warranty relief as described in the “Representation and Warranty Relief” subsection outlined below, the lender must maintain a copy of the verification report in the mortgage file.

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Underwriting the Borrower, Continued

Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Asset Assessment Using Account Data**, continued
    - **Loan Product Advisor Requirements**
      - For Loan Product Advisor to assess the mortgage for asset representation and warranty relief, the lender must:
        - Submit the most current version of the verification report to Loan Product Advisor. If the lender obtains an updated report, the updated information must be submitted to Loan Product Advisor.
        - Investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, *Uniform Residential Loan Application*, and the mortgage file and, if applicable, update information in Loan Product Advisor with the correct information.
        - Verify any funds required for the mortgage transaction that are not included in the "Total Funds to be Verified" amount (e.g., borrower is selling a property and needs to bring funds to the closing) and maintain the documentation in the mortgage file.
    - **Representation and Warranty Relief**
      - The asset representation and warranty eligibility result is provided on the Last Feedback Certificate. The representation and warranty relief available and the corresponding documentation requirements are as follows:

Eligibility Result	Representation and Warranty Relief	Asset Documentation Requirements
Eligible for Asset Representation and Warranty Relief	The lender is relieved from enforcement of the following representations and warranties: • The sufficiency of the borrower's assets to cover the "Total Funds to be Verified" amount indicated on the Last Feedback Certificate; and • The accuracy and integrity of the data represented on the verification report	For eligible asset types (as described in the "Eligible Asset Types and Eligible Sources of Funds" section above) that are on the verification report, the verification report is acceptable documentation as described above in the "Verification Reports" subsection. Gift funds, grant funds, securities and retirement accounts must comply with the documentation requirements described in the applicable asset subtopic outlined in this document. The verification report as described above in the "Verification Reports" subsection is acceptable documentation to identify deposited gift funds and grants from Agencies.

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Underwriting the Borrower, Continued

Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Asset Assessment Using Account Data**, continued
    - **Representation and Warranty Relief**, continued

Eligibility Result	Representation and Warranty Relief	Asset Documentation Requirements
Eligible for Partial Asset Representation and Warranty Relief	The lender is relieved from enforcement of the following representations and warranties contingent on lender documenting additional requirements as indicated in feedback messages: • The sufficiency of the borrower's assets to cover the "Total Funds to be Verified" amount indicated on the Last Feedback Certificate; and • The accuracy and integrity of the data represented on the verification report	For eligible asset types (as described in the "Eligible Asset Types and Eligible Sources of Funds" section above) that are on the verification report, the verification report is acceptable documentation as described above in the "Verification Reports" subsection. Gift funds, grant funds, securities and retirement accounts must comply with the documentation requirements described in the applicable asset subtopic outlined in this document. The verification report as described above in the "Verification Reports" subsection is acceptable documentation to identify deposited gift funds and grants from Agencies.
Not Eligible for Asset Representation and Warranty Relief	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's assets. Loan Product Advisor did not return a feedback message indicating representation and warranty relief was granted.	The assets must be verified and documented as required by the applicable asset subtopic outlined in this document.
Unable to Assess for Asset Representation and Warranty Relief	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's assets. Loan Product Advisor was unable to assess the borrower's assets. This could be due to missing or incomplete information from the service provider or a system being down.	The assets must be verified and documented as required by the applicable asset subtopic outlined in this document.

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Freddie Mac LPA Loans continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Asset Assessment Using Account Data**, continued
    - **Asset Verification and Documentation Requirements**
      - **Securities and Retirement Accounts**
        - For mortgages that are eligible for asset representation and warranty relief, if the automated assessment uses securities and/or retirement accounts, the lender must provide documentation as indicated in feedback messaging.
      - **Deposits Requiring Verification**
        - For purchase transactions, when Loan Product Advisor identifies large deposits, as described in the "Large Deposits" subtopic previously presented in this document, it will issue feedback messaging identifying the amount of the large deposits for which the lender must document the source of funds.
        - When a deposit is identified by Loan Product Advisor as a large deposit, but is composed of multiple items, the lender must evaluate each item to determine whether it meets the definition of a large deposit as described in the "Large Deposits" subtopic. If an item is not a large deposit, the lender does not need to document the source of funds. In addition, when an item is not a large deposit, the lender may count the funds as eligible assets and reduce the overall amount needed to be sourced, as identified in Loan Product Advisor feedback messaging.
        - For large deposits identified in the borrower's business checking, savings and/or money market accounts, the requirements outlined in the "Business Assets" subtopic previously presented in this document apply.
      - **Sources of Funds**
        - For the following eligible sources of funds, the documentation requirements outlined in the "Gift Funds" or "Donations from Entities – Grant" subtopics previously presented in this document apply (as applicable):
          - Gift funds or a gift of equity
          - Gift funds received as a wedding gift
          - Gift funds received as a graduation gift
          - A gift or grant from an Agency
        - The verification report as described above in the "Verification Reports" subsection is acceptable documentation to identify deposited gift funds and grants from Agencies.

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Freddie Mac LPA Loans continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**
    - **Overview**
      - Assets and income modeler (AIM) automated income assessment using tax data provides lenders with the option to use Loan Product Advisor or the Freddie Mac Income Calculator to determine whether the lender is eligible for relief from enforcement of certain representations and warranties related to the borrower's self-employed income.

        Truist Note: LPA loans for borrowers with self-employed income evaluated using automated income assessment with Loan Product Advisor using tax data (i.e., LPA AIM for self-employed income) must be underwritten by a Correspondent lender approved by Truist for delegated underwriting authority. These transactions are not eligible for purchase if Truist underwrites the loan.

      - The lender must obtain the borrower's tax data and submit all required data and information to Loan Product Advisor or the Freddie Mac Income Calculator. Based on the data submitted, Loan Product Advisor or the Freddie Mac Income Calculator will assess for representation and warranty relief eligibility and return the results of the assessment.
      - Representation and warranty relief eligibility is contingent on the lender's compliance with the requirements of this section.
      - References in this section to "service provider" mean a third-party service provider designated by Freddie Mac.

      - **Tax Returns Uploaded to a Service Provider**
        - If the lender obtains federal income tax returns from the borrower, the lender will upload the tax returns to a service provider, which will produce a report ("Income Calculation Report") consisting of data extracted from the borrower's tax returns.
        - The lender may also request from the Internal Revenue Service (IRS), via the service provider, a tax transcript of the borrower's federal individual income tax return(s). If both tax returns and tax transcripts are obtained, Loan Product Advisor will compare data from the borrower's tax return to data from the tax transcript for assessment of tax return data representation and warranty relief eligibility and return the results of the assessment on the Feedback Certificate.

      - **Tax Transcripts Obtained from a Service Provider**
        - Alternatively, the lender may request from the IRS, via a service provider, a tax transcript of the borrower's federal individual income tax return(s). Loan Product Advisor will retrieve the tax transcript data from the service provider and assess for income and data representation and warranty relief eligibility and return the results of the assessment on the Feedback Certificate.

      - **Freddie Mac Income Calculator Using Tax Return or Tax Transcript Data**
        - The lender may enter data from the borrower's federal individual income tax returns or tax transcripts into the Freddie Mac Income Calculator which will produce a Freddie Mac Income Calculator Certificate that details the results of the Freddie Mac Income Calculator submission, including the calculated income and representation and warranty relief eligibility.

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Eligible Self-Employed Income**
      - **Tax Return**
        - Self-employed income is an eligible income type for an automated assessment using tax return data if it is derived from the following business structures:
          - Sole proprietorships reported on (IRS) Schedule C
          - S corporations reported on IRS Form 1120S (including compensation of officers reported on IRS Form W-2), IRS Form 8825 and IRS Schedule K-1 (Form 1120S)
          - Partnerships reported on IRS Form 1065, IRS Form 8825 and IRS Schedule K-1 (Form 1065)
      - **Tax Transcript**
        - Self-employed income is an eligible income type for an automated assessment using tax transcript data when it is derived from a sole proprietorship and reported on IRS Schedule C.

          Note: If other self-employed income is reflected on other tax schedules (e.g., Schedule E or Schedule F), the mortgage is not eligible for the automated assessment using tax transcripts.
    - **Underwriting Requirements**
      - **General Underwriting Requirements**
        - The borrower must have been self-employed and received income from the same eligible income source (i.e., business) on the Income Calculation Report, the Freddie Mac Income Calculator Certificate, or Form 91, Income Calculations (or a similar alternative form as described in the "Self-Employment Income" subtopic previously presented in this document) for the most recent two years.
        - If the borrower's business has been in existence for less than five years, or the borrower has owned the business for less than five years, the borrower's federal income tax returns or tax transcripts must reflect at least two years of receipt of income and/or losses from the business. Income reported on the business tax returns but not on personal tax returns must not be considered as stable monthly income
        - The lender must have no knowledge, information or documentation that contradicts an expectation that the income will continue for at least the next three years.
      - **Federal Income Tax Return and Tax Transcript Requirements**
        - The tax returns or tax transcripts used in the automated income assessment must be the borrower's individual and business, if applicable, U.S. federal income tax return(s) that were most recently filed with the IRS. Lenders are encouraged to always confirm with the borrower that the tax return(s) or tax transcripts provided are the most recent filed with the IRS.

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Income Calculation and Underwriting Requirements**, continued
      - **Federal Income Tax Return and Tax Transcript Requirements,** continued
        - The individual tax return year most recently filed with the IRS must correspond to the business tax return year most recently filed with the IRS for all businesses (e.g., when the most recently filed individual tax return year is 2024, the most recently filed business tax return year must also be 2024).
        - The income and/or loss reflected in the federal income tax returns or tax transcripts must be reported for the same business on the same tax form structure (e.g., the business cannot be reported as a sole proprietorship and then converted to a partnership).
        - The tax returns must not be any of the following:
          - Filed on a fiscal year basis
          - Handwritten
          - An amended return
          - From a U.S. Territory
        - If the borrower has amended their tax returns, then tax transcripts are not acceptable for assessment through Loan Product Advisor or the Freddie Mac Income Calculator.

      - **Inconsistent or Contradictory Information**
        - The lender is responsible for investigating and resolving any inconsistent or contradictory information contained in the Income Calculation Report, the Freddie Mac Income Calculator Certificate, Form 91 (or a similar alternative form), federal income tax returns, tax transcripts and/or the mortgage file. For example:
          - If the lender determines that a business from which positive borrower income is calculated is no longer in operation, the lender must exclude it from the qualifying income, or
          - If the mortgage receives a tax return data representation and warranty relief result of "Not Eligible," as described in the "Data Representation and Warranty Relief Results on the Feedback Certificate" section below, due to inconsistencies between the tax transcript returned by the IRS via the service provider and the tax return(s) uploaded to the service provider, the lender is required to resolve the discrepancy

          If the lender finds discrepancies, it must update the information in Loan Product Advisor, the Freddie Mac Income Calculator and/or the Income Calculation Report and resubmit the data as necessary.

          Note: For mortgages that receive a tax return data representation and warranty relief result of "Eligible" as described in the "Data Representation and Warranty Relief Results on the Feedback Certificate" section below, Loan Product Advisor has compared the data from uploaded tax return(s) to data from IRS tax transcripts and has found the data to be consistent; therefore, for eligible income, the lender is not responsible for investigating inconsistent information between these documents.

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Income Calculation and Underwriting Requirements**, continued
      - **Other Standards Provisions Related to an Automated Income Assessment Using Tax Data**
        - Refer to the following sections outlined in this document for additional requirements related to the automated income assessment using tax data:
          - "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic in the "Income" topic for requirements related to the verification of the current existence of the business
          - "Business Assets" subtopic in the "Cash Requirements" topic for requirements related to business assets used for closing
          - "Age of Tax Returns" in the "General Income Documentation Requirements" / "Tax Returns and Tax Return Information: Documentation and Verification Requirements" subtopic/subsection in the "Income" topic for age of tax return requirements

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Income Calculation and Underwriting Requirements**, continued

    - **Data Submissions Requirements**
      - **Tax Returns Uploaded to a Service Provider**
        - When tax returns are obtained and uploaded to a service provider, the lender must:
          - Review and verify the Income Calculation Report, if applicable, against information in the mortgage file to determine if any adjustments must be made. If so, the lender must update the Income Calculation Report and upload it to the service provider, along with any additional documentation necessary to support the updates
          - Submit the most current version of the Income Calculation Report to Loan Product Advisor. Loan Product Advisor will assess, on an individual borrower-level and an individual business-level basis, the calculation of income and/or losses from the eligible self-employed income based on data from the federal income tax returns and the Income Calculation Report.

            Note: If the Income Calculation Report is updated or additional income documentation is provided, the lender must upload the updated report and/or income documentation to the service provider and submit the updated information to Loan Product Advisor.

          - Indicate in Loan Product Advisor that a borrower is self-employed.

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Underwriting the Borrower, Continued

Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Loan Product Advisor Requirements**, continued
      - **Tax Transcripts Obtained from a Service Provider**
        - When tax transcripts are obtained from a service provider and not used with the Freddie Mac Income Calculator, the lender must:
          - Submit the mortgage to Loan Product Advisor, which assesses, on an individual borrower-level and an individual business-level basis, the calculation of income and/or losses from the eligible self-employed income reported on Schedule C based on data from the federal income tax transcripts.
          - Indicate in Loan Product Advisor that a borrower is self-employed.
      - **Freddie Mac Income Calculator Using Tax Data**
        - When the lender uses the Freddie Mac Income Calculator with tax data, the lender must:
          - Submit accurate tax return data or tax transcript data, as applicable, to the Freddie Mac Income Calculator, which will assess, on an individual borrower-level and an individual business-level basis, the calculation of income and/or losses from the eligible self-employed income.

            Note: When using tax transcripts, the only eligible self-employed income is from a sole proprietorship, reported on IRS Schedule C as described in the "Eligible Self-Employed Income" section above.

          - Indicate in Loan Product Advisor that a borrower is self-employed if the data from the Freddie Mac Income Calculator Certificate is submitted to Loan Product Advisor.
    - **Representation and Warranty Relief Eligibility and Documentation Requirements**
      - **Representation and Warranty Relief Overview**
        - Two types of relief from enforcement of representations and warranties are available through an automated income assessment using tax data. Eligibility for each type of representation and warranty relief is determined separately.
          - Income representation and warranty relief
          - Tax data representation and warranty relief
            - When using tax returns uploaded to a service provider, data representation and warranty relief may be available when the tax transcript is requested via a service provider and Loan Product Advisor compares the data from uploaded tax return(s) to data from the IRS tax transcripts
            - When using tax transcripts obtained from a service provider, data representation and warranty relief may be available when the tax data is assessed by Loan Product Advisor

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Representation and Warranty Relief Eligibility and Documentation Requirements,** continued
      - **Representation and Warranty Relief Overview**, continued
        - If multiple Loan Product Advisor submissions are made, lender's eligibility for representation and warranty relief will be based on the results on the Last Feedback Certificate.
      - **Income Representation and Warranty Relief Results on Feedback Certificate**
        - When income representation and warranty relief eligibility results are provided on the Last Feedback Certificate, the relief available is described in the following table:

Income Representation and Warranty Relief Based on Feedback Certificate Results	
Eligibility Result	**Representation and Warranty Relief**
Eligible	The lender is relieved from enforcement of the following representations and warranties: • Accuracy of the income calculation related to eligible self-employed income shown on the Income Calculation Report, the Freddie Mac Income Calculator Certificate, or Form 91 (or a similar alternative form) as applicable, and • The business review and analysis described in the "Self-Employment Income" subtopic previously presented in this document, including the analysis of the eligible self-employed income to support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the borrower
Partial	When partial income representation and warranty relief is granted for a source(s) as confirmed by the feedback message, the lender is relieved from enforcement of the following representations and warranties: • Accuracy of the income calculation related to eligible self-employed income shown on the Income Calculation Report, the Freddie Mac Income Calculator Certificate, or Form 91 (or a similar alternative form), as applicable, and • The business review and analysis described in the "Self-Employment Income" subtopic previously presented in this document, including the analysis of the eligible self-employed income to support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the borrower
Not Eligible	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's income. **Exception**: The lender is relieved from enforcement of representations and warranties related to the borrower's income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled "Representation and Warranty Relief Based on Freddie Mac Income Calculator Certificate Result".

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Representation and Warranty Relief Eligibility and Documentation Requirements,** continued
      - **Representation and Warranty Relief Overview**, continued

Income Representation and Warranty Relief Based on Feedback Certificate Results	
Eligibility Result	**Representation and Warranty Relief**
Unable to Assess	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's income. **Exception**: The lender is relieved from enforcement of representations and warranties related to the borrower's income when a message is returned on the Freddie Mac Income Calculator Certificate indicating such relief. See table below titled "Representation and Warranty Relief Based on Freddie Mac Income Calculator Certificate Result".

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Representation and Warranty Relief Eligibility and Documentation Requirements,** continued
      - **Representation and Warranty Relief Overview**, continued

      - **Data Representation and Warranty Relief Results on the Feedback Certificate**
        - When data representation and warranty relief eligibility results are provided on the Last Feedback Certificate, the relief available is described in the following table:

Data Representation and Warranty Relief Based on Feedback Certificate Result	
Eligibility Result	**Representation and Warranty Relief**
Eligible	**Tax Returns Uploaded to a Service Provider** • The lender is relieved from enforcement of representations and warranties related to the accuracy and integrity of the data from tax return(s) uploaded to the service provider for eligible self-employed income shown on the Income Calculation Report or Form 91 (or a similar alternative form). **Tax Transcripts Obtained from a Service Provider** • The lender is relieved from enforcement of representations and warranties related to the accuracy and integrity of the data from tax transcripts obtained from a service provider for eligible Schedule C income.
Not Eligible	The lender is not eligible for relief from enforcement of representations and warranties related to the accuracy and integrity of the data from the tax return(s) uploaded to the service provider.
Unable to Assess	The lender is not eligible for relief from enforcement of representations and warranties related to the accuracy and integrity of the data from the tax return(s) uploaded to the service provider.

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Representation and Warranty Relief Eligibility and Documentation Requirements,** continued
      - **Representation and Warranty Relief Overview**, continued

      - **Income Representation and Warranty Relief Results on the Freddie Mac Income Calculator Certificate**
        - When income representation and warranty relief eligibility results are provided on the Freddie Mac Income Calculator Certificate, the relief available is described in the following table:

Income Representation and Warranty Relief Based on the Freddie Mac Income Calculator Certificate Result	
Eligibility Result	**Representation and Warranty Relief**
Eligible	The lender is relieved from enforcement of the following representations and warranties: • Accuracy of the income calculation related to eligible self-employed income shown on the Freddie Mac Income Calculator Certificate, and • The business review and analysis described in the “Self-Employment Income” subtopic previously presented in this document, including the analysis of the eligible self-employed income to support that the business has sufficient liquidity and is financially capable of producing stable monthly income for the borrower
Not Eligible	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's income.

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Representation and Warranty Relief Eligibility and Documentation Requirements,** continued
      - **Representation and Warranty Relief Overview**, continued

      - **Documentation Requirements Based on Representation and Warranty Relief Result on Feedback Certificate**
        - When income representation and warranty relief eligibility results are provided on the Last Feedback Certificate, the documentation requirements are described in the following table:

Documentation Requirements Based on Representation and Warranty Relief Result on Feedback Certificate	
Eligibility Result	**Income Documentation Requirements**
Eligible	The lender must maintain in the mortgage file: • The most recent Income Calculation Report, the last Freddie Mac Income Calculator Certificate, or Form 91 (or a similar alternative form), as applicable • The borrower's federal income tax returns or tax transcripts as applicable in accordance with the "Documentation Requirements" outlined in the "Self-Employment Income" subtopic previously presented in this document • Documentation to support adjustments as described in the "Tax Returns Uploaded to a Service Provider" section outlined above, if applicable • All documentation submitted to the service provider, including the most recent uploaded Income Calculation Report used by Loan Product Advisor • IRS Form 4506-C in accordance with the "IRS Form 4506-C Requirements for all Income and Asset Qualification Sources" previously presented in the "General Income Documentation Requirements" subtopic. When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the lender must either: • Verify and document the income as required by the applicable income type, or • Remove the income and resubmit the mortgage to Loan Product Advisor

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Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Representation and Warranty Relief Eligibility and Documentation Requirements,** continued
      - **Representation and Warranty Relief Overview**, continued
      - **Documentation Requirements Based on Representation and Warranty Relief Result on Feedback Certificate**, continued

Documentation Requirements Based on Representation and Warranty Relief Result on Feedback Certificate	
Eligibility Result	**Income Documentation Requirements**
Partial	The lender must maintain in the mortgage file: • The most recent Income Calculation Report, the last Freddie Mac Income Calculator Certificate, or Form 91 (or a similar alternative form), as applicable • The borrower's federal income tax returns uploaded to the service provider or tax transcripts as applicable in accordance with the "Documentation Requirements" outlined in the "Self-Employment Income" subtopic previously presented in this document • Documentation to support adjustments as described in the "Tax Returns Uploaded to a Service Provider" section outlined above, when applicable • All documentation submitted to the service provider, including the most recent uploaded Income Calculation Report used by Loan Product Advisor • IRS Form 4506-C in accordance with the "IRS Form 4506-C Requirements for all Income and Asset Qualification Sources" previously presented in the "General Income Documentation Requirements" subtopic. When there are multiple income sources and one or more income source(s) are needed to qualify the borrower, document the income source(s) as required by the feedback messages.
Not Eligible	The income must be verified and documented as required by the applicable income type.
Unable to Assess	The income must be verified and documented as required by the applicable income type.

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Underwriting the Borrower, Continued

Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Representation and Warranty Relief Eligibility and Documentation Requirements,** continued
      - **Representation and Warranty Relief Overview**, continued
      - **Documentation Requirements Based on Representation and Warranty Relief Result on the Freddie Mac Income Calculator Certificate**
        - When income representation and warranty relief eligibility results are provided on the Freddie Mac Income Calculator Certificate, the documentation requirements are described in the following table:

Documentation Requirements Based on Representation and Warranty Relief Result on the Freddie Mac Income Calculator Certificate	
Eligibility Result	**Income Documentation Requirements**
Eligible	The lender must maintain in the mortgage file: • The Freddie Mac Income Calculator Certificate reflecting the calculated income amount for each income source used to underwrite the mortgage • The borrower's federal income tax returns or tax transcripts as applicable in accordance with the "Documentation Requirements" outlined in the "Self-Employment Income" subtopic previously presented in this document • IRS Form 4506-C in accordance with the "IRS Form 4506-C Requirements for all Income and Asset Qualification Sources" previously presented in the "General Income Documentation Requirements" subtopic. When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the lender must verify and document the income as required by the applicable income type.
Not Eligible	The income must be verified and documented as required by the applicable income type.

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Freddie Mac LPA Loans (continued)

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Tax Data**, continued
    - **Documentation Requirements,** continued
  - **Automated Income Assessment with Loan Product Advisor Using Account Data**
    - **Overview**
      - Automated income assessment with Loan Product Advisor using account data, part of asset and income modeler (AIM), provides lenders with the option to use Loan Product Advisor to determine whether the lender is eligible for relief from enforcement of certain representations and warranties related to the borrower's income.

Continued on next page

Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Account Data**, continued
    - **Overview**, continued
      - The lender must obtain a verification report as described below in the “Verification Reports” subsection.
      - The verification report will reflect income amounts (payment streams) deposited into the borrower's depository accounts as automated clearing house (ACH) deposits (the "direct deposit data") and, if applicable, a copy of and extracted data from the borrower’s current paystub(s). Based on information submitted, Loan Product Advisor will retrieve the verification report, assess for representation and warranty relief eligibility, and return the results of the assessment on the Feedback Certificate.
    - **Eligible Mortgages**
      - To be eligible for automated income assessment with Loan Product Advisor using account data, the mortgage must be:
        - A conventional mortgage
        - An Accept mortgage
    - **Eligible Income Types**
      - The following income types are eligible for automated income assessment with Loan Product Advisor using account data:
        - The following employment earnings:
          - Base non-fluctuating employment earnings
          - Fluctuating hourly employment earnings
          - Military base (basic) pay
          - Employed income earnings including employment characteristics as described in the “General Income Information” subtopic previously presented in this document:
            - Full-time and part-time employment
            - 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
        - The following additional employed income earnings:
          - Overtime income
          - Bonus income
          - Commission income
          - Military entitlements
        - The following other income types:
          - Retirement income from Social Security and pensions
          - Social Security Survivors benefits
          - Social Security disability benefits
          - Social Security Supplemental Security Income (SSI)
          - Veterans Affairs (VA) disability compensation, and
          - Alimony, child support, or separate maintenance payments

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Underwriting the Borrower, Continued

Freddie Mac LPA Loans, continued

- **Automated Income and Asset Assessment,** continued
  - **Automated Income Assessment Using Account Data**, continued
    - **Income History**
      - When determining stable monthly income, Loan Product Advisor's assessment generally requires the following depository history in order for the mortgage to be eligible for representation and warranty relief. However, in certain instances for employed income, a shorter history may still be acceptable based on the automated assessment determining that the borrower's monthly income is stable:
      - Borrower's employment income described above for at least the most recent 12 months (including employment characteristics described above), except that 24 months is required for secondary employment
      - Borrower's additional employed earnings described above for the most recent 24 months, except for military entitlements, which only require a 12-month history
      - Borrower's Social Security, pension, or VA disability compensation income described above for at least the most recent two months, and
      - Borrower's alimony, child support or separate maintenance payment income for at least the most recent six months
    - **Verification Reports**
      - The lender must obtain a verification report that is produced:
        - By a third-party service provider designated by Freddie Mac
        - Through a Freddie Mac-supplied application programming interface (API) using data transmitted by a third-party service provider designated by Freddie Mac, or
        - Through a Freddie Mac-supplied API using data submitted by the lender. The lender must obtain Freddie Mac's written approval to transmit data through the API.
      - The verification report and any paystubs provided to the third-party service provider must comply with the age of documentation requirements, as described in the "General Income Documentation Requirements" subtopic previously presented in this document.
      - For each verification report obtained, the lender must:
        - Confirm that each depository account is owned by at least one borrower
        - Confirm that all assets shown on the verification report are in U.S. dollars located in a U.S. or State-regulated financial institution.
        - Confirm, using the information in the mortgage file, that the payor(s) is one of the following:
          - The borrower's current employer
          - The pension fund(s)
          - The Social Security Administration or Veterans Affairs (VA, and/or
          - For alimony, child support or maintenance payments, that the payments are made either by, or on behalf of, the responsible party identified in the legally binding documentation (i.e., signed court order, final divorce decree, legally binding separation agreement, legally binding child support order, or other legally binding documentation)

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Freddie Mac LPA Loans, continued

- **Automated Income Assessment Using Account Data**, continued
  - **Verification Reports**, continued
      - Maintain a copy of the verification report and any paystubs provided to the third-party service provider in the mortgage file for mortgages with income that is eligible for representation and warranty relief as described in the "Representation and Warranty Relief and Additional Requirements" subsection subsequently presented in this subtopic.
    - For employed income documentation, the lender must obtain and maintain in the mortgage file verification of the borrower's current employment (10-day pre-closing verification) in accordance with the requirements outlined in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic previously presented in this document, when applicable.
  - **Loan Product Advisor Requirements**
    - For Loan Product Advisor to assess the mortgage for income representation and warranty relief, the lender must:
      - Submit the most current version of the verification report to Loan Product Advisor. If the lender obtains an updated report, the updated information must be submitted to Loan Product Advisor.
      - Submit to Loan Product Advisor the income amount it is used to underwrite the mortgage
    - Investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, *Uniform Residential Loan Application* (including the borrower's income and employment representations) and the mortgage file, and if applicable, update information in Loan Product Advisor with the correct information
    - Have no knowledge, information or documentation that contradicts a reasonable expectation of continuance of income or probability of consistent receipt of income for at least the next three years.

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Freddie Mac LPA Loans, continued

- **Automated Income Assessment Using Account Data**, continued
  - **Representation and Warranty Relief and Additional Requirements**
    - **Representation and Warranty Relief**
      - The income representation and warranty eligibility result is provided on the Last Feedback Certificate. The representation and warranty relief available and the corresponding verification and documentation requirements are as follows:

Eligibility Result	Representation and Warranty Relief	Income Documentation Requirements
Eligible for Income Representation and Warranty Relief	The lender is relieved from enforcement of the following representations and warranties: • Accuracy of the income amount calculation related to eligible income types that are on the verification report, and • Accuracy and integrity of the direct deposit data on the verification report	For eligible income types (as described in the "Eligible Income Types" subsection previously presented in this subtopic) that are on the verification report, the verification report is acceptable documentation as described in the "Verification Reports" subsection previously presented in this subtopic. If alimony/child support/separate maintenance payment income is used, the documentation requirements in the "Documentation Lender is Required to Obtain" subsection subsequently presented in this subtopic must be met When there are multiple income sources and one or more is eligible for income representation and warranty relief, for the income source(s) not eligible for representation and warranty relief, the lender must either: • Verify and document the income as required by the applicable income type, or • Remove the income and resubmit the mortgage to Loan Product Advisor

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Underwriting the Borrower, Continued

Freddie Mac LPA Loans, continued

- **Automated Income Assessment Using Account Data**, continued
  - **Representation and Warranty Relief and Additional Requirements,** continued
    - **Representation and Warranty Relief,** continued

Eligibility Result	Representation and Warranty Relief	Income Documentation Requirements
Eligible for Partial Income Representation and Warranty Relief	The lender is relieved from enforcement of representations and warranties related to the borrower's income as confirmed by Loan Product Advisor feedback messages. When partial income representation and warranty relief is granted for a source(s), the lender is relieved from: • Accuracy of the income calculation related to eligible income types that are on the verification report, and • Accuracy and integrity of the direct deposit data on the verification report	For eligible income types (as described in the "Eligible Income Types" subsection previously presented in this subtopic) that are on the verification report, the verification report is acceptable documentation. If alimony/child support/separate maintenance payment income is used, the documentation requirements in the "Documentation Lender is Required to Obtain" subsection subsequently presented in this subtopic must be met When there are multiple income sources and one or more income sources are needed to qualify the borrower, document the income source(s) as required by the feedback messages.
Not Eligible for Income Representation and Warranty Relief	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's income. Loan Product Advisor did not return a feedback message indicating representation and warranty relief was granted.	The income must be verified and documented as required by the applicable income type.
Unable to Assess for Income Representation and Warranty Relief	The lender is not eligible for relief from enforcement of representations and warranties related to the borrower's income. Loan Product Advisor was unable to assess the borrower's income. This could be due to missing or incomplete information from the third-party service provider designated by Freddie Mac or from the financial institution's data, or a system being down.	The income must be verified and documented as required by the applicable income type.

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Freddie Mac LPA Loans, continued

- **Automated Income Assessment Using Account Data**, continued
  - **Documentation Lender is Required to Obtain**
    - For alimony, child support or separate maintenance payment income, the lender must obtain and maintain in the mortgage file:
      - A copy of the legally binding documentation verifying the payor's obligation (i.e., signed court order, final divorce decree, legally binding separation agreement, legally binding child support agreement, or other legally binding documentation) for the previous six months, including the amount and the duration of the obligation, and
      - For child support income, evidence of the ages of the children for which child support is received
  - **Internal Revenue Service (IRS) Form 4506-C**
    - For mortgages that receive an income representation and warranty result of either "Eligible for Income Representation and Warranty Relief" or "Eligible for Partial Income Representation and Warranty Relief" with a feedback message indicating that no further documentation is required for the income reflected on the income verification report, if all of the borrower's income is from an eligible income type described in the "Eligible Income Types" subsection previously presented in this subtopic, the lender does not need to obtain and maintain in the mortgage file the following:
      - An IRS Form 4506-C (or an alternate form acceptable to the IRS that authorizes the release of comparable tax information to a third party) signed by the borrower, or
      - A Commonwealth of Puerto Rico Form 2907 or Form 4506-C (or an alternate form that authorizes the release of comparable tax information to a third party), as applicable, signed by the borrower for income that is derived from sources in Puerto Rico, Guam or the U.S. Virgin Islands and is exempt from federal income taxation under the Internal Revenue Code
    - For all other mortgages, the requirements outlined in "IRS Form 4506-C Requirements for all Income Qualification Sources" in the "General Income Documentation Requirements" subtopic previously presented in this document apply.

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Freddie Mac LPA Loans, continued

- **Automated Employment Assessment Using Account Data**
  - **Overview**
    - Automated employment assessment with Loan Product Advisor using account data, part of asset and income modeler (AIM), provides lenders with the option for an automated solution to meet the 10-day pre-closing verification (PCV) requirement which verifies the borrower's current employment as described in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic previously presented in this document.
    - The lender must obtain a verification report as described below in the "Verification Reports" subsection.
  - **Eligibility Requirements**
    - **Eligible Mortgages**
      - To be eligible for automated employment assessment using account data, the mortgage must:
        - Be a conventional mortgage
        - Be delivered with an asset verification report as described in "Verification Reports" previously presented in the "Automated Asset Assessment with Loan Product Advisor Using Account Data" or "Automated Income Assessment with Loan Product Advisor Using Account Data" sections of this subtopic
        - Verification reports may be obtained in conjunction with any of the automated offerings in this subtopic, or they may be independently obtained and used as an automated solution to meet the 10-day pre-closing verification (PCV) requirement
    - **Depository History**
      - For purposes of verifying the borrower's employment, the borrower's depository history must be transmitted to Freddie Mac with a minimum of three consecutive payroll deposits from the same payor(s)
  - **Verification Reports**
    - The lender must obtain a verification report that is produced:
      - By a third-party service provider designated by Freddie Mac,
      - Through a Freddie Mac-supplied application programming interface (API) using data transmitted by a third-party service provider designated by Freddie Mac, or
      - Through a Freddie Mac-supplied API using data submitted by the lender. The lender must obtain Freddie Mac's written approval to transmit data through the API.
    - The verification report must comply with the age of documentation requirements, as described in the "General Income Documentation Requirements" subtopic subsequently presented in this document.

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Freddie Mac LPA Loans, continued

- **Automated Employment Assessment Using Account Data**, continued
  - **Verification Reports,** continued
    - Regardless of the type of verification report(s) obtained, the lender must:
      - Confirm that each account is owned by at least one borrower
      - Confirm that all assets shown on the verification report are in U.S. dollars located in a U.S. or State-regulated financial institution
      - Confirm that the payor(s) is the borrower's current employer using the information in the mortgage file
      - Obtain and maintain the verification report(s) in the mortgage file
      - Submit the most current version of the verification report to Loan Product Advisor or the API. If the lender obtains an updated report, the updated information must be submitted to Loan Product Advisor or the API.
      - Investigate and resolve any inconsistent or contradictory information between the verification report, information contained in Form 65, *Uniform Residential Loan Application* (including the borrower's income and employment representations), and the mortgage file and, if applicable, update information in Loan Product Advisor or the API with the correct information.
- **Automated Assessment Results**
  - The results of the automated employment assessment related to the 10-day pre-closing verification (PCV) will be displayed in a message on the Feedback Certificate or reflected on the verification report with the "close-by-date."
  - The note date of the mortgage must be on or before the "close-by-date" reflected in the Feedback Certificate or on the verification report for the 10-day PCV requirement to be met. If no such message is returned, the lender must perform the 10-day PCV as described in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic previously presented in this document.
  - Alternatively, lenders can obtain a verification report after the note date but prior to the delivery date of the mortgage (to Truist) to confirm employment. In this case, the "close-by-date" will be after the note date; however, the 10-day PCV requirement will be met.
  - Lenders can use the verification report to satisfy the 10-day PCV requirement regardless of the income representation and warranty eligibility result or asset representation and warranty eligibility result.
  - If the lender does not use the automated employment assessment to meet the 10-day PCV requirement, then the lender must obtain a 10-day PCV as described in the "Verbal Verification of Employment (VVOE) / 10-Day Pre-Closing Verification (PCV)" subtopic previously presented in this document.

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Freddie Mac LPA Loans, continued

- **Borrower Cash Flow Included in the Loan Product Advisor Assessment**
  - **Overview**
    - For certain mortgages, Loan Product Advisor's assessment of a borrower's monthly cash flow identified on a verification report and submitted to Loan Product Advisor may positively impact the credit assessment. For any such mortgage, the Feedback Certificate will return a feedback message indicating the borrower's positive cash flow was included in the assessment.
  - **Eligibility Requirements**
    - For Loan Product Advisor to consider borrower cash flow in the credit assessment, the lender must obtain a verification report of the borrower's checking, savings, investment, and retirement account(s) with at least 12 months of data and submit to Loan Product Advisor.
    - At least one borrower on the transaction must have a usable credit score.
  - **Documentation Requirements**
    - For each verification report obtained, the lender must:
      - Confirm that each asset in the verification report is owned by at least one borrower and such borrower has access to the funds
      - Ensure that the most current version of the verification report is used by Loan Product Advisor. If the lender obtains an updated report, the mortgage must be resubmitted to Loan Product Advisor to ensure assessment of the most current information.
      - Maintain the verification report in the mortgage file if the last Feedback Certificate includes a feedback message that positive borrower cash flow was identified
    - The expiration date of the verification report reflected in feedback messaging complies with the age of documentation requirements.

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Underwriting the Borrower, Continued

Freddie Mac LPA Loans, continued

- **Resubmission Requirements/Loan Product Advisor Tolerances**
  - A mortgage may be resubmitted to Loan Product Advisor however, the Risk and/or Documentation Classes might change. Loan Product Advisor minimizes the number of times that the Documentation Class will change, even if the Risk Class changes.

  - **Resubmission Required**
    - The Risk Class and Documentation Level on the last Feedback Certificate must be based on submission of accurate data to Loan Product Advisor. Except as indicated in this section, resubmission of a mortgage to Loan Product Advisor prior to the delivery date is required if:
      - Information on the previous submission was not true, complete or accurate
      - The most recent submission on or before the note date (including the date of the Loan Product Advisor credit report(s)) exceeds the date requirements for credit reports; resubmission must occur on or before the note date
      - Any information submitted to Loan Product Advisor changes, except as indicated below.
    - If resubmission of a mortgage to Loan Product Advisor is after the note date, but prior to purchase by Truist, refer to the "Resubmission to Loan Product Advisor After the Note Date" section presented below for additional requirements.

  - **Resubmission Not Required**
    - A change from the previous submission involving the following does not require resubmission:
      - **Debts/Income:**
        - The monthly debt payment (including monthly housing expense) decreases
        - The income for any borrower increases
        - The income for any borrower decreases and/or the monthly debt payment (including monthly housing expense) increases, and
          - The total new debt payment-to-income ratio does not exceed 45%, and
          - The total difference does not change the total debt payment-to-income ratio by more than three percentage points

      - **Assets/Reserves:**
        - The amount of verified assets increases
        - The amount of verified reserves increases
        - The amount of verified reserves decreases to an amount that is no less than the reserves required to be verified on the Feedback Certificate

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Freddie Mac LPA Loans, continued

- **Resubmission Requirements/Loan Product Advisor Tolerances**, continued
  - **Loan Amount Changes on Refinance Transactions:**
    - **Loan Amount Decreases**
      - The loan amount decreases by no more than 5% on a refinance transaction and at the time of the most recent Loan Product Advisor submission mortgage insurance is not required on the mortgage, **OR**
      - The loan amount decreases by no more than 5% on a refinance transaction and at the time of the most recent Loan Product Advisor submission mortgage insurance on the mortgage is required, and
        - The change does not impact the amount of the mortgage insurance coverage, and
        - The amount of the mortgage insurance premium collected by the lender is based on the new loan amount and the lender obtains a new mortgage insurance certificate

      AND
      - For mortgages that qualify for an automated collateral evaluation (ACE) appraisal waiver, or ACE+ PDR the lender has not accepted the ACE appraisal waiver, or ACE+ PDR offer
    - **Loan Amount Increases**
      - On a refinance transaction, the loan amount increases by no more than $500 or up to 1% of the loan amount, whichever is less and based on the new loan amount mortgage insurance is not required on the mortgage, **OR**
      - On a refinance transaction, the loan amount increases by no more than $500 or up to 1% of the loan amount, whichever is less and based on the new loan amount mortgage insurance on the mortgage is required, and
        - The change does not impact the amount of the mortgage insurance coverage, and
        - The amount of the mortgage insurance premium collected by the lender is based on the new loan amount and the lender obtains a new mortgage insurance certificate

      AND
      - For mortgages that qualify for an ACE appraisal waiver, or ACE+ PDR, the lender has not accepted the ACE appraisal waiver offer or ACE+ PDR offer.
      - The increase in the monthly debt payment results in a debt payment-to-income ratio that meets the requirements in the “Debts/Income” section above.
  - Any other changes in the information submitted to Loan Product Advisor require resubmission.

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Freddie Mac LPA Loans, continued

- **Resubmission to Loan Product Advisor After the Note Date**
  - If the lender determines after the note date (but prior to purchase by Truist), that the information entered into Loan Product Advisor was not true, complete, and accurate and does not match the terms of the mortgage to be delivered to Freddie Mac, except as otherwise permitted in the "Resubmission Requirements/Loan Product Advisor Tolerances" section above and unless otherwise prohibited below, the mortgage must be resubmitted to Loan Product Advisor after the note date, but prior to purchase by Truist.
  - The lender must select "Post Closing Quality Control" as the Loan Processing Stage.
  - A mortgage cannot be resubmitted to Loan Product Advisor after the note date if:
    - Resubmission is more than 120 days after the Loan Product Advisor Assessment Expiration Date displayed on the Feedback Certificate in effect as of the note date; or
    - A borrower is being added or deleted, or a change is being made to a borrower's last name or social security number; or
    - A new credit report company needs to be selected; or
    - The single or joint merged credit report indicator changes; or
    - The order of borrowers changes on a joint merged credit request; or
    - The merged credit report number does not match the merged credit report number from the most recent complete transaction

Reference: See General Section 1.04: Automated Underwriting Standard and Section 1.05: Underwriting Standard of the *Correspondent Seller Guide*, for additional information.

**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Rates, Points and Lock-ins

CRA Incentive and Verification

Target Area

- Loan eligibility for CRA Incentive is limited to Truist Bank's Community Reinvestment Act (CRA) assessment areas. It is also based on the subject property being located in a low-or-moderate income census tract or the borrower's income being equal to or lower than Truist's maximum allowable income level for the property county.
- Truist's assessment areas are NOT located in all areas of the states.
- To determine if your loan qualifies for the incentive(s), take the following steps:

Step	Action
1	Go to www. truistgeocoder.com
2	Enter Password: CORRES
3	Input your borrower's annual income and property address
4	You will receive either a "Qualified" or "not-Qualified" value
5	If "Qualified," lock your loan at LendingSpace
6	Complete the CRA Census Tract Verification Form (COR 0560A), if required. Email completed form to Truist.Corr.CRA@truist.com within 48 hours of loan being locked.

- If the form is received within 48 hours of lock, Truist will validate the information and make the appropriate price adjustment.

Interest Rate and Discount Points

The interest rate and discount points are established by Truist. Refer to Truist's Rate Sheet.

Investor Codes

Agency and Agency Plus Investor Codes

Underwriting Method	Investor Code
Non-AUS Loans	000
Fannie Mae DU Loans	111
Freddie Mac LPA Loans	213

Agency Plus Select Investor Codes

Underwriting Method	Investor Code
Fannie Mae DU Loans	836
Freddie Mac LPA Loans	836

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Rates, Points and Lock-ins, Continued

Lock-ins

Reference: See General Section 1.03: Loan Registration and Lock-in Procedures of the *Correspondent Seller Guide* for lock-in procedures and requirements.

Program Codes

Agency Program Codes

Program Description	Program Code for Truist Internal Use Only
Agency Fixed 10 Year	• C10FX (Primary Residence) • C10SH (Second Home) • C10NO (Investment Property)
Agency Fixed 15 Year	• C15FX (Primary Residence) • C15SH (Second Home) • C15NO (Investment Property)
Agency Fixed 20 Year	• C20FX (Primary Residence) • C20SH (Second Home) • C20NO (Investment Property)
Agency Fixed 30 Year	• C30FX (Primary Residence) • C30SH (Second Home) • C30NO (Investment Property)
ARMAlt Agency 30 Year 2-1	C30FX
ARMAlt Agency 30 Year 1.5-.75	C30FX
ARMAlt Agency 30 Year 1-.5	C30FX
Agency 5/6 SOFR ARM	56FNA
Agency 7/6 SOFR ARM	76FNA
Agency 10/6 SOFR ARM	106FNA

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Rates, Points and Lock-ins, Continued

Program Codes, (continued)

Agency Plus Program Codes

Program Description	Program Code for Truist Internal Use Only
Agency Plus Fixed 10 Year	C10HB
Agency Plus Fixed 15 Year	C15HB
Agency Plus Fixed 20 Year	C20HB
Agency Plus Fixed 30 Year	C30HB
ARMAlt Agency Plus 30 Year 2-1	C30HB
ARMAlt Agency Plus 30 Year 1.5-.75	C30HB
ARMAlt Agency Plus 30 Year 1-.5	C30HB
Agency Plus 5/6 SOFR ARM	56FNHB
Agency Plus 7/6 SOFR ARM	76FNHB
Agency Plus 10/6 SOFR ARM	106FNHB

Agency Plus Select Program Codes

Program Description	Program Code for Truist Internal Use Only
Agency Plus Select Fixed 15 Year	C15HBS
Agency Plus Select Fixed 30 Year	C30HBS

**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Application and Consumer Compliance

General	• All consumer disclosures or notices required by federal, state and local laws and regulations must be complied with. This includes, but is not limited to the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, The Fair Credit Reporting Act, all as amended, and with all applicable usury limitations. • Further, all consumer disclosures relating to the mortgage loan must have been properly given on a timely basis and in compliance with applicable laws, rules and regulations. Reference: Please refer to Section 1.35: Compliance Overview Standard in the *Correspondent Seller Guide* for further information on consumer disclosures, consumer handbooks, compliance and predatory lending.

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Application and Consumer Compliance, Continued

Loan Application Requirements

Non-AUS

- **Documenting the Loan Application**
  - A loan application must be documented on the *Uniform Residential Loan Application* (Form 1003).
  - A complete, signed, and dated version of the final Form 1003 must always be included in the loan file. The final Form 1003 must reflect the income, assets, debts, and final loan terms used in the underwriting process.
  - If either the note or the security instrument and the final Form 1003 will be executed pursuant to a power of attorney, then the initial Form 1003 must be personally signed by the borrower (except as provided below) and included in the loan file. However, a power of attorney may be used to execute both the initial and final Form 1003 in any of the following circumstances:
    - a borrower is on military service with the United States armed forces serving outside the United States or deployed aboard a United States vessel, as long as the power of attorney expressly states an intention to secure a loan on a specific property;
    - the attorney-in-fact or agent signs the security instrument in their personal capacity with regard to their individual ownership interest in the mortgaged property; or
    - the lender determines such use is required by applicable law.

    Reference: See "Power of Attorney" subsequently presented in the "Closing and Loan Settlement Documentation" topic for additional guidance regarding requirements for the use of a power of attorney.

  Notes:
  - Truist clarifies that for underwriting and purchases of Agency loans, Truist will accept photocopies, facsimile or imaged electronic documents to satisfy these loan application requirements.
  - The terms "loan application" and "Form 1003" generally mean the same thing. The term "online loan application" refers to the lender's loan origination system where data is collected from the Form 1003, in addition to other loan data used in underwriting.

- **Requirements for the Loan Application Package**
  - The table below provides the requirements for the loan application package.

✓	The loan application package must include…
	A complete, signed, and dated version of the final Form 1003 (per the above requirements).
	A copy of the ratified sales agreement, if applicable.
	A copy of the borrower reconsideration of value (ROV) disclosure described in the "Appraisal Quality Matters" subtopic in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard, if applicable.
	A copy of the *Supplemental Consumer Information Form* (Form 1103).
	Escrow/closing or settlement instructions, if applicable.
	Any other information or documentation used to verify, clarify, or substantiate information in the borrower's application.
	All other documentation that was used to make a prudent underwriting decision, including (but not limited to) the credit report, property appraisal and inspection reports, and project documents.

Continued on next page

Loan Application Requirements, (continued)

Non-AUS, continued

- **Requirements for the Loan Application Package**, continued

  Note: Any available technology may be used to reproduce copies of the documents in the loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the lender in hardcopy or via email or other electronic means.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Notes:
- See "Ensuring DU Data and Delivery Information Accuracy/DU Tolerances" guidance previously presented in the "Underwriting the Borrower" topic for additional information about ensuring DU data accuracy and tolerances.
- The terms "loan application" and "Form 1003" generally mean the same thing. The term "online loan application" refers to the DU user interface (or the lender's loan origination system) where data is collected from the Form 1003, in addition to other loan data used in underwriting.

Freddie Mac LPA
Follow LPA requirements, which are as follows:
- The mortgage file must include the following:
  - A Record (as that term is defined below) of the initial Form 65, *Uniform Residential Loan Application*
  - The final signed application, and
  - A Record of Form 1103, *Supplemental Consumer Information Form*

  Note: A Record is defined as information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form as defined in the "UETA" and/or "E-SIGN." A Record may be a paper or an "Electronic" document.

- The final signed application must match the file documentation. If there are any discrepancies between the information on the application and the information in the credit, income and assets verifications, a written explanation of such discrepancies must also be included in the mortgage file.

- **Required Use of Form 65, *Uniform Residential Loan Application***
  - Form 65, *Uniform Residential Loan Application*, must be used for all mortgage applications.

    Note: For loans originated using the legacy 07/05 (Rev. 06/09) version of Form 65, *Uniform Residential Loan Application*, Form 65A, *Statement of Assets and Liabilities*, may be used to supplement the Form 65, if needed. Form 65A, *Statement of Assets and Liabilities* is not used with the redesigned Form 65 *(version with the 1/2021 effective date in the footer).*

  - The lender must use the version of Form 65 that is current as of the date of the loan application. See Freddie Mac's Seller Guide Exhibit 4, Single-Family Uniform Instruments, for the date of the current version of Form 65 and the most current version of the Uniform Mortgage Data Program® (UMDP®) Instructions for Completing the Uniform Residential Loan Application.

Continued on next page

Loan Application Requirements, (continued)

Freddie Mac LPA, continued

- **Required Use of Form 65, *Uniform Residential Loan Application,*** continued

  - Lenders may make changes to the style and formatting of the Form 65 and its components – Borrower Information, Additional Borrower, Continuation Sheet, Lender Loan Information and the Unmarried Addendum, if applicable, in accordance with the UMPD *Rendering Options for the Uniform Residential Loan Application, Document revised 1/2020* (the "Rendering Options") as it may be amended from time to time. As provided in the Rendering Options, the fields names, descriptions, and order of sections may not be altered in anyway. Form fields within a section may be moved within that section if additional field length is needed. Any adjustments made to the format of the form must be made pursuant to all applicable law.
  - Translation aids for Form 65 and its components are available on Freddie Mac's Multi-language Resources for Lenders and Other Housing Professionals web page. These translation aids complement the applicable English-language documents and may be provided to consumers as supplemental education material when originating single-family residential mortgages. The Spanish translation aids are for reference only and are not to be executed.

    Note: For loans originated using the Spanish/English version of the legacy 07/05 (Rev. 06/09) Form 65s, *Uniform Residential Loan Application*, Form 65As, *Statement of Assets and Liabilities*, may be used to supplement the Form 65s, if needed. Form 65As, *Statement of Assets and Liabilities* is not used with the redesigned Form 65 *(version with the 1/2021 effective date in the footer)*.

- **Completion Instructions**
  - A completed Form 65 is used to begin the process of determining the borrower's credit reputation and capacity to repay the mortgage. If a residential mortgage credit report (RMCR) is ordered, the information on the Form 65 must be provided to the consumer reporting agency that is to issue the RMCR. The lender may elect to complete the liabilities portion of the application directly from the credit reports either manually or through an automated process.
  - The final Form 65 must reflect accurate and complete information as of the note date. All of the borrower's debts incurred through the note date must be included on final Form 65 and must be considered in the calculation of the borrower's monthly debt payment-to-income ratio. The final Form 65 must be complete, legible, dated and signed by the borrowers signing the note.
  - Information on the initial application must be entered as originally provided by the borrower and/or, if applicable, as listed on the credit reports, whether handwritten or typed. The information given by the borrowers on the application must be consistent with both the identifying information in the credit reports as well as with the verifications in the mortgage file. For any mortgage in which there is a material discrepancy, the lender must prepare a written statement explaining the discrepancy.

Continued on next page

Loan Application Requirements, (continued)

Freddie Mac LPA, continued

- **Electronic and Fax Copies of Loan Applications**
  - Freddie Mac agrees that the lender may receive an initial Form 65 from a borrower as an electronic record or fax copy. The Freddie Mac Form 65 contains language in the Acknowledgement and Agreements Section in the Borrower Information component that permits the borrower to:
    - physically sign a paper Form 65 with pen and ink and deliver a fax copy of the signed Form 65 to the lender via facsimile transmission, or
    - electronically sign an electronic Form 65 using an electronic signature and deliver the electronic Form 65 to the lender as an electronic record via the internet or other form of electronic transmission
  - The lender represents and warrants that any initial Form 65 received from a borrower as an electronic record or fax copy has been duly signed by the borrower and complies with the federal Electronic Signatures in Global and National Commerce Act ("E-Sign") and all other applicable state and federal laws and regulations including, without limitation, all state and federal consumer disclosure laws and regulations. The lender agrees that the initial Form 65 received from a borrower as an electronic record or fax copy are subject to the representations, warranties, covenants, agreements and requirements, as applicable.
  - The final loan application delivered by the borrower to the lender at loan closing must be an original paper Form 65, either physically signed by the borrower using a pen or signed electronically by the borrower at closing (settlement) using an electronic signature that meets all applicable electronic signature requirements.
  - The lender may maintain copies of the original signed paper Form 65 in accordance with mortgage file retention requirements.

Consumer Handbook on Adjustable Rate Mortgages

Reference: Please refer to Section 1.35: Compliance Overview Standard in the *Correspondent Seller Guide* for further information on consumer disclosures, consumer handbooks, compliance and predatory lending.

Program Disclosures

- Lenders must provide borrowers with disclosures in compliance with all applicable laws.
- The applicable ARM program disclosure must be presented to and signed by the borrower when originating an ARM transaction. The disclosure must be present in the file prior to funding.

**** See Bulletin COR21-013 and COR21-014 regarding ineligibility of Agency non-AUS second home and investment property transactions. ****

Loan Submission and Underwriting

General	Reference: See General Section 1.05: Underwriting Standard, of the *Correspondent Seller Guide*, for additional information.
Reviewing Sales Contracts	**Non-AUS** • For purchase mortgages, a copy of the fully executed sales contract and all addenda must be included in the mortgage file. • Electronically executed sales contracts are acceptable. • The lender must take reasonable steps to determine that the sales contract is validly signed by the correct parties in all required places. **Fannie Mae DU** Follow DU requirements, which are the same as non-AUS requirements. **Freddie Mac LPA** For purchase mortgages, a copy of the fully executed sales contract and all addenda must be included in the mortgage file.

Closing and Loan Settlement Documentation

General

The following closing requirements are specific to the Agency LoanStandard. Unless specified below, all closing forms and documentation should follow standard Truist requirements.

Signature Requirements for Notes

Non-AUS

- **Borrowers' Signatures on Note**
  - An individual whose credit (credit history, income, assets, liabilities, etc.) is used in qualifying for the loan must sign the note.
    - An individual whose credit was not used in qualifying for the loan but who does have an ownership interest in the property must be named in and sign the security instrument, but is not required to sign the note.
    - An individual who is not a loan applicant but whose credit is used in qualifying for the loan pursuant to a requirement of applicable law, is not required to sign the note, but if they have an ownership interest in the property must be named in and sign the security instrument.
    - An individual who is a co-signer or guarantor and who does not have an ownership interest in the property must sign the note, but is not named in (or required to sign) the security instrument.
    - When an inter vivos revocable trust is permitted as a mortgagor, and no individual borrower has an ownership interest in the property (either on title or by operation of law), the trust must execute the note, but may do so without recourse for the exclusive purpose of subjecting its interest in the property to the lien of the mortgage. See the "Inter Vivos Revocable/Living Trust" subtopic under the "Eligible Borrowers" and "Closing and Loan Settlement Documentation" topics for more information about the documentation requirements for mortgages granted by inter vivos revocable trusts including appropriate forms of signature for the note.
  - A borrower's signature should not contradict the name typed below the signature line on the note. Slight variations are acceptable—a missing initial, the omission of a "Jr" or "Sr," or an over- or under-signing (such as a borrower signing as William Thomas Smith when the typed name is William T. Smith, or vice versa). Significant variations—such as William Smith signing as "Skip" Smith, signing with an "X," or signing under an "also known as" name—are not acceptable unless the lender obtains a name affidavit from the borrower stating that they commonly use the alternative signature.

Continued on next page

Closing and Loan Settlement Documentation, Continued

Signature Requirements for Notes, (continued)

Non-AUS, continued

- **Signature Requirements: Powers of Attorney and Guardianship**
  - The following persons also may be eligible to sign the note on a borrower's behalf in accordance with the requirements below.
    - An attorney-in-fact may sign the note. See the "Power of Attorney" subtopic subsequently presented in this topic for further requirements governing the use of a power of attorney.
    - A court-appointed guardian may sign the note if the borrower is not legally competent, provided that they have unlimited power over the ward's affairs, including the power to hold, convey, and give a lien against real property owned by the ward, to make payments from the ward's assets, and to permit inquiries concerning the ward's credit.
      The lender should obtain a copy of the documents making the appointment. If the guardian in some other capacity is a party to the loan or sale transaction—for example, the seller of the property—the lender should ascertain that there are no material conflicts of interest.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- The note must be signed by any individual whose income or financial strength is needed to meet the credit underwriting requirements. If the mortgage is delivered as an owner-occupied mortgage, the note must be signed by an owner-occupant.

  Truist Note: Truist clarifies the following:
  - An individual who is not a loan applicant but whose credit is used in qualifying for the loan pursuant to a requirement of applicable law, is not required to sign the note, but if they have an ownership interest in the property must be named in and sign the security instrument.

Continued on next page

Borrowers' Signatures on Security Instruments

Non-AUS

The following person(s) must sign the security instrument:

- Each person who has an ownership interest in the security property, even if the person's income is not used in qualifying for the mortgage.
- The spouse or domestic partner of any person who has an interest in the property, if his or her signature is necessary under applicable state law to waive any property right he or she has by virtue of being the owner's spouse or domestic partner.
- Signature Requirements: Powers of Attorney and Guardianship
  - The following persons may sign security instruments on a borrower's behalf:
    - An attorney-in-fact may sign the security instrument, as long as the lender obtains a copy of the applicable power of attorney. In jurisdictions where a power of attorney used for a signature on a security instrument must be recorded with the security instrument, the lender must ensure that recordation has been effected. . See the "Power of Attorney" subtopic subsequently presented in this topic for further requirements governing the use of a power of attorney..
    - A court-appointed guardian may sign the security instrument if the borrower is not legally competent, provided that he or she has unlimited power over the ward's affairs, including the power to hold, convey, and give a lien against real property owned by the ward, to make payments from the ward's assets, and to permit inquiries concerning the ward's credit. The lender should obtain a copy of the documents making the appointment. If the guardian in some other capacity is a party to the loan or sale transaction—for example, the seller of the property—the lender should ascertain that there are no material conflicts of interest.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The security instrument must be signed by all individuals with an ownership interest in the mortgaged premises. (See Freddie Mac Exhibit 5, Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application, for permissible changes to the Fannie Mae/Freddie Mac Uniform Instruments.)
- The security instrument must also be signed by each individual whose signature is necessary under the applicable statutory or decisional law of the state to create a valid lien, pass clear title, waive inchoate rights to property or assign earnings.

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Closing Legal Documents

The following table shows the required legal documents and forms.

Legal Documents	Investor Form
Fixed Rate Note	Fannie Mae/Freddie Mac 3200 or state specific version
Non-Convertible Fully Amortizing 5/6-Month, 7/6-Month, and 10/6-Month SOFR Adjustable Rate Note	Fannie Mae/Freddie Mac 3442 or state specific version
Security Instrument	Fannie Mae/Freddie Mac state specific version
Non-Convertible Fully Amortizing 5/6-Month, 7/6-Month, and 10/6-Month SOFR Adjustable Rate Rider	Fannie Mae/Freddie Mac 3142 or state specific version
2nd Home Rider, if applicable	Freddie Mac 3890
1-4 Family Rider, if applicable	Fannie Mae/Freddie Mac 3170 (Michigan loans requires a state specific version)
Condo Rider, if applicable	Fannie Mae/Freddie Mac 3140
PUD Rider, if applicable	Fannie Mae/Freddie Mac 3150

Note for Fannie Mae's HomeStyle Renovation Mortgages Only: Fannie Mae has specialized mortgage loan documentation that a borrower must execute to ensure that any required additional responsibilities, obligations, or rights of the borrower, the lender, or a third party are set out in legal documents that are separate and apart from the security instruments, notes, and riders that are typically used for mortgages delivered to Fannie Mae. See the "Fannie Mae's HomeStyle Renovation Mortgage" subtopic subsequently presented in this topic for additional information related to the special-purpose documents for HomeStyle Renovation mortgages.

Fannie Mae's HomeStyle® Renovation Mortgage

Non-AUS

- Fannie Mae has developed model documents for use in connection with HomeStyle Renovation mortgages. Because these documents are model documents, they may need to be amended for certain types of lenders or particular types of transactions.
  - The model *Multistate Renovation Loan Rider to Security Instrument* (Form 3732) and the *Multistate Renovation Investor Rider to Security Instrument* (Form 3733) may be appropriately modified and used for HomeStyle Renovation mortgages.
- The mortgage or an appropriate rider to the security instrument ("renovation loan rider to security instrument" or "security instrument rider") must:
  - grant the lender a security interest in any personal property (including building materials) located in, or on, or used, or intended to be used, in connection with the work, and
  - provide that a borrower default under the renovation loan agreement must constitute a default under the security instrument and the note, and
  - grant the lender an assignment of rents as additional security for the loan and the right to appointment of a receiver of rents if the property is held for rental purposes.

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Closing and Loan Settlement Documentation, Continued

Fannie Mae's HomeStyle® Renovation Mortgage, continued	**Fannie Mae DU** Follow DU requirements, which are the same as non-AUS requirements. **Freddie Mac LPA** Not eligible

Miscellaneous Forms

COR 0005	*Conventional Underwriting Submission Checklist*
COR 0007	*Borrower's Documentation Certification*
COR 0050a	*Verbal Verification of Employment*
COR 0050b	*Verbal Verification of Self Employment*
COR 0212a	*Certification of Project Compliance: Condominium Lender Warranties - Agency and Non-Agency Loan Products*
COR 0371	Gift Letter

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Document Warranties	• Lenders must use the mortgage documents for conventional mortgage loans that are correct for the jurisdiction, the mortgage type, the lien and the property type. • The lender must use the most current version and appropriate forms. In some cases, the mortgage forms may have to be adapted to meet the lender's jurisdictional requirements. • Any change made to multi-state documents must comply with all applicable laws. • Truist relies upon the Correspondent lender's representations and warranties that the loans are enforceable in accordance with the terms of the Correspondent Loan Purchase Agreement and comply with all applicable laws. Accordingly, it is advisable that lender's legal counsel for compliance with the laws of the state in which each loan is made review forms and documents.
Document Review Fee	For all loans, a document review fee will be charged and will be deducted from proceeds at loan purchase. Reference: See General Section 1.08: Loan Delivery and Purchase Review Standard, in the *Correspondent Seller Guide*, for information on fee charges.

Escrow Accounts and Escrow Waivers	**Non-AUS**
	• **Escrow Accounts**
	    • First mortgages generally must provide for the deposit of escrow funds to pay as they come due, including taxes, ground rents, premiums for property insurance, and premiums for flood insurance. However, escrow deposits for the payment of premiums for borrower-purchased mortgage insurance (if applicable) are mandatory. For the calculation of the monthly real estate tax payment, lenders must comply with all federal and state regulations in calculating the amount to be collected for any established escrow account.
	    • Fannie Mae does not require an escrow deposit for property or flood insurance premiums for an individual unit in a condo or PUD when the project in which the unit is located is covered by a blanket insurance policy purchased by the homeowners' association.
	    • If a special assessment levied against the property was not paid at loan closing, the borrower's payment must include appropriate accruals to ensure that any estimated annual payment toward the assessment will be accumulated by the time it comes due.
	    • For certain refinance transactions where the borrower is financing real estate taxes in the loan amount, an escrow account is required, subject to applicable law or regulation. See the "Limited Cash-Out Refinance" and "Cash-Out Refinance" subtopics in the "Refinances" topic for additional information.

Continued on next page

Escrow Accounts and Escrow Waivers, (continued)

Non-AUS, continued

- **Escrow Waivers**
  - Fannie Mae advocates the establishment of an escrow account for the payment of taxes and insurance, particularly for borrowers with blemished credit histories or first-time homeowners.
  - Unless required by law, lenders may waive escrow account requirements for an individual first mortgage, provided the standard escrow provision remains in the mortgage loan legal documents. Lenders cannot waive an escrow account for certain refinance transactions (see above) or for the payment of premiums for borrower-purchased mortgage insurance (if applicable). When the requirement for an escrow account is waived, the lender must retain Fannie Mae's right to enforce the requirement in appropriate circumstances.
  - Lenders must have a written requirement governing the circumstances under which escrow accounts may be waived. When a lender permits escrow waivers, subject to the mortgage documents and applicable law, the lender's written policies must provide that the waiver not be based solely on the LTV ratio of a loan, but also on whether the borrower has the financial ability to handle the lump-sum payments of taxes, insurance, and other items described above.

  - **Borrower Eligibility**
    - Truist standards for determining if the borrower has the financial ability to handle the lump-sum payments of taxes, insurance, and other items is defined as the borrower credit history not having one of the following characteristics:
      - Derogatory Credit History, such as:
        - There is more than one account showing recent late payments.
        - There is more than one 30-day late mortgage payment in the last 12 months.
        - There are multiple episodes of late payments extending over a period of time.
        - The public record information reveals occurrences of derogatory credit information, including judgments, tax liens, and/or collection accounts.
      - High DTI with no savings
      - Insufficient reserves to handle large special assessments levied against the property

Continued on next page

Escrow Accounts and Escrow Waivers, (continued)

Non-AUS, continued

- **Escrows Ineligible for Waiver**
  - Truist further clarifies that the following escrows are ineligible for waiver:
    - Borrower Paid Mortgage Insurance
    - Flood insurance, if:
      - the subject property is a primary residence (all transaction types), second home (all transaction types), or a cash-out refinance investment property or
      - the subject property is a condominium and all individual flood insurance policies for the condominium unit shows the client as the insured, including flood insurance policies that are required to supplement a Residential Condominium Building Association Policy (RCBAP) shortfall.
        - A condominium and some PUD properties are not required to establish an escrow for flood insurance if that condominium or PUD property has a master policy that carries sufficient flood coverage and that policy reflects the HOA as the insured and not the subject. However if it is acceptable for the client to obtain an individual flood policy, the mandatory escrow is required for the individual policies.

      Truist Note: The above guidance applies, regardless of any exception under the Homeowner Flood Insurance Affordability Act (HFIAA) for small lenders.

      - Real estate taxes if:
        - Cash-out refinance transaction includes the financing of delinquent real estate taxes (taxes past due by more than 60 days), unless requiring an escrow account is not permitted by applicable law or regulation.

      Reference: See the “Limited Cash-Out Refinance” and “Cash-Out Refinance” subtopics in the “Refinances” topic for additional information.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Escrow Requirements**
  - Freddie Mac does not require escrow accounts except with respect to the collection of borrower-paid mortgage insurance paid monthly and when required by applicable law.

Continued on next page

Escrow Accounts and Escrow Waivers, (continued)

Freddie Mac LPA, continued

- **Lender Requirement for Not Requiring Escrow accounts**
  - Lenders that sell mortgages without escrow accounts must establish and maintain a written requirement for determining when escrow accounts are not required. The lender's determination that escrow accounts are not required for a mortgage must be based on the evaluation of the borrower's ability to make all payments for the expenses to be paid under the mortgage as they become due. These expenses include, but are not limited to, taxes, special assessments, ground rents and other charges that are or may become first liens on the mortgaged premises, as well as property insurance premiums. Lenders may not waive the requirement for escrow accounts with respect to collection of borrower-paid mortgage insurance and when escrows are required by law.

  - **Borrower Eligibility**
    - Truist standards for determining if the borrower has the financial ability to handle the lump-sum payments of taxes, insurance, and other items is defined as the borrower credit history not having one of the following characteristics:
      - Derogatory Credit History, such as:
        - There is more than one account showing recent late payments.
        - There is more than one 30-day late mortgage payment in the last 12 months.
        - There are multiple episodes of late payments extending over a period of time.
        - The public record information reveals occurrences of derogatory credit information, including judgments, tax liens, and/or collection accounts.
      - High DTI with no savings
      - Insufficient reserves to handle large special assessments levied against the property.

- **Best Practices**
  - Although not required, Freddie Mac encourages lenders to require escrows for the following mortgages:
    - Mortgages to borrowers that are first-time homebuyers
    - Home Possible® mortgages
    - Standard Agency LPA transactions with an LTV, TLTV, and/or HTLTV ratio greater than 95%
    - Mortgages secured by 2- to 4-unit properties
    - Second home mortgages
    - Investment property mortgages
    - Mortgages where the borrower has less than six months of reserves
    - Refinance mortgages where taxes were past due on the mortgage being refinanced

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Closing and Loan Settlement Documentation, Continued

Escrow Accounts and Escrow Waivers, (continued)

Freddie Mac LPA, continued

- **Escrows Ineligible for Waiver**
  - Truist further clarifies that the following escrows are ineligible for waiver:
    - Borrower Paid Mortgage Insurance
    - Flood Insurance if:
      - the subject property is a primary residence (all transaction types), second home (all transaction types), or a cash-out refinance investment property, or
      - the subject property is a condominium and all individual flood insurance policies for the condominium unit shows the client as the insured, including flood insurance policies that are required to supplement a Residential Condominium Building Association Policy (RCBAP) shortfall.
        - A condominium and some PUD properties are not required to establish an escrow for flood insurance if that condominium or PUD property has a master policy that carries sufficient flood coverage and that policy reflects the HOA as the insured and not the subject. However if it is acceptable for the client to obtain an individual flood policy, then mandatory escrow is required for the individual policies.

    Truist Note: The above guidance applies, regardless of any exception under the Homeowner Flood Insurance Affordability Act (HFIAA) for small lenders.

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First Payment Date

Non-AUS

- The first payment date must be no later than two months from the final disbursement date of the loan proceeds. In the case of a single-close construction-to-permanent loan, the two month period begins at the time of the conversion to permanent financing.
- The following table provides an example of this requirement.

If the final disbursement date occurs in...	Then the first payment date must be no later than...
January	March
February	April
November	January

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The note must provide for full amortization by maturity through regular monthly payments. Amortization must begin no later than 62 days after final disbursement of the mortgage proceeds.

Leasehold Estates

Non-AUS

- **Uniform Riders and Fannie Mae-Specific Riders to Security Instruments**
  - A rider that includes a cross-default provision must be used to amend security instruments for mortgages secured by leasehold estates so that a default on the lease is a default on the mortgage.

Fannie Mae DU

Follow DU requirements, which are the same as conventional non-AUS requirements.

Freddie Mac LPA

- **Security Instruments for Leasehold Mortgages**
  - The Uniform Security Instrument must describe the mortgaged premises as a leasehold interest created by a recorded lease in the property described in the legal description. In addition, the lender must comply with Exhibit 5, Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application, for leasehold estates.

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Closing and Loan Settlement Documentation, Continued

Life Estate Tenancy	Agency investors will not allow property to be held as a life estate. ***NO EXCEPTIONS.***

Inter Vivos Revocable Trusts/Living Trust

Non-AUS

- **Title and Title Insurance Requirements**
  - The lender must retain in the individual loanfile a copy of any trust documents that the title insurance company required in making its determination on the title insurance coverage.
  - The following requirements apply to title and title insurance:
    - Title held in the trust does not in any way diminish Fannie Mae's rights as a creditor, including the right to have full title to the property vested in Fannie Mae should foreclosure proceedings have to be initiated to cure a default under the terms of the mortgage.
    - The title insurance policy ensures full title protection to Fannie Mae.
    - The title insurance policy states that title to the security property is vested in the trustee(s) of the inter vivos revocable trust.
    - The title insurance policy does not list any exceptions with respect to the trustee(s) holding title to the security property or to the trust.
    - Title to the security property is vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust.

- **Execution and Signature Requirements**
  - The note must be executed in accordance with Fannie Mae Exhibit E-2-04, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts. . The trustee(s) of the inter vivos revocable trust also must execute the security instrument and any applicable rider.
  - Each individual establishing the trust whose credit is used to qualify for the mortgage must acknowledge all of the terms and covenants in the security instrument and any necessary rider, and must agree to be bound thereby, by placing his or her signature after a statement of acknowledgment on such documents.
  - Any other party that Fannie Mae requires to sign either the mortgage note or the security instrument also must execute the applicable document(s).
  - Fannie Mae Exhibit E-2-04, Signature Requirements for Mortgages to Inter Vivos Revocable Trusts, includes the form of signature for the trustee(s) and the statement of acknowledgment for each individual establishing the trust whose credit is used to qualify for the mortgage.

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Inter Vivos Revocable Trusts/Living Trust, (continued)

Non-AUS, continued

- **Signature Requirements When the Borrower is Individual and Inter Vivos Revocable Trust is Mortgagor**
  - When one or more eligible inter vivos revocable trusts hold title to the mortgaged property (alone or with another eligible inter vivos revocable trust), only an individual who is both grantor and primary beneficiary of one of the trusts may be a borrower and must sign the note in his or her individual capacity. In addition, each inter vivos revocable trust, acting through its trustee(s), is required to sign the note in connection with its grant of the mortgage. The inter vivos revocable trust may sign the note without recourse so that its liability for repayment of the note is limited to its interest in the mortgaged property. Such non-recourse status does not affect or otherwise limit the personal liability of the individual establishing the inter vivos revocable trust under the note, and is in addition to the limitations on personal liability for certain trustees of inter vivos revocable trusts outlined below.
  - When an individual borrower has a direct ownership interest in the property, no other person (including a trust) is required to sign the note (except other borrowers).
- **Trustee Exclusion from Personal Liability**
  - Certain trustees may request exclusion from personal liability under the mortgage instruments. Lenders may agree to such requests, subject to the following conditions:
    - Institutional trustees and individual trustees (other than individuals serving as trustees who both established the trust and whose credit is used to qualify for the mortgage) may be excluded from personal liability under the security instrument.
    - Institutional trustees and individual trustees (other than individuals serving as trustees whose credit is used to qualify for the mortgage, including individuals who established the trust) may be excluded from personal liability under the mortgage note.
  - Lenders that agree to modify the mortgage instruments to include an exclusion from personal liability are responsible for ensuring that the modifying language:
    - pertains only to the relevant trustee,
    - does not impair the note holder's power to foreclose, and
    - does not in any way release from liability any individual trustee who is not identified above as being permitted to be released from liability.

- **Defining the Responsible Borrower in an Inter Vivos Revocable Trust**
  - Fannie Mae Exhibit E-2-04, Revocable Trust Rider (Sample Language), includes sample language for a revocable trust rider. This rider (or a similar one appropriately modified to reflect the requirements of specific states) avoids ambiguities for mortgages made to inter vivos revocable trusts by clarifying who is considered to be "the borrower" with respect to any given covenant in the security instrument.

Continued on next page

Inter Vivos Revocable Trusts/Living Trust, (continued)

Non-AUS, continued

- **Defining the Responsible Borrower in an Inter Vivos Revocable Trust,** continued
  - Instead of using a revocable trust rider, the lender may either:
    - amend the security instrument to include appropriate definitions and language similar in substance to Fannie Mae's sample rider, or
    - use the standard security instrument without such an amendment or the rider.

- **Requirements for Revocable Trust Riders**
  - If the lender chooses to require a revocable trust rider as additional mortgage documentation, the rider must be:
    - executed by the trustee(s) of the inter vivos revocable trust and by any other party that Fannie Mae requires to sign the security instrument, and
    - acknowledged by each individual establishing the trust whose credit is used to qualify for the mortgage.
  - If the mortgage is secured by a California property, the lender should use Fannie Mae's sample rider. If the mortgage is secured by property located in another state, the lender should use a rider that has been appropriately modified to reflect the requirements of that state (unless the lender determines that use of Fannie Mae's sample Revocable Trust Rider is appropriate for the specific state).
  - Should foreclosure proceedings have to be initiated for a mortgage secured by a property located in a state other than California, the lender must indemnify and hold Fannie Mae harmless against any losses incurred by Fannie Mae that relate either:
    - to the modifications the lender made to the Fannie Mae sample rider (or to the inappropriate use of the Fannie Mae sample rider), or
    - to any ambiguity in the application of the covenants in the security instrument.
  - Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the acquired property.

- **Requirements for Amended Security Instrument**
  - If the lender chooses to amend the security instrument instead of using a revocable trust rider, it should follow Fannie Mae's instructions regarding parties who must sign the security instrument, including having only the individuals establishing the trust whose credit is used to qualify for the mortgage sign a statement of acknowledgment of the security instrument.

    Reference: See the "Execution and Signature Requirements" previously presented in this subtopic for additional guidance.

  - The lender must indemnify and hold Fannie Mae harmless against any losses incurred by Fannie Mae that relate either to the lender's amendment or to any ambiguity in the application of the covenants in the security instrument should foreclosure proceedings later have to be initiated to acquire the property. Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the acquired property.

Continued on next page

Inter Vivos Revocable Trusts/Living Trust, (continued)

Non-AUS, continued

- **Requirements for Standard Security Instrument and No Rider**
  - If the lender chooses not to amend the security instrument and not to use the revocable trust rider, it must agree to indemnify and hold Fannie Mae harmless against any losses incurred by Fannie Mae that relate to any ambiguity in the application of the covenants in the security instrument should foreclosure proceedings later have to be initiated to acquire the property. Alternatively, Fannie Mae may require the lender to repurchase the mortgage or the acquired property.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Title and title insurance**
  - Title: The title to the property is vested in the trustee(s) on behalf of the trust (or in such other manner as is customary in the jurisdiction for Living Trusts)
  - The title insurance policy
    - States that title to the mortgaged premises is vested in the trustee(s) on behalf of the living trust (or in such other manner as is customary in the jurisdiction for living trusts)
    - Does not list any exceptions arising from the trust ownership of the property
  - The lender must verify that:
    - Title vested in the trustee(s) on behalf of the trust (or in such other manner as is customary in the jurisdiction for living trusts) does not lessen in any way Freddie Mac's interest in the mortgage, such as Freddie Mac's the ability to obtain clear and marketable title to the mortgaged premises in the event of a foreclosure of the mortgage
  - The title insurance policy provides full title insurance protection to Freddie Mac
- **Signatures required; forms of signature**
  - Set forth below are the required forms of signatures (note) and required forms of signatures and acknowledgment (security instrument). If the lender elects to use the note with signature addendum to the note ("Signature Addendum") alternative:
    - The form of signature addendum, and its use, must comply with all applicable laws
    - The use of the signature addendum must result in a properly signed and legally enforceable note
    - The signature addendum must not impair Freddie Mac's status as a "holder in due course" or any of Freddie Mac's rights under the purchase documents
    - The lender indemnifies Freddie Mac from any loss or damage Freddie Mac may incur as a result of the use of the signature addendum

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Inter Vivos Revocable Trusts/Living Trust, (continued)

Freddie Mac LPA, continued

- **Signatures required; forms of signature,** continued

  Reference: See Freddie Mac Exhibit 9A: Note Signature Forms for Living Trusts and Freddie Mac Exhibit 9B: Security Instrument Signature and Acknowledgement Forms for Living Trusts for additional guidance.

NOTE	
Note	• Each underwritten settlor individually; and • One or more trustees on behalf of the trust, indicating the complete legal name of the trust, using the form prescribed in Freddie Mac Exhibit 9A. An underwritten settlor executing the note both individually and as a trustee must use one of the methods prescribed in Freddie Mac Exhibit 9A.
Note with Signature Addendum alternative	• May be used if there is not enough space on the note for the signatures of the trustee(s). The note must clearly reference the existence of the signature addendum. • Each underwritten settlor (regardless of whether the underwritten settlor also is signing as a trustee) must sign individually in the borrower's signature lines on the note itself; only the signature(s) of the trustee(s) may be included on the signature addendum

Signature Addendum requirements	• The signature addendum must:
	  • Be permanently affixed to the note
	  • Clearly identify the note by referencing the following:
	    • Name(s) of the borrower(s)
	    • Note Date
	    • Property address
	    • Original principal balance of the note

SECURITY INSTRUMENT	
Security Instrument	• Executed by the trustee(s) on behalf of the trust, indicating the complete legal name of the trust, using the form prescribed in Freddie Mac Exhibit 9B. • Acknowledged by each underwritten settlor on the security instrument in the form prescribed in Freddie Mac Exhibit 9B.

Security Instrument with Rider as alternative form of Underwritten Settlor acknowledgment	• The security instrument is executed by the trustee(s) on behalf of the trust, indicating the complete legal name of the trust
	• The lender may use a rider to the security instrument that meets all of the requirements in Freddie Mac Exhibit 9B including that the rider:
	  • Is signed by the trustee(s) of the living trust; and
	  • Is acknowledged by each underwritten settlor of the living trust

Continued on next page

Closing and Loan Settlement Documentation, Continued

Inter Vivos Revocable Trusts/Living Trust, (continued)

Freddie Mac LPA, continued

- **Signatures required; forms of signature**, continued

  Note: The lender may exclude any institutional trustee and any individual trustee who is not an underwritten settlor from personal liability under the note and the security instrument, provided that:
  - The lender verifies that such exclusion applies specifically to that trustee, and the lender excludes only that trustee from liability; and
  - Such exclusion does not impair the exercise of any rights and remedies under the note and/or the security instrument

Notarizations

Non-AUS

- **Standards for Notarization**
  - Certain loan documents and instruments may require notarization under applicable laws to allow for either recognition, enforcement, or recordation of the loan document or instrument. Except as otherwise permitted in Agency standards (product/underwriting, collateral, and closing), and subject to all applicable legal requirements imposed by the state where the real property is located, all loan documents and instruments must be notarized in accordance with and legally valid under the laws and regulations of the state in which the notarization is performed at the time it was performed in order to be eligible for sale to Fannie Mae.
  - In certain situations, federal laws and regulations permit duly authorized officials of the U.S. Department of State and the U.S. Department of Defense to effect notarial acts in the performance of their duties. Subject to any applicable legal requirements imposed by the state where the real property is located, such notarization by these authorized officials is eligible on the same basis as that performed in accordance with state law.

- **International Notarization and Apostille Process**
  - An international notarization must be performed by a duly authorized official of the United States.
  - Documents notarized by foreign notaries, apostilles, or notarios are not acceptable.

- **Law of Location of the Mortgaged Property**
  - If the law of the state where the real property is located requires notarization, such notarization must:
    - comply with such state's laws and regulations, or
    - qualify for recognition under such state's laws.

Continued on next page

Notarizations, continued

Non-AUS, continued

- **Requirements in Requirements**
  - In order for a loan to be eligible for sale to Fannie Mae and where notarization is not explicitly required by applicable law, but only by a requirement in Agency standards (product/underwriting, collateral, and closing), all loan documents and instruments must have notarization effected by any such notarial method as permitted or recognized as valid by:
    - the law of the state where the real property is located, or
    - federal law or the law of the state where the notary is registered and acting under applicable notarial authority and requirements of such jurisdiction.

- **Electronic Notarizations (Including Remote Online Notarizations)**
  - Electronic notarizations (including remote online notarizations) are not acceptable.

    Note: A remote online notarization (RON) is an electronic notarization where the person whose signature is being notarized and the notary are in different physical locations and are communicating via two-way audio-visual conferencing, the signatures are provided electronically, and the notarial seal is applied electronically.

- **Remote Ink-Signed Notarization**
  - A remote ink-signed notarization (RIN) is an audio-visual aided ink-signed method of notarization of paper documents, where the borrower authentication and signature witnessing are accomplished by:
    - the notary and principal's use of real-time audio-visual conferencing technology,
    - the signatures are ink-signed, and
    - the notarial seal is applied manually to the applicable documents.
  - Remote ink-signed notarizations are not acceptable.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Standards for Notarization**
  - Certain loan documents and instruments may require notarization under applicable laws to allow for either recognition, enforcement, or recordation of the loan document or instrument. Except as otherwise permitted in Agency standards (product/underwriting, collateral, and closing), and subject to all applicable legal requirements imposed by the state where the real property is located, all loan documents and instruments must be notarized in accordance with and legally valid under the laws and regulations of the state in which the notarization is performed at the time it was performed.

Continued on next page

Notarizations, continued

Freddie Mac LPA, continued

- **Standards for Notarization**, continued
    - In certain situations, federal laws and regulations permit duly authorized officials of the U.S. Department of State and the U.S. Department of Defense to effect notarial acts in the performance of their duties. Subject to any applicable legal requirements imposed by the state where the real property is located, such notarization by these authorized officials is eligible on the same basis as that performed in accordance with state law.

      Notes:
        - Notarization by a military officer is acceptable if performed pursuant to the Servicemember's Civil Relief Act §506(b), which permits servicemembers during military service to make an affidavit "before… any superior commissioned officer."
        - In addition, signatures of certain military, Department of Defense, and other persons can be notarized by military personnel, judge advocates, adjutants, certain civilians performing legal functions for the military, and others pursuant to 10 U.S.C. §1044a, authority to act as a notary.

- **International Notarization and Apostille Process**
    - Persons requiring notarial acts outside of the United States can have documents notarized by qualified U.S. embassy and consulate personnel.
    - Freddie Mac will not accept documents notarized by foreign notaries, apostilles, or notarios.

- **Electronic Notarizations (Including Remote Online Notarizations)**
    - Electronic notarizations (including remote online notarizations) are not acceptable.

  Note: A remote online notarization (RON) is a notarial act performed by means of an electronic device or process that allows a notary public and a principal, who is not in the same physical location as the notary public, to complete a notarial act and communicate with each other simultaneously by sight and sound.

- **Remote Ink-Signed Notarization**
    - Documents that have been notarized using audio-visual technology to facilitate an ink-signed notarization of an ink-signed paper document (a Remote Ink Notarization or "RIN"), are not acceptable.

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Power of Attorney

Non-AUS

- **Overview**
  - A power of attorney (POA) is a legal document giving one person (described below as the "agent") the power to legally bind another person. Loans with documentation executed by an agent on behalf of the borrower under a POA are eligible for delivery to Fannie Mae if all the requirements of this section are met.
  - When title to mortgaged property is held by a trustee under an inter vivos revocable trust, loan documentation may not be executed using a POA granted by such 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.

- **General Exception to Power of Attorney Requirements**
  - If a lender determines that it is required by applicable law to accept a POA presented by a borrower, none of the following requirements for, or limitations on, the use of a POA apply. In such cases, the lender must include a written statement in the loan file that explains that determination. Such written statement must be provided to the document custodian with the POA.

    Truist Note: Accommodations for borrowers under the Americans with Disabilities Act (ADA) constitute an example of the applicable law exception and as such, are permissible.

- **Eligibility Requirements for Using a Power of Attorney**

Underwriting and Documentation Requirements	
Eligible Transactions	• Purchase • Limited cash-out refinance
Documentation Requirements	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 lender obtains a copy of the POA. • 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. Remote ink-signed notarizations and electronic notarizations (including remote online notarizations) are not permitted. • The POA must reference the address of the subject property. **Note**: See the "Loan Application Requirements" subtopic previously presented the "Application and Consumer Compliance" topic for additional information regarding the use of a POA in completing the Uniform Residential Loan Application.

Continued on next page

Closing and Loan Settlement Documentation, Continued

Power of Attorney, continued

Non-AUS, continued

- **Eligibility Requirements for Using a Power of Attorney,** continued

Underwriting and Documentation Requirements	
Additional Requirements	• In jurisdictions where a POA 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.
Ineligible Agents	Unless a person described below is a relative of the borrower, none may serve as an agent: • Affiliate of lender • Loan originator • Affiliate of loan originator • Employee of the title insurance company • Affiliate of the title insurance company or its employee (including, but not limited to, the title agency closing the loan) • 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 affiliated with such real estate agent)

Note: A borrower's relative includes any person defined as a relative (per Agency standards), or a person who is an individual engaged to marry the borrower, or in a legally recognized mutual relationship with the borrower (however denominated under applicable local law).

- A power of attorney may not be used to facilitate a closing via a recorded, interactive session conducted via the Internet.
- The borrower may not execute the POA using an electronic signature**.**

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, in addition to the following:

- Unless the lender determines that it is required by applicable law to accept a POA presented by a borrower, a POA may only be used when there is an event such as a medical emergency, natural disaster, military deployment or other hardship preventing the borrower from executing the requisite POA documents.
- A POA may not be used merely for the convenience of the parties. A notation, description or other information about the reason why a POA was used must be included in the mortgage file whenever a POA is used.

Truist Note: Accommodations for borrowers under the Americans with Disabilities Act (ADA) constitute an example of the applicable law exception and as such, are permissible.

Continued on next page

Power of Attorney, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- A POA may only be used when:
  - There is an event such as a medical emergency, natural disaster, military deployment or other hardship preventing the borrower from executing the requisite documents in person, by electronic signature or through other alternative electronic means, or
  - Applicable law requires the lender to accept use of a POA
- A POA may not be used merely for the convenience of the parties. The POA must comply with the laws of the applicable jurisdiction, and the borrower must have had the capacity to grant the POA at the time it was made. A notation, description or other information about the reason why a POA was used must be included in the mortgage file whenever a POA is used.
- If the acceptance of a POA is required by law, the lender must include a written statement that explains the circumstances in the mortgage file and deliver a copy of the statement to the Document Custodian with the POA.

  Truist Note: Accommodations for borrowers under the Americans with Disabilities Act (ADA) constitute an example of the applicable law exception and as such, are permissible.

- The person using the POA to sign on behalf of the borrower is called an "attorney-in-fact." The attorney-in-fact must:
  - Have a familial or fiduciary relationship with the borrower;
  - Be an individual employed by the title insurer underwriting the title insurance product insuring the mortgage; or
  - Be an individual employed or engaged contractually by the title agency issuing the title insurance product for the mortgage and closing the transaction, but only if the title insurer has issued a closing protection letter relating to the transaction (or has similar contractual indemnity to the lender and assignees of the lender) for such policy issuing agent
- Neither the seller of the property in a purchase transaction nor an employee of the originating lender is eligible to be an attorney-in-fact under a POA.
- A POA may be used to execute any of the Initial Loan Documents and Closing Documents in connection with purchase and limited cash-out refinance (LPA terminology: "no cash-out" refinance) transactions.
- A power of attorney is not permitted on LPA cash-out refinance transactions, unless applicable law requires the lender to accept use of a POA.
  - If applicable law requires the acceptance of a POA, after the finalized Closing Disclosure has been delivered to the borrower but prior to closing, an employee of the originating lender or settlement agent must explain and discuss the terms of the mortgage and use of the POA with the borrower to confirm that the borrower understands them. However, if the borrower is in a period of military service and is unavailable for the discussion or the borrower is incapacitated such that he or she cannot participate in a discussion, then this requirement is waived as to that borrower.

Continued on next page

Power of Attorney, continued

Freddie Mac LPA, continued

- At a minimum, the discussion must include:
  - Review of the rate, term and principal balance of the mortgage,
  - The address of the mortgage premises,
  - The fact that the attorney-in-fact uses the borrower's POA to sign documents on behalf of the borrower, and
  - The scheduled or estimated closing date
- This discussion must take place in person, telephonically or using a video conference system. It may take place just before closing and does not require the presence of the attorney-in-fact. It must be memorialized by a borrower acknowledgment that must be in writing or an e-mail exchange with the borrower at an e-mail address provided by the borrower. The acknowledgement must be retained in the mortgage file and made available upon request.

- The borrower may not execute the POA using an electronic signature.
- The POA must be executed by the borrower prior to its use by an attorney-in-fact.
- The POA does not have to be specific to the mortgage transaction.
- The POA must be notarized. Remote ink-signed notarizations and electronic notarizations (including remote online notarizations) are not permitted.
- A power of attorney may not be used to facilitate a closing via a recorded, interactive session conducted via the Internet.
- The mortgage must be covered by a title insurance policy in accordance with the requirements outlined in Section 1.16: Title Insurance Standard.
- **POA delivery requirements for all mortgages with documents executed using a paper POA:**
  - If the note, security instrument and other closing documents were executed under a paper POA, the lender must comply with the following delivery requirements:
    - The lender must deliver one of the following with the note:
      - The original POA (signed in ink by the borrower); or
      - A copy of the POA; or
      - A copy of the POA showing the recordation information

      Note: If applicable law requires an original POA (signed in ink by the borrower) for enforcement or foreclosure purposes, the lender must deliver an original POA (signed in ink by the borrower) to the Document Custodian.

    - If the POA is recorded, whether or not it is required, and the copy of the POA with recordation information is not delivered to the Document Custodian along with the note, the lender must deliver the copy of the POA with recordation information received from the recording office to the Document Custodian within 30 days of receipt.

- **Living Trust (Inter Vivos Trust)**
  - A Power of Attorney (POA) is permitted if the trust language authorizes the trustee to delegate its authority.

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Principal Curtailments

Non-AUS

- **Overview**
  - A principal curtailment is the application of funds that are used to reduce the unpaid principal balance of the mortgage loan. Fannie Mae permits certain curtailments prior to loan delivery (to Truist).

- **Acceptable Curtailments**
  - Fannie Mae permits curtailments for the following reasons:
    - The lender may apply a curtailment to refund the overpayment of fees or charges paid by the borrower, in any amount, in accordance with applicable regulatory requirements.
    - If the borrower receives more cash back than is permitted for limited cash-out refinances, the lender can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement. The maximum amount of the curtailment cannot exceed the lesser of $2,500 or 2% of the original loan amount for the subject loan.
      - For example, if the borrower received $3,500 cash back at closing on a loan amount of $200,000, the lender could apply a $1,500 curtailment prior to delivery. This would result in "net cash back" to the borrower of $2,000, thus meeting Fannie Mae's limited cash-out refinance requirement.
    - Fannie Mae also allows additional principal payments remitted by a borrower to prepay the mortgage loan as permitted by the loan documents. All borrower-remitted curtailments received by the lender prior to delivery must be applied prior to delivery of the loan to Truist.

- **Documentation**
  - If the curtailment is made at the time of closing, the amount must be clearly documented on the Settlement/Closing Disclosure statement. If the curtailment is applied after closing, but before delivery to Truist, the mortgage loan file must be documented with the amount of the curtailment and the reason or source of the curtailment (for example, lender refund or borrower).

Reference: See the "Lender Contributions / Lender Credit" subtopic previously presented in this document for additional information when the principal curtailment involves a lender credit.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
References:

- See the "Purchase Transactions" and "Limited Cash-Out Refinance (LPA Terminology: "No Cash-Out" Refinance)" subtopics previously presented in this document for guidance.
- See the "Lender Contributions / Lender Credit" subtopic previously presented in this document for additional information when the principal curtailment involves a lender credit.

Continued on next page

Property and Flood Insurance

Reference: See the "Property and Flood Insurance" topic previously presented in this document for guidance.

Settlement Agent and/or Company Eligibility

Settlement agents and companies identified on the Truist Ineligible List are not eligible to perform loan closings or provide title services, either directly or indirectly, on real properties that secure loans to be funded or purchased by Truist.

Reference: See Section 1.39: Ineligible Settlement Agent Standard and Section 1.19: Fraud Prevention Standard of the *Correspondent Seller Guide* for additional restrictions and guidance.

Land Trusts

Non-AUS
Not eligible

Fannie Mae DU
Not eligible

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Signatures and Documentation**
  - **Uniform Instrument Signatures**
    - **Form of Signature for Note**
      - Each beneficiary of a land trust who is a borrower must sign the note in that beneficiary's individual capacity.
    - **Signature Required on Security Instrument**
      - The trustee of the land trust must execute the security instrument.
  - **Special Documentation: Collateral Assignment of Beneficial Interest ("Collateral Assignment")**
    - **Collateral Assignment Requirements**
      - Each beneficiary of the land trust who is a borrower must execute a Collateral Assignment under which the beneficiary:
        - Grants the lender named in the security instrument and the note and the lender's successors and assigns (the "Lender") a security interest in all of the beneficiary's rights, title, powers and interests in, under and to the land trust, the property held in the land trust (including any rights to earnings or proceeds from that property), and the land trust agreement (including any powers of direction or control over the trustee of the land trust or the property) (collectively, the "Collateral")
        - Certifies that no prior security interest in the Collateral has been granted

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Land Trusts, (continued)

Freddie Mac LPA, continued

- **Signatures and Documentation,** continued
  - **Special Documentation: Collateral Assignment of Beneficial Interest ("Collateral Assignment"),** continued
    - **Collateral Assignment Requirements**, continued
        - Agrees not to make any further assignment or take any other action by which all or any part of the Collateral is transferred in any way without the written approval of the Lender; and
        - Agrees that the Collateral Assignment is for collateral security only, that no liability under the land trust agreement accrues to the Lender by virtue of the Collateral Assignment, and that signing the Collateral Agreement does not relieve the beneficiary of any responsibility or liability under the land trust agreement
    - **Collateral Assignment Signatures Requirements**
      - The Collateral Assignment must be signed by the appropriate parties as follows:
        - Each beneficiary of the land trust who is a borrower must individually execute the Collateral Assignment
        - The lender named in the security instrument and the note in whose favor the beneficiary of the land trust grants a security interest under the Collateral Assignment (the "Assignee") must accept the Collateral Assignment
        - The trustee of the land trust must receive and agree to, endorse and/or acknowledge, as appropriate in the applicable jurisdiction, the Collateral Assignment
    - **Collateral Assignment Form**
      - **Sample Illinois Collateral Assignment Form**
        - Form 50 is a sample form of Collateral Assignment for land trust mortgages secured by mortgaged premises located in Illinois. The lender may use Freddie Mac's form for land trust mortgages secured by mortgaged premises located in Illinois or an alternative form that the lender has determined meets Illinois requirements.
      - **Collateral Assignment Forms for Use in Other Jurisdictions**
        - For land trust mortgages secured by property located in jurisdictions other than Illinois, the lender must use a form of Collateral Assignment that reflects the requirements of the jurisdiction in which the mortgaged premises is located (unless the lender determines that the use of Form 50 is appropriate for the specific jurisdiction).

Continued on next page

Closing and Loan Settlement Documentation, Continued

Land Trusts, (continued)

Freddie Mac LPA, continued

- **Signatures and Documentation,** continued
  - **Special Documentation: Collateral Assignment of Beneficial Interest ("Collateral Assignment"),** continued
    - **Collateral Assignment Representations and Warranties**
      - In addition to all other representations and warranties specified in the lender's Purchase Documents, the lender makes the following representations and warranties:
        - The Collateral Assignment is appropriately executed by each beneficiary of the land trust who is a borrower, is accepted by the lender named in the security instrument and the note in whose favor the beneficiary of the land trust grants a security interest under the Collateral Assignment (the "Assignee") and is appropriately received and agreed to, endorsed and/or acknowledged, as appropriate in the applicable jurisdiction, by the trustee of the land trust.
        - If (i) the land trust mortgage is secured by mortgaged premises located in a jurisdiction other than Illinois or (ii) the land trust mortgage is secured by mortgaged premises located in Illinois and the lender uses a form of Collateral Assignment other than Form 50, the lender also represents and warrants that the Collateral Assignment is valid, enforceable and meets any specified criteria under the provisions of the applicable jurisdiction, including relevant statutes, regulations and judicial decisions.
- **Title and Title Insurance**
  - The land trust mortgage must constitute a valid first lien.
  - The land trust mortgage must be covered by a title insurance policy that meets the title insurance requirements outlined in this document.