

# Fannie Mae and Freddie Mac: Understanding Your Options

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# Course Objectives

- Learn how to properly structure a loan to your advantage, by understanding differences between Fannie Mae and Freddie Mac qualifying guidelines
- Save time up front by knowing which GSE to select, when both are an option

***NOTE: This is NOT a comprehensive list of all differences, but includes some of the impactful differences between the agencies.***

Today's Presentation Covers Non-High LTV Loans And Guidelines Applicable To Loans Submitted To Desktop Underwriter® And Loan Product Advisor®

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# Agenda

- LTV Differences
- Credit and liabilities
- Assets and Reserves
- Income
- Multiple Financed Properties
- Interested Party Contributions
- Enact MI Website
- Helpful Tools

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# LTV Differences Primary and Second Home

## Fannie Mae (Fixed Rate/ARMS\*\*)

- Maximum LTV/CLTV/HCLTV

## Purchase and Limited Cash-Out Refi

- 1-unit Primary 97 (Fixed Only)\*
- 2-unit Primary 85%
- Second Home 90%
- 3-4 unit Primary 75%

## Cash-Out Refinance

- 1-unit Primary 80%
- 2-4 unit Primary 75%
- Second Home 75%

## Freddie Mac (Fixed Rate/ARMS)

- Maximum LTV/TLTV/HTLTV

## Purchase and No Cash-Out Refi

- 1-unit Primary 97 (Fixed only)\*
- 1-unit Primary 95%
- 2 unit Primary 85%
- **3-4 unit Primary 80% (Has the advantage)**
- Second Home 90%

## Cash-Out Refinance

- 1-unit Primary 80%
- 2-4 unit Primary 75%
- Second Home 75%

\*97% LTVs purchases must be fixed rate conforming, borrower must have a credit score and at least one borrower must be a first-time homebuyer (N/A for HomeReady Loans); for a 97% refinance, the applicable GSE must be the existing investor;

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# LTV Differences Investment Properties

## **Fannie Mae (Fixed Rate/ARMS)**

- Maximum LTV/CLTV/HCLTV

### **Purchase**

- 1-unit 85%
- 2-4 unit 75%

### **Limited Cash-Out Refinance**

- 1-4 units 75%

### **Cash-Out Refinance**

- 1-unit 75%
- 2-4 unit 70%

## **Freddie Mac (Fixed Rate/ARMS)**

- Maximum LTV/TLTV/HTLTV

### **Purchase and No Cash-out Refi**

- 1-unit 85% (One unit refi has the advantage)
- 2-4 unit 75%

### **Cash-Out Refinance**

- 1-unit 75%
- 2-4 unit 70%

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# No Cash and Limited Cash Out Amounts

## Fannie Mae

- Limited cash-out is defined as allowing cash back up to lessor of 2% of the Mortgage amount or \$2000

## Freddie Mac (Effective for Mortgages with Settlement dates on and after October 27, 2018)

- No cash out is defined as allowing cash back up to the greater of 1% of the Mortgage amount or \$2000

## (Effective for Mortgages with Settlement dates on and after February 4, 2020-Bulletin 2019-25

- Proceeds of a No cash out may also be used to *pay down* any junior lien secured by the property that was used in its entirety to acquire the subject property

# Credit and Liabilities

## Fannie Mae

- Maximum DTI is 50%
  - Updated to not require additional compensating factors from 45% to 50%
  - Fine-tuned in Jan. 2018
- DU<sup>®</sup> carries out DTI to two decimal places
- 50.25% = 50.25%

### QUALIFYING RATIOS

Housing Expense	5.64%
Debt-to-Income	7.11%

## Fannie Mae

- \*Minimum Published 620 credit score

*\*see next slides*

## Freddie Mac

- No published maximum DTI
- Rounds down on the DTI
- 20.49% = 20%

### DEBT RATIO

20%

## Freddie Mac

- No published minimum

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# Credit and Liabilities

## Fannie Mae- DU Release Notes 11.0

After September 18, 2021

### Credit Score Eligibility in DU

Though credit scores are not an integral part of DU's risk assessment, DU currently uses credit scores to ensure compliance with the 620 minimum representative credit score requirement. To support homeownership opportunities for more underserved borrowers, we are updating the credit score used by DU in the eligibility assessment. For loan casefiles with more than one borrower, DU will now use an average median credit score as follows when determining if a loan casefile meets the minimum credit score requirement of 620:

- First, DU will determine each borrower's applicable credit score (middle of the three scores received, or the lower of the two when only two scores received).
- Second, DU will average the applicable credit scores for all of the borrowers on the loan casefile to determine if the 620 credit score requirement is met.

**Note:** *This method will not result in a credit score lower than the representative credit score. The average median credit score will either be:*

- *the same as the representative credit score for loans with one borrower, or*
- *the same or higher than the representative credit score for loans with multiple borrowers.*

*Now applies to manual underwriting as well.*



# Credit and Liabilities

## Fannie Mae- DU Release Notes 11.0

After September 18, 2021

The following is an example of how the average median credit score will be calculated.

	Step 1: DU will determine each borrower's applicable credit score			Step 2: DU will average the borrowers' applicable credit scores to ensure a minimum 620 credit score for the DU loan casefile.
	Score 1	Score 2	Score 3	
<b>Borrower 1</b>	590	619	648	<b>656</b> (average of 619 and 693)
<b>Borrower 2</b>	661	693	693	

*In this example, the representative credit score of 619 would continue to be used for pricing, mortgage insurance, and provided at loan delivery.*

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# Credit and Liabilities

## Fannie Mae

- **30 Day Charge Accounts** or Open Ended Accounts
  - Must be omitted and funds verified to pay off (reserves); or
  - Verify employer reimburses borrower (corporate expense account)
- **Collection Accounts**
- 2-4 unit and second home loans with collections totaling more than \$5,000 must be paid off
- Investment properties, individual collections of \$250, or a loan that has accounts that total \$1,000 all must be paid off

## Freddie Mac

- **30 Day Charge Accounts** or Open Ended Accounts
  - Can be omitted and funds verified to pay off (reserves); or
  - Use the current outstanding balance in the DTI
- **Collection Accounts**
  - No written policy, cannot affect Freddie Mac first lien position

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# Credit and Liabilities

## Fannie Mae

- **Disputed tradelines** DU tries to assess risk with the tradeline - if Approve, no additional action needed
  - DU will re-assess the risk without disputed tradelines and lenders must comply with DU messages
    - Not borrower's account
    - Tradeline report is inaccurate

## Freddie Mac

- **Disputed tradelines** Loan Product Advisor tries to qualify with disputed tradeline
  - Will receive “Invalid” if unable to decision and must be manually underwritten if lender allows

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# Credit and Liabilities

## Fannie Mae

- **Alimony** *may be* included as a liability or subtracted from income\*
- **Mortgage payment history** NOT reported on the credit report – DU will require for verification of payment history (read findings message)

## Freddie Mac

- **Alimony** and maintenance payments must be subtracted from income (Effective immediately with 2019-05)
- **Mortgage using payment history is NOT required** for ACCEPT loans with a credit score, only documentation of the payment amount

\*Note when entering in your LOS or DU, enter alimony as a separate “negative income source”

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# Credit and Liabilities

## Fannie Mae

- Student Loan debt lender may use for deferred loans:
  - Payment on credit report if one is listed
  - Monthly payment from student loan documents
  - 1% of the outstanding student loan balance
- Loans in repayment:
  - Payment on the credit report; If zero, lenders may use zero if loan is an IBR loan and documentation provided supports actual payment is zero
- **Fannie has a student loan cash-out option**
  - Allows for payoff of a first, second and student loans, but is priced as a limited cash-out refinance...*see next slide*

## Freddie Mac: Repayment, Deferment or Forbearance

- \*If the monthly payment amount is greater than zero, use the monthly payment amount reported on the credit report or other file documentation, or
- If the monthly payment amount reported on the credit report is zero, used 0.5% of the outstanding balance, as reported on the credit report

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# Credit and Liabilities

## Fannie Mae

## Freddie Mac

- \*Student Loan in Forgiveness, cancellation, discharge and employment contingent repayment programs
- Monthly payment amount may be excluded from DTI, if file contains evidence
  - Student loans have less than 10 months payments; or
  - Payments are deferred or in forbearance and the full balance will be forgiven at the end of the deferment/forbearance period; AND
  - **The mortgage file must contain documentation indicating the borrower is eligible or approved for the student loan forgiveness, cancellation, discharge or employment-contingent repayment program. Evidence of eligibility or approval must come from the student loan program or the employer, as applicable**

\*See Freddie Mac Loan Product Advisor Documentation Matrix for more details

# Fannie Mae Student Loan Cash-Out Refinance

## Priced as Limited Cash Out – Subject to Cash-out LTV limits

### Student Loan Cash-Out Refinances

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:

✓	<b>Requirements for Student Loan Cash-out Refinances</b>
	The loan must be underwritten in DU. 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, CLTV, and HCLTV ratios apply per the <a href="#">Eligibility Matrix</a> .
	At least one student loan must be paid off with proceeds from the subject transaction with the following criteria: <ul style="list-style-type: none"><li>• proceeds must be paid directly to the student loan servicer at closing;</li><li>• at least one borrower must be obligated on the student loan(s) being paid off, and</li><li>• the student loan must be paid in full - partial payments are not permitted.</li></ul>
	The transaction may also be used to pay off one of the following: <ul style="list-style-type: none"><li>• an existing first mortgage loan (including an existing HELOC in first-lien position); or</li><li>• 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.</li></ul>
	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 <a href="#">B5-3.4-01, Property Assessed Clean Energy Loans</a> and <a href="#">B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties</a> 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 (see <a href="#">B2-1.3-02, Limited Cash-Out Refinance Transactions</a> for additional information).

# ALL Borrowers Without Credit Scores

## Fannie Mae DU

- Max LTV/CLTV/HCLTV 95%
- 1-unit non-manufactured home
- Conforming only; no high balance
- Owner occupied only
- Purchase or Limited Cash-Out Refi
- Fixed Rate
- **Maximum DTI 40%**
- Must verify two tradelines for 12 months for each borrower, per DU findings message
  - One must be housing related

## Freddie Mac Loan Product Advisor

- Max LTV/TLTV/HTLTV 95%
- **1-unit (can be manufactured home if loan has a settlement April 1, 2020 or after) See Bulletin 2019-25**
- Conforming only; no super conforming
- Owner occupied only
- Purchase or No Cash-Out Refi
- Fixed Rate
- Must verify two tradelines for 12 months for each borrower
  - One must be housing related

**Both DU and Loan Product Advisor Allow For Loans Where  
No Borrower Has A Useable Credit Score**



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# Credit and Liabilities

## Fannie Mae

- **Federal Income Tax Installment Agreements**
- Allowed to include the payment due under a federal income tax installment agreement in the DTI, instead of payment in full
  - Lenders must obtain a copy of the approved IRS agreement
  - Evidence the borrower is current on payments must be documented in the loan file and at least one payment must have been made
  - 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.

## Freddie Mac

- **Federal Income Tax Installment Agreements**
- **No policy to allow for payments**

# Significant Derogatory Credit

## Fannie Mae

- Approve/Eligible
  - Lenders must review the waiting period before origination of the new loan
  - Extenuating circumstances
  - Financial mismanagement

Derogatory Event	Waiting Period Requirements
Bankruptcy — Chapter 7 or 11	4 years
Bankruptcy — Chapter 13	<ul style="list-style-type: none"><li>• 2 years from discharge date</li><li>• 4 years from dismissal date</li></ul>
Multiple Bankruptcy Filings	5 years if more than one filing within the past 7 years
Foreclosure <sup>1</sup>	7 years
Deed-in-Lieu of Foreclosure, Preforeclosure Sale, or Charge-Off of Mortgage Account	4 years

## Freddie Mac

- Accept/Eligible
  - **Loan Product Advisor has determined the credit reputation is acceptable**
- Caution: Lenders must follow standard or manual Freddie Mac underwriting guidelines, which require mandatory waiting periods and establishment of new credit before new origination can occur

### (b) Evaluating Borrower's credit reputation

For Accept Mortgages and A-minus Mortgages, Loan Product Advisor has evaluated the Borrower's credit reputation, and determined that the credit reputation is acceptable.

# Assets and Reserves

## Fannie Mae – Contribution Requirements

### Minimum Borrower Contribution Requirements

The following table describes the minimum borrower contribution requirements for transactions that contain gifts.

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	One- to four-unit principal residence Second home	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.
Greater than 80%	One-unit principal residence	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.
	Two- to four-unit principal residence Second home	The borrower must make a 5% minimum borrower contribution from his or her own funds. <sup>1</sup> After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.  See <a href="#">B5-6-02, HomeReady Mortgage Underwriting Methods and Requirements</a> , for HomeReady mortgage minimum borrower contribution and down payment requirements.

## Freddie Mac – Contribution Requirements

Mortgage type	Guide section number	Mortgages with LTV/TLTV/HTLTV ratios ≤ 80%	Mortgages with LTV/TLTV/HTLTV ratios > 80%
Mortgage secured by a 1- and 2-unit <u>Primary Residence</u>	N/A	None	
Mortgage secured by a 3- and 4-unit <u>Primary Residence</u>	N/A	None	N/A
Mortgage secured by a second home	5501.3(c)	None	5% of value, when gift funds or grants are used for the transaction
Mortgage secured by an <u>Investment Property</u>	4201.16	All funds used for the transaction must be Borrower personal funds	
Mortgages with shared equity plans	4204.5	5% of value (must be <u>Owner-Occupant's</u> personal funds)	

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# Assets and Reserves

## Fannie Mae

### – Sale of Personal Assets

- Document borrower's ownership of assets that are titled
- Value of the asset, as determined by an independent reputable source required if the proceeds represent more than 50% of the total monthly income used in qualifying.. Lenders must use the lesser of the estimated value or actual sales price for the funds for closing
- 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 checks or an equivalent payment source.

## Freddie Mac

### – Sale of Personal Assets

- A signed bill of sale documenting the asset and transfer of ownership
- Evidence of receipt of the proceeds

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# Assets and Reserves

## Fannie Mae

- **Use of business assets** for closing
  - NO specific policy on review of large deposits on business statements
  - Deposits must make sense for the business and each loan looked at case by case
- **Gifts** can be transferred prior to or at closing

## Freddie Mac

- **Use of business assets** for closing
  - Policy allows to document **two months** business account statements
  - **Are large deposits typical? If so, no further documentation is required**
- **Gifts** must be transferred directly from the donors account to the borrower's account or settlement agent
- Funds transferred using a third-party money transfer application or service are acceptable only when the documentation includes evidence 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.

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# Assets and Reserves

## Fannie Mae

- **Gifts from wedding**, allowed to address large deposits; Weddings are NOT an acceptable gift donor
  
- No policy on specific increases on the VOD.

## Freddie Mac

- **Gifts from wedding**, allowed but funds must be deposited *within 90 days of the marriage license or certificate*
  
- For purchase transactions effective June 3, 2021, if using a VOD Sellers must include documentation when the account has a current balance that exceeds the average balance by more than 50% of the sum of
  - The total monthly qualifying income for the mortgage
  - The amount derived from the asset calculation for establishing the DTI ratio in accordance with the requirements of the Guide Section 5307.1, if applicable

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# Assets and Reserves

## Fannie Mae

- No policy on specific Gifts from graduation

## Freddie Mac

**Gifts from graduation, graduation gifts from a related or unrelated person(s) as an eligible source of funds for a purchase of a Primary Residence. The Seller must obtain 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. Gift funds must be deposited within 90 days of the date of graduation.

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# Assets and Reserves

## Fannie Mae

### – Verification

- **\*Two** months asset statements for depository accounts for ALL DU purchase loans

### – Funds to Close

- **\*The statements must cover the most recent full one-month period (for refinance loans) of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter). Assets will not have to be documented when the funds required to be verified are \$500 or less on certain refinance transactions underwritten in DU.**

## Freddie Mac

### – Verification

- Streamlined Accept **One** month asset statements
- Standard Documentation **Two** months asset statements

### – Funds to Close

- Verification of assets is not required when the amount of borrower funds needed for the transaction is < \$500, and LPA does not require reserves and the loan received a LPA Risk Class of Accept.

Today's Presentation Covers Loans Submitted To Desktop Underwriter And Loan Product Advisor



# Self-Employment

## Fannie Mae SEB Documentation

- One or two years, based on DU findings message
- Business returns may be waived if business in existence for 5 years, income is increasing over the past two years on personal returns and using only personal funds
- SEB second job with a loss, not required to subtract
- SEB co-borrower income not required to subtract

### ***Self-Employment/ Variable Income***

DU will no longer view self-employment as representing increased risk but will now evaluate the composition of borrower income. I

DU will view borrowers whose total annual income is made up of a higher percentage of variable income (i.e., bonus, overtime, commission, and miscellaneous) as representing increased risk.

## Freddie Mac SEB Documentation

- Must be self-employed in the same business > 5 years to only obtain 1 year personal and business tax return
  - All other cases require 2 years
- SEB income Secondary Source: Sellers not required to obtain any additional documentation or evaluate the income or loss from the self-employment for each borrower who:
  - Has a primary source of income, other than self-employment, used for qualifying the Mortgage (i.e. Salary and
  - Is self-employed, and the self-employment income is a secondary source of income

# Self-Employment – cont

## Fannie Mae SEB Documentation

- One or two years, based on DU findings message
- Business returns may be waived if business in existence for 5 years, income stable on personal returns and using only personal funds
- SEB second job with a loss, not required to subtract
- SEB co-borrower income not required to subtract

### *Self-Employment/ Variable Income*

DU will no longer view self-employment as representing increased risk but will now evaluate the composition of borrower income. I

DU will view borrowers whose total annual income is made up of a higher percentage of variable income (i.e., bonus, overtime, commission, and miscellaneous) as representing increased risk.

## Freddie Mac SEB Documentation

- Must be self-employed > 5 years to only obtain 1 year personal and business tax return
  - All other cases require 2 years
- SEB income If primary Source of Income: Must review pages 1 and 2 of 1040 and applicable schedules
  - If positive, no further action
  - If a loss, subtract and if qualifies no further action
  - If doesn't qualify, full personal and business returns required
- Self-employment is a risk factor in all cases when you are using the income or loss to qualify (meaning you were required to mark the SEB box)

# Rental Income

## Fannie Mae Rental Income

- Allows borrowers to have a primary housing expense (**rent or OWN**) before rental income can be used to offset a payment, applies for both purchase and **refinance transactions**

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

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

# Rental Income

## Freddie Mac Rental Income

- Requires borrowers to OWN a primary home before rental income can be used to even offset a payment

<b>Maximum eligible amount of net rental income</b>	<ul style="list-style-type: none"><li>• The Borrower must currently own a Primary Residence to use rental income to qualify when purchasing a new rental property in the current calendar year. In such instances, net rental income can only offset the principal, interest, taxes and insurance (PITI) and when applicable, mortgage insurance premiums, leasehold payments, homeowners association dues (excluding unit utility charges) and payments on secondary financing (full monthly payment) of the new rental property.</li><li>• If the Borrower's current Primary Residence is being converted to a rental property, net rental income can only offset the full monthly payment of that Primary Residence.</li><li>• If the net rental income exceeds the full monthly payment of the new rental property or the converted Primary Residence, as applicable, the excess rental income cannot be added to the Borrower's gross monthly income to qualify unless the file documentation demonstrates the Borrower has a minimum of one-year investment property management experience.</li></ul>
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# Second Homes (Must always be One Unit)

## Fannie Mae

- Must be occupied by the borrower for some portion of the year
- Must be suitable for year-round occupancy
- Borrower must have exclusive control of the property
- Must not be a rental property or timeshare arrangement
- Cannot be subject to any agreements that give a management firm control over the occupancy of the property
- If lender identifies rental income from the property, the loan is eligible for delivery as a second home as long as the income is not used for qualifying and all other requirements for second homes are met (including occupancy)

## Freddie Mac **Bulletin 2019-07**

- **Permits second homes with seasonal limitations on year-round occupancy (i.e. lack of winter accessibility) if appraiser provide at least one similar comparable**
- Second Homes may be rented out short term provided that borrower keeps the property primarily as a residence of personal use; and
- The property is not subject to a rental pool/agreement that require the borrower to rent the property to a management company or entity control over the occupancy of the property or involve revenue sharing between any owners, developers or another party

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# Income

## Fannie Mae

### – Restricted Stock and Restricted Stock Units

- 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)

## Freddie Mac

### – Restricted Stock and Restricted Stock Units may be considered, under certain conditions

- Two year consecutive history of receipt
- To be considered for history of receipt, RS and RSU used for qualifying must have been vested and been distributed to the borrower from their current employer without restriction
- Must be likely to continue for at least the next three years
- YTD paystub documenting all YTD earnings, including payouts of RS or RSU, W-2 forms for the most recent two calendar years and 10-day PCV is required

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# Income

## Fannie Mae (No change to policy)

- Variable Income (All income calculated by averaging method), requires history of receipt of two years or more; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the loan file demonstrates positive factors that reasonably offset the shorter income history

## Freddie Mac

- When borrower's income is derived from fluctuating hourly employment earnings, **under no circumstances** may the employment history be less than 12 months
- **If a decline or increase in income from prior year (s) and YTD earnings exceeds 10%, Sellers must conduct further analysis and additional documentation may be necessary to determine whether the income is currently stable**

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# Assets As Basis For Repayment

## Fannie Mae

- 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.
  - Ineligible assets are non-employment related assets (stock options, non-vested restricted stock, lawsuits, checking and savings accounts

## Freddie Mac

- Chapter 5307.1 Allows for use for most asset types including IRA, 401k, lump sum distributions of funds not yet deposited, depository accounts and securities, assets from the sale of a borrower's sole business



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# Assets As Basis For Repayment

## Fannie Mae

- If employment-related assets are in the form of stocks, bonds and mutual funds, 70% of the value (remaining after costs for the transaction and consideration of any penalty) must be used to determine the income stream to account for the volatile nature of these assets
- Fannie Mae's calculation formula requires lenders to use 360 months (or applicable term of loan) when determining the income stream
- Maximum LTV/CLTV/HCLTV is 70%; 80% if the owner (or all owners) of the assets being used to qualify is at least 62 years old at the time of closing

## Freddie Mac (Effective July 3,2019)

- Freddie Mac Sellers must use the net eligible assets (as described in Chapter 5307.01) and divide by 240 to determine the amount used to establish the debt payment-to-payment income ratio.
- **Maximum LTV/TLTV/HTLTV ratios is 80%.**

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# Multiple Financed Properties

## Fannie Mae

- Maximum number is 10
- Reserves based on UPB for each financed second home or investment property borrower owns and is obligated on
  - Excludes the subject and primary home
- Credit score of 720 required for 7-10 financed properties and must be submitted to DU and receive an Approve/Eligible

## Freddie Mac

- Maximum number is 10
- **Reserves based on PITIA** for each financed second home or investment property borrower owns and is obligated on
  - Excludes the subject and primary home
- Credit score of 720 required for 7-10 financed properties and must be submitted to Loan Product Advisor and receive an Accept/Eligible
  - **When borrower owns between 7-10 reserves of 8 months PITIA is required for each second home/investment property where borrower is obligated on the financing**

# Interested Party Contributions

## Fannie Mae

- Calculates from the sales price

## Freddie Mac

- **Calculates from the “value\*”**
- Freddie Mac definition of value is lesser of sales price or appraised value, as of note date

Based on “value,” as defined in Section 4203.1, 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%

**Percentages Are The Same For Both Fannie Mae And Freddie Mac  
They Just Calculate Them Differently**

\*Effective November 1, 2018 appraised value is determined as of the note date

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# Rural High - Needs Appraisal Waiver

## **Fannie Mae**

### – Rural High-Needs Appraisal Waiver

- Loan must receive an Approve/Eligible
- Purchase transactions
- One Unit principal residence (no manufactured homes) located in a designated rural high-needs area
- Borrowers with income at or below 100% of AMI
- LTV ratios up to 97% and CLTV's up to 105% with a Community Seconds

This appraisal waiver may be combined with other transactions types such as HomeReady

**See Fannie Mae *Selling Guide* Or The Freddie Mac *Seller/Service Guide* For Complete Details On Eligibility And Ineligible Transactions**

# Enactmi.com

The screenshot shows the Enactmi.com website. At the top, there is a green navigation bar with links for TRAINING, OUR BLOG, a search bar, and a LOG IN button. Below this is a white navigation bar with the Enact logo and links for GET A QUOTE, UNDERWRITING, SOLUTIONS, RESOURCES, and ABOUT US. The main content area features a large banner image of a construction worker in a white shirt and yellow hard hat, using a hammer on a wooden roof structure against a blue sky with clouds. To the left of the worker, the text reads: "Help borrowers with their construction loans" in green, followed by "We insure Construction-to-Permanent loans for Single Close and Two-time Close construction loans." Below this text is an orange button that says "Get More Info On The Blog". On the right side of the banner, there is a white box titled "My Enact MI" containing a login form with fields for "Username or Email" and "Password", a "Remember Username" checkbox, a "Forgot Password?" link, a "Log In" button, and a "Need to register?" link with a "Sign Up Now" link.

# Enact Rate *Express*®

TRAINING | OUR BLOG | Search | LOG IN

**Enact**® GET A QUOTE | UNDERWRITING ▾ | SOLUTIONS ▾ | RESOURCES ▾ |

ABOUT US ▾

## Rate Express®

\* Required

Your Information    Loan Information    MI Information

Enter email address to access Rate *Express*.

Email \*

[Continue](#)

Need to register? [GET ACCESS](#)

# Enact Underwriting Guidelines

The screenshot shows the Enact website's navigation bar with links for TRAINING, OUR BLOG, GET A QUOTE, UNDERWRITING, SOLUTIONS, RESOURCES, and ABOUT US. A search bar and a LOG IN button are also present. The main heading is "Enact MI Underwriting Guidelines". Below it, a paragraph states: "One of the most important documents on our website! Download the Enact MI Underwriting Guidelines for details on how we evaluate loans submitted for mortgage insurance. You can also access Credit Policy updates, LTV recaps, and information Peak Portfolio program." The section "Underwriting Guidelines and Credit Policy Updates" includes a sub-paragraph: "Looking for a specific guidelines like Jumbo loans? Construction to permanent? For specific guidelines, try searching within the document or use the linked Table of Contents. For more underwriting resources, check out our selection of underwriting courses in Training Resources." Four PDF documents are listed in a grid:

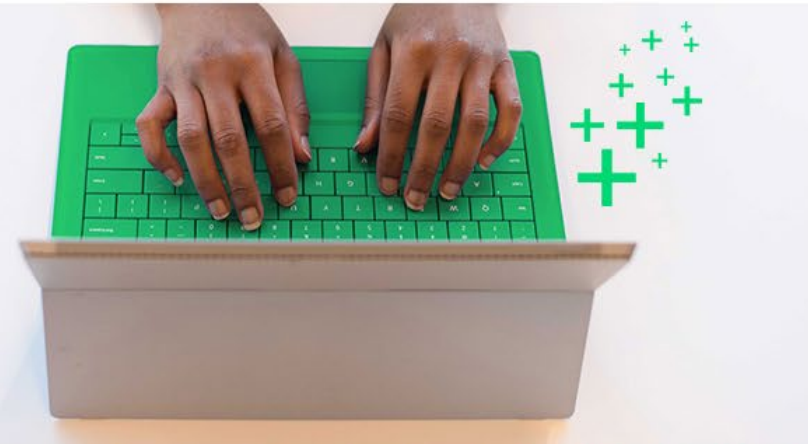
Document Title	Effective Date	Category
Underwriting Guidelines	1-13-2023	ARCHIVE
Peak Portfolio Underwriting Guidelines*	1-13-2023	ARCHIVE
Delegated Underwriting Program Guide	6-14-2022	
Credit Policy Bulletin 2023-01: Updates to Underwriting Guidelines Manual	1-13-2023	PAST BULLETINS

# Enact Training Resources

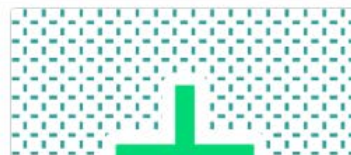


[Getting Started](#) [My Progress](#) [Catalog](#) [Live Calendar](#) [Calculators](#) [EnactMI.com](#)

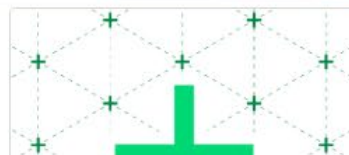
## Enact MI Training Catalog



Assets



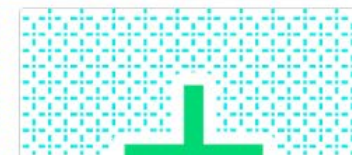
Income



Credit/Liabilities



Appraisal/Collateral



Fannie Mae and  
Freddie Mac





# Enact Training Resources

## Income Calculation Tools by Enact MI

We get it, mental math is hard. That's why Enact provides a collection of downloadable calculators and reference guides to help you analyze a self-employed borrower's average monthly income and expenses.

Please note that these tools offer suggested guidance, they don't replace instructions or applicable guidelines from the GSEs.

*Due to various internet browser versions, please download and save PDF before entering data. Please note, calculators are updated periodically.*



### Income Calculation Worksheet

Use this form to calculate income.

UPDATED



### Fannie Mae Form 1084 Calculator (2022-2021)

Calculate and analyze cash flow to help you complete Fannie Mae form 1084.

UPDATED



### Fannie Mae Form 1084 Calculator XLS (2022-2021)

Calculate and analyze cash flow to help you complete Fannie Mae form 1084.

UPDATED



### Freddie Mac Form 91 Calculator (2022-2021)

Quick reference guide and income analysis for Freddie Mac Form 91.

UPDATED



### Freddie Mac Form 92 Calculator (2022-2021)

Form 92 Net Rental Income Calculations – Schedule E.

UPDATED



### Rental Income Calculator (2022-2021)

Assists in calculating rental income from IRS form 1040 Schedule E.

UPDATED



### Quick Ratio – Liquidity Calculator (2022-2021)

Calculate an organization's liquidity against current liabilities.

UPDATED



### Current Ratio – Liquidity Calculator (2022-2021)

Calculate working capital liquidity against current liabilities.

UPDATED



### Fannie Mae Rental Guide (Calculator 1037)

Use this worksheet to calculate qualifying rental income for Fannie Mae Form 1037 (Principal Residence, 2- to 4-unit Property).



### Fannie Mae Rental Guide (Calculator 1038)

Use this worksheet to calculate qualifying rental income for Fannie Mae Form 1038 (Individual Rental Income from Investment Property(s) (up to 4 properties).



### Fannie Mae Rental Guide (Calculator 1039)

Calculate qualifying rental income for Fannie Mae Form 1039 (Business Rental Income from Investment Property).

UPDATED



### Fannie Mae Form 1088 Cheat Sheet

Use this quick reference guide for Fannie Mae's Comparative Analysis Form (Form 1088).

# Your Enact Resources

- ActionCenter® : 800 444.5664
- Your Local Enact Regional Underwriter
- Your Enact Sales Representative

# Legal Disclaimer

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