



# Fannie Mae & Freddie Mac

## Top 10 Things Every Loan Originator Should Know to Avoid Problems and Save Deals

Topic	Fannie Mae	Freddie Mac
<b>Appraisal Waivers</b>	Better Chance of getting an Appraisal Waiver when adding the Zip + 4 (for eligible loan purpose and LTV limitations). Use the USPS to get the full nine-digit zip code	Better Chance of getting an Appraisal Waiver when adding the Zip + 4 (for eligible loan purpose and LTV limitations). Use the USPS to get the full nine-digit zip code
<b>Employment starts post-closing/funding</b>	Fannie Mae offers two options to accommodate a borrower starting employment after the note date	Freddie Mac offers two options to accommodate a borrower starting employment after the note date. Freddie Mac even has a salary/or promotion increase component.
<b>Income for Affordable Lending Programs</b>	You do not have to count all the income on the 1003, only the income used for qualifying (think Overtime, Commission, and Bonus). Sometimes this can save a deal when anything over their base pay would disqualify them on income limits.	You do not have to count all the income on the 1003, only the income used for qualifying (think Overtime, Commission, and Bonus or rental income from non-owner-occupied units on 2-4 unit property). Sometimes this can save a deal when anything over their base pay would disqualify them on income limits.
<b>Alimony Payments</b>	Fannie Allows for the income to be treated either as a long-term debt or as a reduction to income which can help with the DTI calculation	Freddie Allows for the income to be treated either as a long-term debt or as a reduction to income which can help with the DTI calculation
<b>Income from Marijuana</b>	Fannie Mae allows this when derived from W2 wage income but not from self-employment income (think worker, not grower)	Not allowed
<b>Student Loans</b>	Fannie Mae allows for an income-based repayment option	Freddie allows a lower overall payment of .50% of balance vs. 1% of balance that Fannie Mae requires
<b>Boarder Income</b>	Fannie allows boarder income on their HomeReady product for one-unit properties, subject to conditions	Freddie allows boarder income on their Home Possible product for one-unit properties, subject to conditions
<b>DACA Borrowers</b>	Fannie Mae allows	Freddie Mac does not
<b>Automatic MI Termination Requirements</b>	Fannie Mae: for 2-4 Family Primary Residence or 1-4 Family Investment Properties, automatic termination occurs the month following the mid-point of the amortization period.	Freddie Mac: for 2-4 Family Primary Residence or 1-4 Family Investment Properties, automatic termination is not eligible.
<b>Rental Income</b>	Both agencies now require you to own a primary residence and/or have a current housing expense to be able to (at a minimum) use rents to offset the investment property PITI. No positive cash flow can be given, unless they have at least one-year history of receiving rental income. If the borrower does not own a primary residence and/or they have no current housing expense, the full PITI of the investment property must be added to ratios.	Both agencies now require you to own a primary residence and/or have a current housing expense to be able to (at a minimum) use rents to offset the investment property PITI. No positive cash flow can be given, unless they have at least one-year history of receiving rental income. If the borrower does not own a primary residence and/or they have no current housing expense, the full PITI of the investment property must be added to ratios.

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## **FHA** - Top 10 Things Every Loan Originator Should Know to Avoid Problems and Save Deals

- 1.** Refinance transactions on homes that have been acquired by the borrower within the last 12 months prior to case number assignment date must calculate LTV based on the lower of:
  - the Borrower's purchase price, plus any documented improvements made subsequent to the purchase; or
  - the Property Value.
- 2.** Renters who execute a sales agreement with the seller/landlord before they've rented the property for at least 6 months will trigger the 85% LTV Identity of Interest limitation.
- 3.** Employer Assistance is an acceptable source of funds for closing if:
  - it is provided through an established Employer Assistance Plan and
  - it is not secondary financing and
  - it is not a salary advance.
- 4.** Non-occupant co-borrower income is not eligible to qualify for a loan when any borrowers do not have a credit score.
- 5.** Gift donors can be real estate agents who are also family members. They can gift the commission earned from the subject transaction at closing. Close friends with an established interest in the borrower can also be gift donors.
- 6.** Derogatory credit wait periods (e.g., bankruptcy, foreclosure, etc): FHA measures from the event date to the case number assignment date of the new loan. Timing of the case number order can be critical.
- 7.** FHA allows borrowers currently paying a Chapter 13 bankruptcy to be eligible for financing if 12 months of the payout period have elapsed with timely payments and permission from the court to enter into the new mortgage is granted.

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- 8.** FHA has a very restrictive policy for allowing rental income from the retained primary residence the borrower is vacating for qualifying. When using this type of rental income to qualify the following apply:
  - 25% equity required for retained residence – appraisal ordered by lender required.
  - Borrower must be relocating at least 100 miles from their current residence.
  - Borrower must provide fully executed lease.
  - Rental income allowed will be lesser of:
    - 75% of fair market or
    - 75% of lease
  - Proof of deposit or first month's rent required.
  
- 9.** Alimony and child support income only requires 3 months of receipt history when the payments are court ordered or 12 months of receipt history when the support is paid through a voluntary agreement.
  
- 10.** There are several conditions that require a mandatory downgrade to manual underwriting that TOTAL software cannot determine. Files should be pre-screened for:
  - Information that cannot be considered by TOTAL (such as multiple NSF checks on bank statements).
  - 20% decline in self-employment income.
  - Undisclosed mortgage debt. (Mortgages not showing on credit report.)

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## **VA** - Top 10 Things Every Loan Originator Should Know to Avoid Problems and Save Deals

1. New law allows for 25% guaranty regardless of Fannie/Freddie loan limit for loans closing on or after January 1, 2020 when a veteran has full entitlement, eliminating the need for a down payment regardless of loan amount.
2. 4% seller/builder concession allows for gifts (e.g., appliances), the payoff of credit balances or judgments on behalf of the buyer and the 4% limitation calculation doesn't include closing costs.
3. Gift donors can be anyone that does not have any affiliation with the builder, developer, real estate agent, or any other interested party to the transaction.
4. Occupancy can be satisfied several different ways:
  - Veteran occupies within 60 days of closing.
  - Veteran occupies within 12 month of closing provided the veteran certifies that he or she will personally occupy the property as his or her home at a specific date after loan closing, and there is a particular future event that will make it possible for the veteran to personally occupy the property as his or her home on a specific future date.
  - The veteran's spouse or dependent child occupies the home until the veteran is able to reside there.

*Note that service members temporarily deployed from their permanent duty station are already considered occupant borrowers.*

5. In order to count rental income for qualify on a 2-4 unit property the borrower must:
  - document a 2-year history of landlord experience or initiate a contract with a property manager for a year AND
  - document 6 months principal, interest, taxes and insurance (PITI)

If the borrower can support the mortgage payment without the rental income neither the landlord experience nor reserve requirements are needed.

- 6.** When calculating residual income, the lender may omit any individuals from “family size” who are fully supported from a source of verified income which, for whatever reason, is not included in effective income in the loan analysis. For example:
  - a spouse not obligated on the note who has stable and reliable income sufficient to support his or her living expenses, or
  - a child for whom sufficient foster care payments or child support is received regularly.
  
- 7.** There can be exceptions to unallowable fees on a state-to-state basis. Check the state fee exceptions [here](#).
  
- 8.** VA allows borrowers currently paying a Chapter 13 bankruptcy can be eligible for financing if 12 months of the payout period have elapsed with timely payments and permission from court to enter into the new mortgage is granted.
  
- 9.** VA will require that any collectible debt reported on CAIVRS (note that an FHA paid claim to a lender is not a collectible debt) must be paid off or have payment arrangements on it. An example would be a federal student loan or VA education benefits that had been overpaid to a Veteran.
  
- 10.** When the VA reports a loss on a previous VA loan on the COE, the veteran has the choice of paying off the debt to have the full entitlement restored, or moving forward without paying the loss and using the remaining entitlement on a new loan.

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## **USDA** - Top 10 Things Every Loan Originator Should Know to Avoid Problems and Save Deals

1. No down payment is required and financing up to 100% of appraised value is allowed, PLUS the USDA RD Guarantee Fee can be added on top of that to effectively 101.00%\*
2. 6% seller contribution limit BUT Lender closing cost contribution by premium pricing does not count against 6% seller limit. Fees typically paid by the seller or other interested party under local, state law, or local custom are not considered in the maximum contribution calculation, such as survey or title policy.
3. Loan is NOT limited to the lower of the contract or appraised value. The difference between the contract and appraised value can be used to finance closing costs, prepaids and eligible repairs, even if seller has already agreed to pay a 6% contribution.
4. No cash reserve requirements AND 100% gifting is permitted AND there is NO limit on CLTV when soft second financing such as SHIPP or HOME is used for closing costs and prepaids.
5. No " Flipping Rule" /Sales time frame restriction as in the case of FHA financing.
6. No First Time Homebuyer Requirement.
7. No limitation on source of funds for closing costs AND the borrowing of documented unsecured funds allowed. There is NO seasoning requirement.
8. Non-taxable income can be grossed-up 25%.
9. Projected Income from cost-of-living adjustments, performance raises, bonuses, etc. which are both verified by the employer in writing and scheduled to begin within 60 days of loan closing is allowed to be used in qualifying.
10. A Mortgage Credit Certificate (MCC) monthly benefit can be deducted from the PITI payment before the debt ratio calculation.

\*Loan amount may exceed appraised value by the amount of Guarantee Fee paid by the borrower.