DU vs. LPA (Streamlined Accept)

Employment/Income Training

DU vs LPA (streamlined accept)

Asset- Reserve, Cash back to borrower, type of Refinance

Income- Self employed (SE) income, Rental Income

Liability - Student Loan

Continuity of Obligation (title seasoning)- Limited and Cash out Refinance

Assets

DU	LPA (Streamline Accept)
Asset	
Bank Statement: Most recent 2 months	Most recent 1 month
Reserve	
Reserves: DU bases reserves on the # of financed properties • 1-4 Financed properties: 2% of all UPB • 5-6 Financed properties: 4% of all UPB • 6-10 Financed properties: 6% of all UPB NOTE: UPB= Unpaid Principal Balances for financed properties that are NOT * the subject property or * the borrower's primary residence	Reserves required on the Feedback Certificate
Cash out with DTI over 45%- 6 mos PITIA reserve	Reserves required on the Feedback Certificate

Cash to Borrower

DU

No Cash Out Refinance

*Receiving cash back in an amount
That is not more than the lesser of
2% of the new refinance loan amount
Or $2,000

$100,000 x2%= $2,000 ok
$500,000 x2% = $10,000 NO-max is $2,000

LPA (Streamline Accept)

Limited Cash out Refinance

*Disburse cash out to the borrower (or any other payee) up to the greater of 1% of the new refinance mortgage or $2,000

GMCC Overlay is max $2,000 unless
an exception is approved by management

Income

DU	LPA (Streamline Accept)
Income- Self Employed (SE) **Years of business and personal tax return is required per:**	
AUS Finding	**Based on the year of business existence** * If 5 years and greater, most recent year is required * If less than 5 years, most recent TWO years is Required
C Corp, must own 100% to use business income	C Corp, no restriction on % of ownership
Working for Family Member Most recent TWO years tax return is required	Most recent ONE year tax return is required

Rental Income

Eligible Properties- If the rental income is derived from the subject property, the property must be one of the following:

- **A 2-4 unit principal residence property in which the borrower occupies one of the units, or**
- **A 1-4 unit investment property**

Ineligible Properties- rental income from the borrower's principal residence or a 2nd home cannot be used to qualify the borrower

Rental Income DU

Calculating Monthly Qualifying Rental Income (or Loss)

To determine the amount of rental income from the subject property that can be used for qualifying purposes when the borrower is purchasing or refinancing 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…
• currently owns a principal residence (or has a current housing expense), and • has at least a one-year history of receiving rental income or documented property management experience	there is no restriction on the amount of rental income that can be used.
• currently owns a principal residence (or has a current housing expense), and • has less than one-year history of receiving rental income or documented property management experience	• for a principal 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.
• does not own a principal residence, and • does not have a current housing expense	rental income from the subject property cannot be used.

LP Rental Income

Calculating Net Rental Income: Maximum Eligible Amount

FreddieMac
Single-Family

Maximum eligible amount of net rental income

Purchase Transaction

1. Borrower must currently own a primary residence* to use net rental income to qualify
2. Net rental income can only offset the PITI** of the new rental property

* Applies to: subject property purchase, refinance of subject 1-to-4 unit investment property, non-subject investment property, or subject 2-4 unit primary residence purchased or placed in service for use as a rental property in the current calendar year
** PITI= principal, interest, taxes, and insurance 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

LP Rental Income Continue

Calculating Net Rental Income: Maximum Eligible Amount

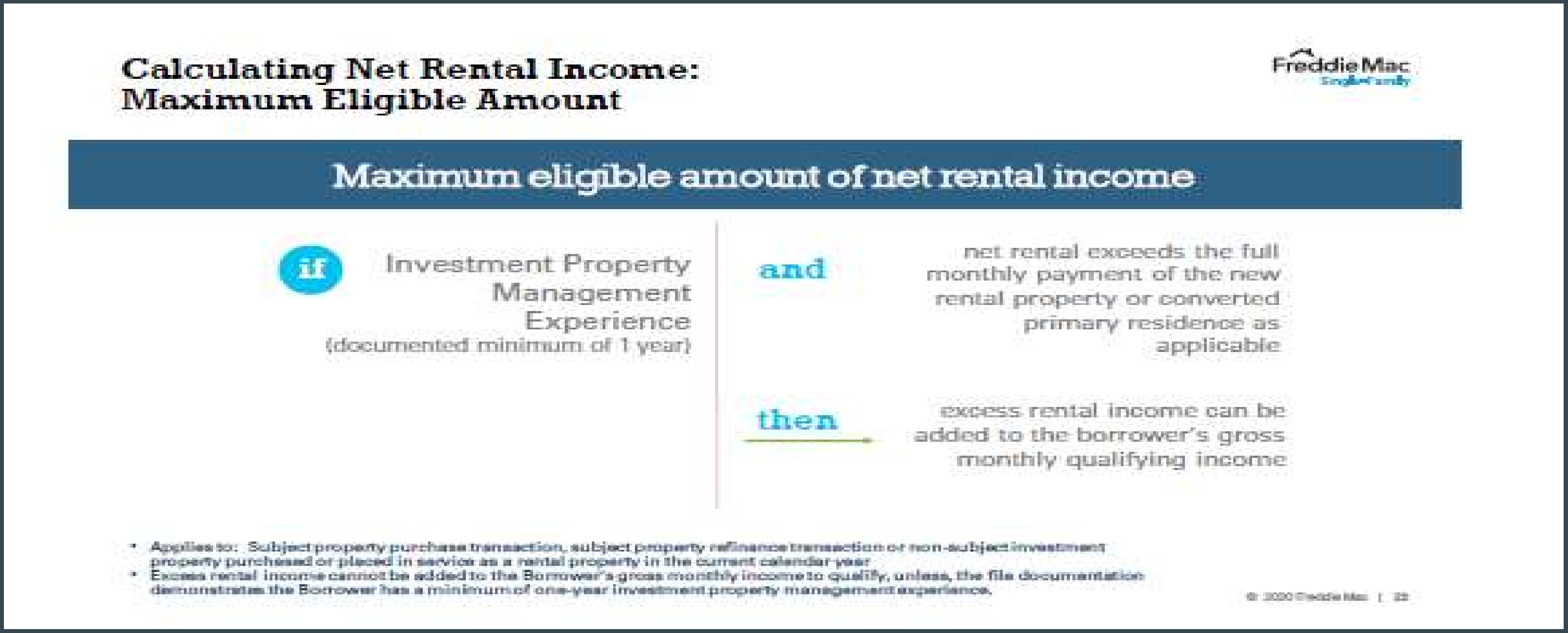
Maximum eligible amount of net rental income

Converting current primary to a rental property

1. Net rental income can only offset the full monthly payment of that primary residence

Applies to: subject property refinance transaction placed in service as a rental property in the current calendar year

LP


Calculating Net Rental Income:
Maximum Eligible Amount
Freddie Mac
Single-Family
Maximum eligible amount of net rental income
if
Investment Property Management Experience
(documented minimum of 1 year)
and
net rental exceeds the full monthly payment of the new rental property or converted primary residence as applicable
then
excess rental income can be added to the borrower's gross monthly qualifying income
• Applies to: Subject property purchase transaction, subject property refinance transaction or non-subject investment property purchased or placed in service as a rental property in the current calendar year
• 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.
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Cash Out- Continuity of Obligation

DU

Refinance

DU has removed the Continuity of Obligation requirements in 2016 on rate and term transactions

LPA (Streamline Accept)

LPA still requires “Continuity” which means at least one borrower must be the same or, you must have been on title and lived in the property for at least 12 months (and be a family member or made the payment for 12 months).

Cash out

DU

LPA (Streamline Accept)

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). Below is another exception

If the property was owned prior to closing by a 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 6 mos ownership requirement.

It maybe 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 AND
* Title must be transferred from the LLC into the borrower's name prior to the NOTE date

Liability – Student Loan

DU	LPA (Streamlined accept)
Student Loan	
Use payment from credit report or 1% from the outstanding balance	Use payment from credit report or 0.5% from the outstanding balance
Cash out Refinance Option for Student Loans	No Student Loan Cash-Out Options

Employment History

- Is there a minimum length of employment history required for base pay?

Answer: 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 factors to reasonable offset the shorter income history.

Variable Income

- * Less predictable income sources include hourly workers with fluctuating hours (based on hourly rate of pay and where the number of hours fluctuate each pay period)
- * The following types are some of the examples: hourly workers WITH fluctuating hours, or income that includes commissions, bonuses, or overtime.

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.

Variable Income Continue – Covid

Income - Variable

31. **When variable income is used to qualify the borrower(s), can a gap of employment (due to COVID-19) be excluded from the method of calculation?**

    A gap in employment or a reduction in income due to COVID-19 cannot be excluded from the calculation, and the year to date income must continue to be calculated over the entire time period. Refer to B3-3.1-01, General Income Information.

32. **How do lenders determine stability of variable income when a borrower has been impacted by COVID-19?**

    Income types such as hourly, commission and overtime, are variable by nature. Current Selling Guide policy requires these income types to be calculated considering the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received. Lenders should also include any information or knowledge of any current issues in their analysis of the borrower's continuance of income source. If the trending analysis indicates that the current year to date income has declined, but the borrower is actively employed and the lender has no reason to believe that the borrower will not continue to be employed at the current level, the income can be considered stable. Refer to B3-3.1-01, General Income Information.

Variable Income Continue- Covid

34. **When the borrower experiences a gap of employment due to COVID-19 and their source of income is variable, is there a minimum amount of documented time the borrower is required to be back at work after the gap period?**

    Unless the lender has knowledge to the contrary, if the borrower is actively employed, 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. Refer to B3-3.1-01, General Income Information for additional details.

35. **What if an hourly worker with fluctuating hours is working less hours now than they worked prior to the COVID-19 impact? UPDATED**

    Hourly workers with fluctuating hours are covered under our variable income policy. The year-to-date income amount being used will account for a decline in income when determining the amount of income to be used for the trending analysis and when determining the amount to be used for qualifying purposes.

Income Worksheet