



Freddie Mac and Fannie Mae Underwriting Comparison Guidelines

Topic	Principal Residential Policy	Freddie Mac Documentation Requirements	Fannie Mae
Facsimile Copies, Photocopies, Internet-Generated and E-mail Verifications	<p>Principal Residential Mortgage, Inc. will permit the use of internet/e-mail verification under the following conditions:</p> <p>Income/Employment Documentation:</p> <ul style="list-style-type: none"> ▪ Documents must clearly identify the borrower as the employee (name, social security number, address, etc.) ▪ Documents must be computer-generated or typed by the employer (hand-written documentation is not acceptable) ▪ Pay stubs/earnings statements must reflect the time period covered, the borrowers earnings for the current period and YTD earnings ▪ Clearly identify the employer's name and address ▪ IRS Form 4506 must be signed and dated by borrowers at closing <p>Asset Documentation:</p> <ul style="list-style-type: none"> ▪ Documents must clearly identify the borrower as the account holder (name, social security number, address, etc.) ▪ Documents must include the account number, the time period covered by the statement, all deposits and withdrawal transactions for a depository account or all purchase and sales transactions for a financial portfolio account, and the ending account balance ▪ Retirement account statements must identify the borrower's vested amount and the terms and conditions for funds withdrawal or loans <p>Facsimile Verifications:</p> <ul style="list-style-type: none"> ▪ The documents must be legible and free of any alterations, erasures, "whiteout", or similar indications that changes have 	<ul style="list-style-type: none"> ▪ 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 originator or the applicant must have made copies directly from the originals. Copies provided by any other source such as the agent, or builder, are not acceptable. ▪ Documentation of employment, income and assets are acceptable via computer-generated forms (Internet). ▪ Documents must include all essential information that is required on hard copy documentation. 	<ul style="list-style-type: none"> ▪ 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 originator must have made copies directly from the originals. Copies provided by any other source such as the applicant, agent, or builder, are not acceptable. ▪ Documentation of employment, income and assets are acceptable via computer-generated forms (Internet). ▪ Documents must include all essential information that is required on hard copy documentation



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Facsimile Copies, Photocopies, Internet-Generated and E-mail Verifications (continued)	<p>been made</p> <ul style="list-style-type: none"> ▪ The fax banner must clearly indicate the document came directly from the employer or financial institution. <p>Internet Verifications:</p> <ul style="list-style-type: none"> ▪ The documents must be legible and free of any alterations, erasures, "whiteouts", or similar indications that changes have been made ▪ The printed web pages must reflect the uniform resource locator (URL) address and the date and time printed 		
Gift Letter	Per Agency Guidelines	File to be documented with a gift letter or appropriate information on application	File to be documented with a gift letter
Third Party Verifications	Per Agency Guidelines	Acceptable verification from TALX, Frick, VIE, Inc., Jon Jay Associates and National Credit Reporting System via hard copy, fax or electronically.	Acceptable verification from any acceptable vendor via hard copy, fax or electronically. Information must be provided directly to the Lender.
Credit Documentation			
Age of Documentation	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Credit documents must be made within 120 days before the note date ▪ If the property is new construction, the documents may be up to 180 days old 	<ul style="list-style-type: none"> ▪ Credit documents must be made within 120 days before the note date ▪ If the property is new construction, the documents may be up to 180 days old
Bankruptcy/Foreclosure Deed-in-Lieu	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Transactions that have a bankruptcy or foreclosure within the last 7 years must be considered significant derogatory information ▪ Significant derogatory information caused by extenuating circumstances requires third party documentation confirming the events and re-establishment of a 24 month acceptable credit reputation ▪ Significant derogatory information caused by financial mismanagement requires re-establishment of a 48 month acceptable credit reputation ▪ Refer to Freddie Mac Guidelines for specific documentation requirements 	<p>Fannie Mae requires an elapsed time of 4 years for a borrower to re-establish a credit record.</p> <p>Exceptions would be:</p> <ul style="list-style-type: none"> ▪ 2 years may be acceptable for re-establishing a credit record when the previous action was a Chapter 13, regardless of the circumstances. ▪ 2 years maybe acceptable for re-establishing a credit record if the previous action related to a foreclosure, deed in lieu, or Chapter 7, 11, or 12 bankruptcy as long as the borrower can satisfactorily document that the action resulted from extenuating circumstances. <p>When a borrowers previous credit history included a bankruptcy or foreclosure related action:</p> <ul style="list-style-type: none"> ▪ All to the accounts in the borrowers credit report must be current as of the date of the mortgage application. ▪ A minimum of 4 credit references, with at least 1 of the references being traditional credit reference and 1 of the references being housing related. (Housing related references should cover the period following the bankruptcy discharge, foreclosure, or deed in lieu and can be in the form of rental or mortgage payments. If rental payments were not reported on the credit repositories, the borrower must provide copies of the most recent 12 months bank statements, money orders or cancelled checks to supplement the Verification of Rent)



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Bankruptcy/Foreclosure Deed-in-Lieu (continued)			<ul style="list-style-type: none"> ▪ 3 or 4 credit references must have been active in the 24 months preceding the date of the mortgage application. ▪ No more than 2 installment or revolving debt payments that were past due in the last 24 months. ▪ No installment or revolving debt payments 60 or more days past due since the discharge of the bankruptcy or the completion of the foreclosure related action. ▪ No housing debt payments past due since the discharge or completion of the bankruptcy or foreclosure related action. ▪ No new public records for bankruptcies, foreclosures, deeds in lieu, pre foreclosure sales, unpaid judgments or collections, garnishments, liens, etc since the discharge of the bankruptcy or completion of the foreclosure related action.
Contingent Liabilities	Per Agency Guidelines	<p>For Accept Plus Mortgages, use stated debt</p> <p>For all other loans, the user may disregard a contingent liability if the borrower provides:</p> <ul style="list-style-type: none"> ▪ 12 months cancelled checks showing that another party has been making timely payments, OR ▪ May disregard the liability if the debt has been assigned to another through court order and if applicable, the title has transferred (in this case, timely payment is not required) If the debt does not have a title (such as credit card debt) a letter from the creditor removing the borrower from the liability would be required 	<p>For all loans disregard a contingent liability under the following circumstances:</p> <ul style="list-style-type: none"> ▪ Cosigned Loan – 12-month history of the primary obligor making the payments on time and copies of 12 months cancelled checks to verify payment made by primary obligor. If less than 12 months the payment must be included in the debt to income ratio for qualifying. ▪ Property Settlement “Buyouts” typically in a divorce settlement. Document that the title to the property has been transferred ▪ Mortgage Assumption (without a release of liability)– document evidence of the transfer of ownership and a copy of the executed assumption agreement. Verification payments have been made as agreed by the property purchaser with no lates for at least the past 12 months. If less than 12 months, the payment must be included in the debt to income ratio for qualifying. ▪ Court-ordered Assignments of Debt – typically in a divorce decree or separation agreement. Document with a copy of the applicable pages from the court order and document any transfer of ownership if applicable. Lender is required to consider payment history prior to the date of the assignment in evaluating the credit of the borrower. ▪ Bridge (or swing loan) – document with a copy of a fully executed sales contract for the property that is security for the bridge loan and borrower has 6 months reserves for all outstanding liens against the property used as security for the loan in addition to any other reserves that are required on the mortgage for the new home. If the sales contract contains a financing contingency a copy of the commitment the property purchaser received (and accepted) from the lender that will be providing the financing is required.
Credit Reports (In-File)	Per Agency Guidelines	Loan Prospector Mortgages obtain one of the same type of credit report for all borrowers, listed below:	On Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, obtain one of the same type of credit report



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Credit Reports (In-File) (continued)		<ul style="list-style-type: none"> ▪ In-file or merged/joint merged obtained via LP ▪ In-file, merged/joint merged, or RMCR obtained outside of LP ▪ In-file reports for an individual borrower must be dated within 14 days of each other <p>On Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, obtain one of the same type of credit report for all borrowers listed below:</p> <ul style="list-style-type: none"> ▪ In-file (2 credit repositories are acceptable) ▪ Merged/joint merged ▪ RMCR ▪ All credit reports for an individual Borrower must be dated within 14 days of each other. <p><u>Refer to Underwriting Announcement regarding California Credit Freeze</u></p>	<p>for all borrowers listed below:</p> <ul style="list-style-type: none"> ▪ In-file credit reports (3 different repositories) ▪ In-file credit reports (2 different repositories) are acceptable if that is the extent of the data available for the borrower <p><u>Refer to Underwriting Announcement regarding California Credit Freeze</u></p>
Credit Underwriting Type	<p>All conforming conventional transactions (with the exception of certain streamline refinance transactions) must be run through either Freddie Mac/LP or Fannie Mae/DU (refer to the Freddie Mac/Fannie Mae Refinance Matrices for specific exclusions).</p> <p>Loans that receive a Caution response will not be approved unless eligible for the A-minus or Expanded Approval offerings. It is not acceptable to submit loans through both AUS systems to reach a favorable feedback from the second AUS system, when the first system gave a caution response, unless the response indicates the loan is eligible for the A-minus or Expanded Approval offerings.</p> <p>Traditional underwriting is limited to transactions with insufficient or erroneous credit (with the exceptions noted above).</p> <p><u>Insufficient credit</u> is defined as no credit score available from all three bureaus, or when a credit score exists, the AUS feedback is invalid for insufficient credit only.</p> <p><u>Erroneous credit</u> is defined as borrowers with delinquencies that are reported in error, one or more trade lines that do not belong to the</p>	<p>Borrower credit worthiness is established and excessive layering of risk is identified by one of the following methods:</p> <ul style="list-style-type: none"> • Submitting the loan to Loan Prospector • Manually underwriting the mortgage 	<p>Evaluating mortgage risk analysis and determining an underwriting recommendation may be determined in the following methods:</p> <ul style="list-style-type: none"> ▪ Submission of loans to Desktop Underwriter ▪ Manually underwriting mortgages using Fannie Mae's Comprehensive Risk Assessment



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Credit Underwriting Type (continued)	<p>borrower or public records information on a bankruptcy, foreclosure, judgment, or collection that does not belong to the borrower.</p> <p>Traditional underwriting is not available for LP A-minus or DU Expanded Approval transactions, as well as any transaction that requires an LP Accept, DU Approve Eligible or a Minimum Indicator Score (refer to the Freddie Mac/Fannie Mae Eligible Products matrices for restrictions).</p>		
Derogatory Credit	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Accept Plus, Streamlined Accept, Accept Mortgages with Standard Documentation no documentation is required. ▪ Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, receipt of documentation is based on total file unless significant derogatory information is applicable then a written statement is always required. 	<ul style="list-style-type: none"> ▪ For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit: Generally Principal does not need to include in the file any explanations regarding derogatory information in the borrower's credit file. However, if the borrower states that derogatory credit is the result of extenuating circumstances, a letter of explanation from the borrower is required along with the documentation that supports the borrower's claim.
Direct Verification of Other Debts	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Accept Plus, Streamlined Accept Documentation and Accept Mortgages with Standard Documentation a direct verification of other debts is not required. ▪ For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, if the credit reports do not contain sufficient information to establish an acceptable credit reputation, direct verification is required. 	<ul style="list-style-type: none"> ▪ The user must verify any other liability that is not shown on the credit report on Traditional Mortgages.
Establishing Borrower Credit Reputation	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ For Accept Mortgages, credit is acceptable ▪ For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, Principal Residential Mortgage, Inc. must determine that all Borrowers have an acceptable credit reputation ▪ The acceptable credit history of one borrower will not offset the unacceptable credit history of another Borrower 	<ul style="list-style-type: none"> ▪ For DO/DU Approve/Eligible Mortgages, credit is acceptable ▪ For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, Principal Residential Mortgage, Inc. must determine that all Borrowers have an acceptable credit reputation ▪ The acceptable credit history of one Borrower will not offset the unacceptable credit history of another Borrower
Explanation of Credit Inquiries	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ All transactions: When the credit report indicated that an inquiry has been made by a creditor within the previous 90 day period, the user must determine whether additional credit was granted as a result of the borrower's request. Letter from the borrower or the creditor is acceptable. ▪ Borrower is not required to document credit inquiries within the last 90 day period prior to the credit report when LTV is <80% 	<ul style="list-style-type: none"> ▪ Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit Only: When the credit report indicates recent inquiries the lender must confirm the borrower has not obtained any additional credit that is not contained in the credit report.
Installment Debts	Per Agency Guidelines	<p>Payments on all installment debts with more than ten (10) months of payments remaining, including debts that are in a period of either deferment or forbearance, must be included in the debt payment-to-income ratios.</p>	<p>Must be included in the debt to income ratio unless:</p> <ul style="list-style-type: none"> ▪ Ten (10) or fewer months remain, and ▪ Payment does not significantly (greater than 2% change in debt to income ratio) affect the borrowers ability to



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Installment Debts (continued)		<p>Examples of installment debts with deferred payments include:</p> <ul style="list-style-type: none"> ▪ Debts on furniture, household items and automobiles on which the initial payment is delayed for a period of time as part of a promotional campaign by the merchant ▪ Student loans for which the repayment period has not yet started because the borrower is still in school or payment has been suspended for a period of time with the approval of the creditor <p>When payments on an installment debt are not given on the credit report or are listed as deferred, documentation must be obtained to support the payment amount included in the monthly debt payment. Acceptable documentation of the required payment amount includes the following:</p> <ul style="list-style-type: none"> ▪ A direct verification obtained from the creditor ▪ A copy of the installment loan agreement obtained from the borrower, or ▪ If payments are currently deferred, the payment amount that will be required once the deferment or forbearance period has ended, as stated in a copy of a financial institution's student loan certification or the installment loan agreement 	<p>meet credit obligations</p> <p>Deferred installment debt (such as student loans and loans in forbearance) must be included in the debt to income ratio regardless of the time deferred.</p>
Judgments, Garnishments and Collections	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ LP transactions with an Accept Plus or Accept, unpaid collections do not have to be paid off ▪ Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit– whether collections are paid off or not is at the discretion of the underwriter ▪ Judgments and liens must be paid off at the underwriter's discretion subject to lender being in first lien position 	<ul style="list-style-type: none"> ▪ Collections or charge offs do not have to be paid off at or before loan closing if they are less than \$250 per individual account or \$1,000 total ▪ Judgments and liens must be paid off at the underwriter's discretion subject to lender being in first lien position
Nontraditional Mortgage Credit Report	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Non-traditional mortgage credit reports are acceptable with: <ul style="list-style-type: none"> ▪ A minimum of three trade lines, whether or not on the credit report, OR ▪ If a borrower does not have three trade lines, at least four non-credit payment references or a total of four trade lines and non-credit payment references. ▪ To be used to establish a minimum payment history, a noncredit payment reference must have existed for at least 12 months. A documented savings history 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. Noncredit payment references may appear on a credit report or may be directly verified. ▪ If a representative credit score is available, the loan must be sent through Loan Prospector and underwritten as a LP loan. For Non-Traditional Credit, when a credit 	<ul style="list-style-type: none"> ▪ Non-traditional mortgage credit reports acceptable with a minimum of four sources of non-traditional credit for the borrower. ▪ If a non permanent resident alien does not have enough trade lines in the US to satisfy the above, the non permanent resident alien is not eligible to waive the requirement for a minimum of four acceptable sources of non traditional credit. Credit references may be used from a foreign country to achieve the required number of references needed to meet Fannie Mae guidelines. ▪ If a representative credit score is available, the loan must be sent through Desktop Underwriter and underwritten as a DU loan. For Non-Traditional Credit, when a credit score is not available or the DU is response is invalid due to insufficient credit, the underwriter must indicate in the system the loan was manually underwritten with "insufficient credit" indicator ▪ DU transactions that receive an Approve/Eligible are not required to have a minimum amount of credit



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Nontraditional Mortgage Credit Report (continued)		<p>score is not available or the LP response is invalid due to insufficient credit, the underwriter must indicate in the system the loan was manually underwritten with "insufficient credit" indicator.</p> <ul style="list-style-type: none"> ▪ LP transactions that receive an Accept Plus or Accept are not required to have a minimum amount of credit. 	
Revolving or Open 30 Day Charge Accounts	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Monthly payments on revolving or open-end accounts, regardless of the balance must be included in the debt payment-to-income ratio. In the absence of a stated payment, 5% of the outstanding balance will be considered to be the required payment. 	<ul style="list-style-type: none"> ▪ Open 30 Day Charge accounts are generally not required to be paid off at or prior to closing unless the borrower is unable to demonstrate sufficient assets to cover the unpaid balance or will receive reimbursement of the charges from his or her employer, the account must be paid off at or prior to closing. ▪ Revolving charge accounts with more than ten months of payments remaining must be included in the calculation of debt-to-income ratio, even if the account is to be paid at closing.
Verification of Mortgage or Rent History	Per Agency Guidelines	<p>Accept Plus, Streamlined Accept and Accept Mortgages with Standard Documentation: A direct verification of mortgage and/or rental history is not required.</p> <p>Traditionally Underwritten Mortgages with Insufficient or Erroneous credit: A direct verification of mortgage or rental payment history is required when the debt is not listed on the credit report. The following are acceptable for direct verification:</p> <ul style="list-style-type: none"> ▪ Direct written rental verification and rental payment history be from a professional management company. ▪ Allows copies of receipts to be submitted as acceptable documentation for verification of rental payments. ▪ Allows depository statements showing automatic debit by the servicer or mortgage payment as acceptable documentation. 	<ul style="list-style-type: none"> ▪ Credit Report must contain the entire mortgage payment history reported by the mortgage credit grantor for a minimum of 12 months, OR ▪ Direct verification of mortgage is required.
Assets			
Alternative Verification of Source of Funds	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Accept Plus and Streamlined Accept Documentation requires a depository or brokerage statement covering the most recent month for each account. Standard Documentation and Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit require a depository or brokerage statement covering the two most recent months. ▪ When verifying funds the following alternative documentation is acceptable: <ul style="list-style-type: none"> ▪ Depository statement for the most recent month or ▪ Stock and/or securities account statements for the most recent month ▪ Lender reps and warrants the following: <ul style="list-style-type: none"> ▪ Borrower has no undisclosed debts ▪ Borrower has no undisclosed contributions from the property Seller and ▪ Borrower has not used funds, which were obtained, through an illegal source. 	<ul style="list-style-type: none"> ▪ Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit require the most recent two-month period to verify assets.



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Cash on Hand	Per Agency Guidelines	<p>Acceptable for Affordable Gold Mortgages under the following guidelines:</p> <ul style="list-style-type: none"> ▪ Borrower must be a cash-basis individual or someone who does not use checking, savings, or similar type of accounts, but may be a limited user of credit (revolving or installment debt). ▪ Minimum LTV of 90% ▪ The credit report does not show more than three trade line references for the borrower ▪ Monthly receipts or alternative documentation indicate that the borrower has no checking, savings or similar type accounts ▪ The updated credit report (second report received one week prior to closing) shows no new accounts or no substantial increase to existing accounts equal the amount of cash on hand provided by the borrower ▪ The Monthly Budget and Residual Income Analysis Form, confirms that the borrower would have sufficient income, given his or her normal household expense to have saved the cash provided ▪ Copies of 6 months' cash receipts (such as rent utility receipts) or other alternative documentation (direct verification, money orders, wire transfers) meeting Freddie Mac requirements to verify that all recurring obligations, including the payment of revolving and installment debt, are paid in cash. ▪ Any cash advances must be explained and documented. 	<p>Acceptable for Community Lending loan products under the following guidelines:</p> <ul style="list-style-type: none"> ▪ The borrower customarily uses cash for expenses, and the usage is consistent with the borrower's profile and financial status ▪ The funds for down payment and closing costs were verified as being in a financial institution account at the time of application ▪ Lender obtains a written statement from the borrower in which the borrower discloses the source of funds and states that the funds have not been borrowed ▪ Receipt of a second credit report immediately prior to closing in order to verify that the borrower did not apply for or obtain any new and/or previously undisclosed loans during the mortgage application period. Any new loans appearing on the report must have been satisfactorily explained by the borrower and factored into the mortgage decision ▪ The credit report or other verification reflected limited or no use of credit and no depository relationships between the borrower and a financial institution ▪ 1-unit primary residence
Credit Card Option	Per Agency Guidelines	<p>Acceptable to charge or use an unsecured line of credit to pay for the credit report, appraisal and loan origination fee only when:</p> <ul style="list-style-type: none"> ▪ Credit card or unsecured loan balance must appear on application ▪ Borrower must have sufficient funds to cover the fees ▪ Fees can not exceed 1.5% of the mortgage amount 	<p>Acceptable to charge the following fees to a credit card: lock in fees, credit reports and appraisal reports when:</p> <ul style="list-style-type: none"> ▪ Total amount of lock in fees charges do not exceed 1% of the mortgage amount ▪ Borrower has sufficient funds to cover these charges (in addition to other costs paid by the borrower) ▪ Charges do not have to be paid off at closing ▪ Obligation must be included in calculating ratios ▪ Actual cost of credit report and appraisal fee up to \$500 – is not considered in the 1% limitation on lock in fees
Earnest Money	Per Agency Guidelines	<p>Verification of earnest money is not required if the borrower has sufficient cash to close verified in other accounts</p>	<p>When the deposit is made from any portion of the borrowers down payment that must come from the borrowers own funds, the source of funds for the deposit must be verified.</p>
Funds for Closing Costs and Reserves on Refinances	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Verification of funds to close and reserves are not required ▪ User must document all assets input in to LP 	<ul style="list-style-type: none"> ▪ Limited cash out transactions are not required to document reserves unless needed as a compensating factor. Cash out transactions must verify minimum two months reserves ▪ Verification of funds to close for closing costs on a limited cash-out refinance are not required
Gift Funds, Donations from Entities	Per Agency Guidelines	<p>If the gift funds are not in the Borrower's account, provide proof of transfer from the donor to the Borrower</p>	<ul style="list-style-type: none"> ▪ Provide verification that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account ▪ Personal gift funds may be from: <ul style="list-style-type: none"> ▪ Relative



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Gift Funds, Donations from Entities (continued)			<ul style="list-style-type: none"> ▪ Domestic Partner ▪ Fiancé ▪ Fiancée ▪ Generally the borrower must make the down payment from his or her own funds. ▪ Personal Gift (gift funds from a relative, domestic partner, fiancé or fiancée) Exceptions: <ul style="list-style-type: none"> ▪ Borrower may come up with his or her own funds with funds received as a gift, if the donor has lived with the borrower for at least 12 months and both will occupy the subject property as their principal residence. Documentation from the donor is required regarding residency, i.e. driver's license, bank statement or bill demonstrating same address as the borrower. ▪ Personal gift can be used to make the entire down payment for the Flexible 97 mortgage or when the LTV/CLTV of 80% for any other mortgage. ▪ Donations from Entities can be used to make the entire down payment for Flexible 97 mortgage or when the LTV/CLTV of 80% or less for any other mortgage.
Interested Party Contributions	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ A 3% contribution for loans with LTV's over 90% are acceptable on primary residence and second homes ▪ A 6% contribution for loans with LTV's between 75% and 90% are now allowed on primary residence and second homes ▪ A 9% contribution for loans with LTV's of 75% and below are acceptable on primary residence and second homes ▪ A 2% contribution for Investment Properties on all LTV's 	<p>Maximum Allowable Contribution:</p> <ul style="list-style-type: none"> ▪ A 3% contribution for loans with LTV/ CLTV's over 90% are acceptable on primary residence and second homes ▪ A 6% contribution for loans with LTV/CLTV's between 75% and 90% are now allowed on primary residence and second homes ▪ A 9% contribution for loans with LTV/CLTV's of 75% and below are acceptable on primary residence and second homes ▪ A 2% contribution for Investment Properties on all LTV/CLTV's ▪ Contributions that will always result in a downward adjustment to the sales price of the property are: <ul style="list-style-type: none"> ▪ Personal property is always a reduction regardless of the % of contribution from an interested party ▪ Contributions exceeding the above limitations ▪ Loans with undisclosed seller contributions are not eligible for sale to Fannie Mae
Liquidation of Assets for Closing Costs	Per Agency Guidelines	If stocks, bonds or any part of a retirement account are to be liquidated, proof of liquidation is not required.	<p>Receipt of funds from stocks, bonds and retirement accounts must be verified.</p> <p>Liquidation of assets is not required when:</p> <ul style="list-style-type: none"> ▪ Fixed or 7- year balloon primary residence ▪ Maximum LTV is 90% with a Credit Score ≥ 700 or ▪ Maximum LTV is 80% with a Credit Score ≥ 660 ▪ Three months reserves ▪ Entire down payment is from borrower's own funds ▪ For qualifying, must use 80% of the value of the asset



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Loans Secured by Borrowers Financial Assets	Per Agency Guidelines	Payments on loans secured by financial assets, 401(k), etc. that may be repaid through liquidation of the asset may be excluded from qualifying ratios	Loans secured against insurance policy, 401(k), etc. no payment is required when calculating ratios. Must document with loan instrument. If asset is used for reserves – must reduce asset by the amount of secured debt.
Prepays/Escrows Paid by Principal Residential or Borrower's Employer	Per Agency Guidelines	Freddie Mac considers these financing concessions and they must meet the limitations on financing concessions.	Fannie Mae considers these contributions if the purchaser with the exception of the employer paid do not pay them. An adjustment to the property's appraised value is required.
Prepays/Escrows Paid by Originating Lender or Property Seller	Per Agency Guidelines	Originating Lender or Property Seller may fund part or all of the prepaid closing costs, provided: <ul style="list-style-type: none"> ▪ Maximum LTV is 95% ▪ Purchase, no cash-out, cash out refinance ▪ 1-4 unit, owner-occupied, second home or investment ▪ Total contribution doesn't exceed Guide limits ▪ Buy downs acceptable on primary and second homes ▪ Borrower did not receive any cash back at closing ▪ Minimum down payment from borrower's own funds 	Lender or Property Seller may fund part or all of the prepaid closing costs, provided: <ul style="list-style-type: none"> ▪ Max LTV is 95% ▪ Purchase transaction ▪ 1 unit, owner-occupied principal residence ▪ Total contribution doesn't exceed Guide limits ▪ No buy downs ▪ Borrower did not receive any cash back at closing ▪ Minimum down payment from borrower's own funds
Reserves	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Reserves are not required on all transactions; all reserves entered into Loan Prospector must be verified. ▪ Mortgages on investment properties require 6 months of PITI for reserves even if rental income is not being used to qualify. (For additional requirements refer to Investment Properties Special Underwriting Requirements). ▪ Retirement Accounts when used for reserves do not need to be withdrawn and may be counted up to the vested amount less minimum Federal tax withholding required by the IRS. No reduction for early withdrawal. ▪ Retirement Accounts such as IPERS PERS etc. can not be used for reserves 	<p>Reserves may be comprised of:</p> <ul style="list-style-type: none"> ▪ Checking or savings accounts ▪ Investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds. ▪ 70% of the vested retirement savings account ▪ Cash value of life insurance policy ▪ Gift funds may be used to supplement reserves, however, gift funds can not be the sole source in meeting financial reserve requirement <p>Unacceptable sources of reserves include:</p> <ul style="list-style-type: none"> ▪ Cash out on a subject in a refinance transaction ▪ Funds that are not vested ▪ A fund that cannot be withdrawn under circumstances other than the account owner's death, retirement or employment termination. ▪ Stock held in an unlisted corporation ▪ Interested parties contributions <p>Desktop Underwriter will specify the amount of reserves needed to support its overall risk assessment. For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit:</p> <ul style="list-style-type: none"> ▪ No minimum is required, however two months is recommended on most transactions. ▪ Trailing co borrower, investment property, and loans whose security is used for bridge or swing loans require six months of reserves. ▪ Multiple mortgages to the same borrower require six months of reserves for each financed property.
Reserves from Proceeds of Cash-out Refinance	Per Agency Guidelines	Proceeds can be counted from the transaction as reserves	Proceeds cannot be counted from the transaction as reserves



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Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
Sale of an Asset	Per Agency Guidelines	Proceeds must be verified with the following: <ul style="list-style-type: none"> ▪ Bill of sale and proof of receipt, or ▪ Document existence and ownership (e.g., title) ▪ Value through a third party (e.g., blue book) ▪ Buyers existence at a specific price (e.g., letter of intent or contract) 	<ul style="list-style-type: none"> ▪ Written verification individual purchasing the asset is not a party to the property sale or mortgage financing transaction. ▪ Proceeds must be verified with the following <ul style="list-style-type: none"> ▪ Document evidence of ownership ▪ Document value (Must be from an independent and reputable source) ▪ Transfer of ownership, e.g. bill of sale or a statement from the purchaser ▪ Document receipt of proceeds such as deposit slip, bank statement, or copy of the purchaser's check
Sweat Equity	Per Agency Guidelines	Acceptable	Not Acceptable
Transfer of Gift Funds	Per Agency Guidelines	If the gift funds are not in the Borrower's account, provide proof of transfer from the donor to the Borrower.	Documentation of transfer of the gift must be by a copy of the donor's withdrawal slip and the borrowers deposit slip, a copy of the donors cancelled check, etc.
Unsecured Loans	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Proceeds of an unsecured loan are not acceptable ▪ Unsecured loans from a borrower's employer made to assist a relocating borrower in purchasing a new home shall be considered cash, provided borrower has made a minimum 5% down payment from own funds 	Proceeds of an unsecured loan are not acceptable
Employment/Income			
Alimony or Child Support	Per Agency Guidelines	All transactions must provide: <ul style="list-style-type: none"> ▪ Documentation of proof of receipt for the most recent 3 months ▪ Evidence of continuation for 3 years with selected pages from the applicable agreement 	Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit must provide: <ul style="list-style-type: none"> ▪ Documentation of proof of receipt for the most recent twelve months or that a borrower has been receiving regular timely payments for between six and twelve months, the income may be considered as acceptable stable income as long as it does not represent more than 30% of the total gross income that is used to qualify the borrower for the mortgage. Income received less than six months may not be considered as acceptable stable income. May be used as compensating factor. ▪ Evidence of three year continuation with a photocopy of the divorce decree or separation agreement ▪ Verification of income from alimony and/or child support does not need to be verified for the twelve months preceding the date of the mortgage loan application, provided: <ul style="list-style-type: none"> ▪ The receipt of income was verified for the three months immediately preceding the date of the mortgage loan application of the mortgage loan ▪ Receipt of verification that income will continue for a minimum of three years following the date of the application and ▪ The subject transaction is a one unit owner-occupied primary residence or second home
Alternative Verification of Employment and Income	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Mortgages that are made to borrowers who are not self-employed and for which alternative documentation has been provided is acceptable when the documentation is: <ul style="list-style-type: none"> ▪ Pay stub or salary voucher that shows year-to-date earnings for at least a 30 day period and has sufficient 	Verification of employment for borrowers who are not self-employed may be documented with any of the following: <ul style="list-style-type: none"> ▪ Written VOE ▪ Pay stubs or payroll earnings statements that cover earnings for the most recent 30-day period, and, if



Freddie Mac and Fannie Mae Underwriting Comparison Guidelines

Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
Alternative Verification of Employment and Income (continued)		information to determine base monthly earnings <ul style="list-style-type: none"> ▪ A W-2 form for the most recent year ▪ Verbal verification of employment 	applicable, W-2 forms for the most recent two-year period <ul style="list-style-type: none"> ▪ Verification by a third-party vendor
Auto Allowances	Per Agency Guidelines	Freddie Mac does not address the use of auto allowance for income or to offset the car payment. Underwriting Administration has reviewed this issue with Freddie Mac and they will allow the use of an auto allowance with the following: <ul style="list-style-type: none"> ▪ The allowance shows up as taxable income on the paystub/W-2, OR ▪ The allowance is not taxable but user can document the allowance was used for the car payment 	<ul style="list-style-type: none"> ▪ Payments must be received for past two years. ▪ Lender must include all associated business expenditures in the total debt to income ratio. ▪ If payments received for less than two years, can be used as a compensating factor ONLY. ▪ When the borrower reports the allowance on the Employee Business Expenses (IRS Form 2106) or the Profit and Loss from Business (Schedule C), use the actual cash flow approach to determine whether payments exceed or fall short of borrowers actual expenditures. Any funds in excess of the borrowers monthly expenditures are added to the borrowers monthly income. Any expenses in excess of monthly allowance must be included in the borrowers total monthly obligations. ▪ When the borrower used IRS Form 2106 and recognized "actual expenses" instead of the "standard mileage rate" the lender must look at "actual expenses" section to identify the borrowers actual lease payments, and then make the appropriate adjustments. ▪ When the borrower does not report the allowance on Form 2106 or Schedule C, the lender should use the income and debt approach. Full amount of the allowance is added to the borrowers monthly income and full amount of debt or lease for the automobile is added to the borrowers monthly debt obligations.
Employed by a Property Seller, Real Estate Broker Broker or Closely Held Family Business	Per Agency Guidelines	Accept Plus Documentation requires: <ul style="list-style-type: none"> ▪ Verbal VOE, or ▪ Most recent pay stub, or ▪ Written VOE Streamlined Accept Documentation requires: <ul style="list-style-type: none"> ▪ Most recent YTD pay stub ▪ W-2s covering the most recent tax year ▪ Individual tax returns for the most recent years Standard Documentation and Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit require: <ul style="list-style-type: none"> ▪ Most recent YTD pay stub ▪ W-2s covering the most recent 2 tax years ▪ Individual tax returns for the most recent 2 years. 	Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit require: <ul style="list-style-type: none"> ▪ User must obtain completed federal income tax returns for the most recent two years and VOE
Gaps of Employment	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Accept Plus and Streamlined Accept Documentation no explanation is required. ▪ Standard Document and Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit requires: <ul style="list-style-type: none"> ▪ Documentation of gaps of more than 60 days on the application and provide an explanation from the borrower on Standard Documentation 	<ul style="list-style-type: none"> ▪ Document gaps of more than 30 days on Traditionally Mortgages Underwritten with Insufficient or Erroneous Credit, OR ▪ Documentation of explanation of gaps of more than 60 days is required



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Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
Rental Income	Per Agency Guidelines	Refer to Freddie Mac Rental Income Matrix	Refer to Fannie Mae Rental Income Matrix
Secondary Income	Per Agency Guidelines	A two-year history for secondary income is no longer required	<ul style="list-style-type: none"> ▪ May be considered stable if it can be verified as having been uninterrupted for the previous 2 years and has a strong likelihood of continuance. ▪ The lender has flexibility of accepting less than 2-year history if there is a strong likelihood of continuance but no less than a 12-month history is required.
Self-Employed Borrower	Per Agency Guidelines	<p>All transactions – the user is not required to obtain:</p> <ul style="list-style-type: none"> ▪ Balance Sheet or Profit and Loss <p>Accept Plus Documentation</p> <ul style="list-style-type: none"> ▪ If more than 25% of the Borrower's income is from self-employment, obtain signed pages 1 and 2 for the most recent individual federal income tax returns. Use stated income, regardless of time self-employed. ▪ Business Income Tax returns not required <p>Streamline Accept Documentation</p> <ul style="list-style-type: none"> ▪ Business Income Tax returns not required ▪ Individual federal income tax returns for the most recent one year <p>Standard Documentation or Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit:</p> <ul style="list-style-type: none"> ▪ Individual federal income tax returns for the most recent two years ▪ Signed Borrower's most recent complete business tax returns (two years), and ▪ Signed IRS Form 8821 or 4506 for the most recent year ▪ Two years complete business tax returns for each business providing income to the borrower for qualification, OR <p>Document the following:</p> <ul style="list-style-type: none"> ▪ Individual tax returns show self-employed income increased over the past two years ▪ Borrower funds are not coming from the business account ▪ Borrower has been self-employed in the same business for at least five years ▪ If all apply the borrower does not need to provide business tax returns. 	<p>DU/DO Transactions follow documentation requirements on AUS feedback.</p> <p>Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit:</p> <ul style="list-style-type: none"> ▪ Borrower(s) owning more than 25% of a business are considered to be self-employed. ▪ Documentation requirements: <ul style="list-style-type: none"> ▪ Sole Proprietorship <ul style="list-style-type: none"> ▪ Year to date Profit and Loss and Balance Sheet for the business. ▪ Copies of most recent two years Personal Federal Income Tax Returns with all schedules and W-2s. ▪ Partnership (General or Limited) <ul style="list-style-type: none"> ▪ Y-T-D Profit and Loss and Balance Sheet ▪ Copies of the most recent 2 years Personal Federal Income tax returns with all schedules and W-2s ▪ Copies of the most recent 2 years Partnership Returns and K-1s ▪ Corporation (Limited Liability, S corporation, Corporation) <ul style="list-style-type: none"> ▪ Year to date Profit and Loss and Balance Sheet ▪ Copies of the most recent 2 years Personal Federal Income tax returns with all schedules and W-2s ▪ Copies of the most recent 2 years Corporate tax returns ▪ Copies of the most recent K-1s for limited liability and S corps only. ▪ Business tax returns may be waived if all of the following are met: <ul style="list-style-type: none"> ▪ The borrower has been self-employed in the same business for a least five years, ▪ The borrower's individual tax returns show an increase in self-employment income over the last two years, and ▪ The borrower is paying the down payment and closing cost with his or her own funds and is not using any funds from the business account or cash flow from the business to qualify and ▪ Signed IRS Form 8821 or 4506



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Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
Self-Employed Borrower (continued)			<ul style="list-style-type: none"> ▪ Written analysis of the Personal and Business tax returns required. Cash Flow Analysis Form 1084 or any other form that applies the same cash flow principles as Form 1084.
Self-Employed Borrower (Length of Self-Employment)	Per Agency Guidelines	A two-year history of self employment is not required but still recommended	<ul style="list-style-type: none"> ▪ A two-year history is required. ▪ However, 12 to 24 months may be considered if: <ul style="list-style-type: none"> ▪ Borrowers latest federal income tax return reflects full 12 month period of self employment, and ▪ Borrower has a history of receiving income at the same or greater level in the file that provides the same products and services as the current business.
Tax Exempt Income	Per Agency Guidelines	User must verify that the income is non-taxable. The user may add to the borrower's income an amount equal to 25% of the non-taxable income.	User must verify that the income is non-taxable. The user may add to the borrower's income an amount equal to the greater of 25% of the non-taxable income or the actual amount of federal and stated taxes that would be paid by a wage earner in a similar tax bracket.
Trailing Co-Borrower Income	Per Agency Guidelines	<p>Trailing Co-Borrower income has been added</p> <ul style="list-style-type: none"> ▪ May not exceed 33% of total qualifying income ▪ Income may not be from self-employment ▪ Continuously employed in same occupation for two years ▪ Statement of intent to work from trailing co-borrower ▪ Principal Residential must determine the earning potential (documentation required) ▪ No LTV limitations or product types ▪ Primary residence, purchases only ▪ Use 100% of the secondary income 	<p>Trailing Co-Borrower (secondary wage earner) income may be used when:</p> <ul style="list-style-type: none"> ▪ Secondary wage earner is a spouse, relative, domestic partner, fiancée, or fiancé of the primary wage earner. ▪ Secondary wage earner must currently reside in the same household with the primary wage earner unless secondary wage earner is a fiancée or fiancé of the primary wage earner. ▪ Secondary wage earner has been employed as a salaried, hourly, or commission employee for the past two years. ▪ Written statement of intent to obtain employment in the new location from the secondary wage earner. ▪ Principal Residential Mortgage, Inc. must document reasonable employment market for the position(s) that are similar to the secondary wage earners previous position(s). Total debt ratio may not exceed 36% unless compensating factors exist to justify higher debt ratio. ▪ Six months reserves after closing ▪ Can use 100% of secondary income as long as this income does not exceed 30% of the total qualifying income. If the secondary income exceeds 30%, only 50% of the income can be used to qualify. ▪ Minimum FICO score of 680 or higher <p>If these criteria are not met, the trailing co borrowers income may only be used as a compensating factor for higher qualifying ratio.</p>
Collateral			
Alternatives for Using, Transmitting and Storing Property Appraisals		<p>Principal Residential may use and maintain an appraisal report that is transmitted electronically using fax; internet connections, wireless transmissions, or any other types of transmission that use public or private phone lines with the following conditions:</p> <ul style="list-style-type: none"> ▪ Electronic Transmissions: 	<p>Principal Residential may accept an appraisal report that is transmitted electronically using fax; internet connections, wireless transmissions, or any other types of transmission that use public or private phone lines with the following conditions:</p> <ul style="list-style-type: none"> ▪ The report must adequately identify the appraiser and



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Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
Alternatives for Using, Transmitting and Storing Property Appraisals (continued)		<ul style="list-style-type: none"> ▪ Document has an electronically reproduced signature of the appraiser ▪ Principal Residential represents and warrants that he electronically transmitted collateral assessment report is authentic ▪ Each collateral assessment report has all of the applicable attachments ▪ Facsimile Transmission: ▪ The collateral assessment report has all of the applicable attachments ▪ The appraiser transmits the completed collateral assessment report directly to Principal Residential or the mortgage originator ▪ The photos of the subject property are clear ▪ Principal Residential retains liability for the authenticity and accuracy of the collateral assessment report 	<p>include a reproduced signature of the appraiser whose name appears on the report and</p> <ul style="list-style-type: none"> ▪ Principal Residential must represent and warrant to the agencies that the appraisal report was created by the appraiser identified on the appraisal report and the appraisal report is the complete and unaltered appraisal that was submitted by the identified appraiser ▪ Principal Residential may store the appraisal report using any photographic, electronic, optical or other storage technology that enables us to retrieve and reproduce a complete and clear copy of the appraisal reports at any time
Appraisal Documentation	Per Agency Guidelines	<p>For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, the following appraisal reports must be used:</p> <ul style="list-style-type: none"> ▪ Primary Residence and Second Home <ul style="list-style-type: none"> ▪ 1-unit – Form 70 or 2055 Interior/Exterior ▪ Condo – Form 465 or 2055 Interior/Exterior ▪ 2-4 units – Form 72 ▪ Investment Property <ul style="list-style-type: none"> ▪ 1-unit – Form 70 ▪ Condo – Form 465 ▪ 2-4 units – Form 72 <p>LP mortgages receiving the No Appraisal–Minimum Assessment Feedback (MAF) are permitted.</p>	<p>For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, the following appraisal reports must be used:</p> <ul style="list-style-type: none"> ▪ Primary Residence and Second Home <ul style="list-style-type: none"> ▪ 1-unit – Form 1004 or 2055 Interior/Exterior ▪ Condo – Form 1073 or 2055 Interior/Exterior ▪ 2-4 units – Form 1025 ▪ Investment Property <ul style="list-style-type: none"> ▪ 1-unit Form 1004 ▪ Condo – Form 1073 ▪ 2-4 units – Form 1025 ▪ Refer to Rental Matrix regarding Form 1007 or Form 216 requirements <p>Property Inspection Waivers offered through DU are NOT permitted.</p>
Condominiums	Per Agency Guidelines	Refer to Freddie Mac Condominium Requirements matrix	Refer to Fannie Mae Condominium Requirements matrix
Cooperative Properties	Principal Residential does not permit cooperative properties	Per Freddie Mac Guidelines	Per Fannie Mae Guidelines
Escrow Requirements for Incomplete Improvements on New Construction	<p>Per Agency Guidelines, with the exception below:</p> <p><u>Incomplete Improvements of a Swimming Pool with an Escrow</u></p> <ul style="list-style-type: none"> ▪ Principal Residential will allow escrow holdbacks for the completion of swimming pools with the following: <ul style="list-style-type: none"> ▪ Subject property is located in Texas or Florida ▪ 1-unit primary residence or second home ▪ New construction or existing properties ▪ Purchase or refinance 	<p><u>Escrow for Incomplete Items</u></p> <ul style="list-style-type: none"> ▪ All improvements must be completed before delivery of the mortgage to Freddie Mac. However, if Principal Residential determines that the improvements cannot be completed for valid reasons, such as inclement weather or shortages of building materials, an adequate cash escrow for the uncompleted items must be established. The items not completed may not adversely affect the habitability of the mortgaged premises and the value of the incomplete items may not exceed 10 percent of the value of the completed mortgage premises. In addition, Principal Residential must ensure that the mortgage insurance and title insurance are not impaired or adversely affected during the escrow period. The improvements must be completed within 120 days of mortgage delivery. 	<p><u>Escrow for Incomplete Items</u></p> <ul style="list-style-type: none"> ▪ Minor items (less than 2% of the as completed appraisal) that do not affect livability may be incomplete (if weather-related circumstances prevented their completion) as long as the lender has arranged for an adequate escrow to guarantee their completion. (Fannie Mae considers funds equal to at least 120% of the cost to complete the items as a reasonable amount to escrow.) However, if the contractor or builder offers a guaranteed “fixed price” contract for completion of the improvements, the funds in the “completion escrow” only need to equal the full amount of the contract price. <p><u>Existing Construction</u></p> <ul style="list-style-type: none"> ▪ For existing construction, improvements must be complete when mortgage is delivered to Fannie Mae. <p><u>“As Is” Conditions</u></p>



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Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
Escrow Requirements for Incomplete Improvements on New Construction (continued)	<ul style="list-style-type: none"> ▪ Below 90% LTV minimum escrow amount 100% of the estimated amount needed to complete the pool construction if no draws required – 150% if draws required ▪ LTV's over 90% the minimum escrow amount is 150% and no draws will be allowed ▪ Total completion costs do not exceed 10% of the appraised value of the property (anything over 10% handled on an individual exception basis and require RVP Approval) ▪ Evidence that pool construction has been completed must be obtained within 90 days of closing ▪ The work must be completed by a contracted Pool Company 	<p style="text-align: center;"><u>Escrow Requirements for Incomplete Improvements on New Construction</u></p> <ul style="list-style-type: none"> ▪ Principal Residential does not need to establish an escrow account to guarantee the completion of minor improvements that are not complete as of the Delivery Date of the Mortgage provided that: <ul style="list-style-type: none"> ▪ The property is livable with the incomplete items and Principal Residential has within 180 days of the Delivery Date, obtained either: <ul style="list-style-type: none"> ▪ Copy of the issued certification or permit of occupancy, or ▪ The appraiser's certification that the property is livable ▪ The appraiser's certification of completion of the improvements ▪ The LTV does not exceed 90% 	<ul style="list-style-type: none"> ▪ The appraisal may be based on the "as is" condition of the property if minor conditions that do not affect the livability of the property exist (such as minor deferred maintenance) as long as the appraiser's estimate of value reflects the existence of these conditions. Lender must carefully review the appraisal for a property appraised in an "as is" condition to assure that the property does not have any physical deficiencies or conditions that would affect its livability. If there are none, the lender does not need to require minor repairs to be completed before it delivers the mortgage to Fannie Mae. <p style="text-align: center;"><u>Subject to Completion</u></p> <ul style="list-style-type: none"> ▪ When there are incomplete items or conditions that do affect the livability of the property (i.e., a partially completed addition or renovation) or physical deficiencies that could affect the soundness or structural integrity of the improvements, the property must be appraised subject to completion of the specific alterations or repairs. <p style="text-align: center;"><u>Escrow for Incomplete Items</u></p> <ul style="list-style-type: none"> ▪ Principal Residential may deliver fixed rate, and 7- year balloon mortgages secured by 1-unit (owner-occupied or second home) new construction properties for which Principal Residential did not escrow funds for incomplete minor items, provided: <ul style="list-style-type: none"> ▪ The incomplete items do not affect livability and the total dollar amount of incomplete items does not exceed 2% of the property value ▪ The maximum LTV is 90% ▪ Principal Residential obtains a completion certificate within 180 days after closing as evidence that the items have been completed ▪ Appraisal shows both the cost of completing the postponed items and appraisal is based on "as completed" value of the property. No dollar for dollar appraisal adjustments should be made. ▪ Legal Nonconforming properties are acceptable
Legal Non-Conforming Property	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Property is acceptable that does not conform to applicable zoning and use restrictions, if the property is a legal use (commonly referred to as legal nonconforming use). The appraiser must comment on any adverse effect of any nonconforming use. If the appraiser has noted that the property is legal nonconforming use than has been grand fathered in Freddie Mac will purchase the loan regardless of whether it can be rebuilt. ▪ Freddie Mac will not purchase any mortgage secured by an individual condominium unit in a condominium project that is legal nonconforming unless legislation or the local zoning authority permits the current improvements to be 	<ul style="list-style-type: none"> ▪ Property is acceptable if it is secured by a one- to four-family property or a unit in a PUD project if the property represents a legal, but nonconforming, use of the land -- as long as the appraiser's analysis reflects any adverse effect that the nonconforming use has on the value and marketability of the property. ▪ Condominium or cooperative projects that represent a legal, but nonconforming, use of the land, are not acceptable, if zoning regulations prohibit rebuilding the improvements to current density in the event of their partial or full destruction



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Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
Legal Non-Conforming Property (continued)		rebuilt to current density in the event of partial or full destruction.	
Manufactured Housing	Refer to Principal Residential/Freddie Mac/Fannie Mae Manufactured Housing Requirements matrix. Single-wide manufactured housing units not permitted.	Refer to Principal Residential/Freddie Mac/Fannie Mae Manufactured Housing Requirements matrix.	Refer to Principal Residential/Freddie Mac/Fannie Mae Manufactured Housing Requirements matrix.
Mobile Homes	Principal Residential does not permit mobile homes	Not addressed	Not addressed
Multiple Parcels as Security for the Mortgage	Per Agency Guidelines	Per Freddie Mac Guidelines	When security for the mortgage consists of more than one parcel of land: <ul style="list-style-type: none"> ▪ Parcels must be adjoining ▪ Only one parcel may have a residential dwelling ▪ Mortgage must have a valid first lien on all parcels ▪ Additional parcels to have no improvements or limited non-residential improvements.
Private Road	Per Agency Guidelines	Document with an adequate, legally enforceable agreement for maintenance of the street.	Document with an adequate, legally enforceable agreement for maintenance of the street.
Second Home Properties	Per Agency Guidelines	Per Freddie Mac Guidelines	<ul style="list-style-type: none"> ▪ Must be a one unit dwelling ▪ Must be suitable for year round occupancy ▪ Borrower must have control of the property ▪ No property management company controlling rental of subject property ▪ No rental agreements ▪ Rental income from the subject property may not be used in qualifying for a second mortgage ▪ Must be located within a reasonable distance from the borrowers principle residence.
Septic System Inspections	Per Agency Guidelines	Not required whether private or community septic system	Not required whether private or community septic system
Termite Inspections	Per Agency Guidelines	Not required unless appraiser indicates evidence of infestation	Not required unless appraiser indicates evidence of infestation
Water Systems Certifications	Per Agency Guidelines Refer to Underwriting Announcement regarding New Jersey Private Well Testing Act	Not required whether private or community well or cisterns	Not required for private or community well or cisterns
Mortgage Insurance			
MI Coverage	Per Agency Guidelines	Refer to the Freddie Mac Mortgage Insurance matrix	Refer to the Fannie Mae Mortgage Insurance matrix
Coverage for Financed MI	Per Agency Guidelines	Refer to the Freddie Mac/Fannie Mae Financed Mortgage Insurance matrix	Refer to the Freddie Mac/Fannie Mae Financed Mortgage Insurance matrix
Financing Borrower Purchased MI	Per Agency Guidelines	Refer to the Freddie Mac/Fannie Mae Financed Mortgage Insurance matrix	Refer to the Freddie Mac/Fannie Mae Financed Mortgage Insurance matrix
Financing Lender Paid MI	Not permitted	Per Freddie Mac guidelines	Per Fannie Mae guidelines
Reduced/Custom MI	Per Agency Guidelines	Refer to the Freddie Mac Mortgage Insurance matrix	Refer to the Fannie Mae Mortgage Insurance matrix



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Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
Investment Properties			
Investment Properties Special Underwriting Requirements	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ The borrower may not be affiliated in any way with the builder, developer, or property seller. ▪ The borrower must have reserves equal to six months payments of PITI that could be used to supplement payments during vacancies and make regular and emergency repairs to the property as necessary. ▪ The aggregate negative rental income from all rental properties must be treated as an obligation and considered in calculating the monthly debt payment-to-income ratio. ▪ Borrowers funds may not include gifts ▪ Whenever rental income is to be used in qualifying, the borrower must have rent loss insurance coverage on the investment property in an amount equal to the gross monthly rent for at least six months. <p>Borrowers who own more than one financed investment property must meet the following requirements:</p> <ul style="list-style-type: none"> ▪ Borrower may have individual or joint ownership of no more than ten 1- to 4-unit properties that are financed, including the subject property. Ownership of commercial or multifamily (five or more units) real estate is not included in this limitation. ▪ Investment property mortgage for subject property is limited to: <ul style="list-style-type: none"> ▪ Fixed rate level payment, 15-, 20- or 30- year mortgage, or ▪ 7/1or 10/1 Arm. ▪ Not be an A-minus mortgage ▪ Borrower must have rent loss insurance coverage on all investment properties in an amount equal to the gross monthly rent for at least six months. 	<p>Requirements for Traditional Underwriting with Insufficient or Erroneous Credit:</p> <ul style="list-style-type: none"> ▪ The borrower must have financial reserves equal to at least six months PITI for the subject property. When multiple mortgages are made to the same borrower, the borrower's total liquid assets must be sufficient to satisfy the six month reserve requirement for all of the mortgages <p>The following additional requirements must be satisfied if the mortgage is approved using Enhanced Eligibility Criteria:</p> <ul style="list-style-type: none"> ▪ The borrower must have a two-year history of managing rental properties. This requirement may be waived if the borrower qualifies based on the full payment (PITI) for the subject property without relying on rental income. ▪ The property must have rent loss insurance to cover rental losses that may be incurred during any period that a property is being rehabilitated following a casualty. Coverage equal to a minimum six months of the gross monthly rent for the subject property. This requirement may be waived if the borrower qualifies based on the full payment (PITI) for the subject property, without having to rely on rental income.
Refinances			
Conversions of Construction to Permanent Financing	Per Agency Guidelines	Refer to Freddie Mac/Fannie Mae Construction to Perm matrix	Refer to Freddie Mac/Fannie Mae Construction to Perm matrix
Cash-Out Refinance	Per Agency Guidelines	<p>Cash-out refinances are defined as loans that involve:</p> <ul style="list-style-type: none"> ▪ Payoff the first mortgage regardless of age ▪ Payoff any junior liens secured by the mortgaged premises that were not used in their entirety to acquire the subject property ▪ Paying related closing costs, financing costs, and prepaid items ▪ Disbursing cash to the borrower (or any other payee) 	<p>Cash-out refinances are defined as loans that involve the payoff or financing of the:</p> <ul style="list-style-type: none"> ▪ Unpaid principal balance of existing first mortgage, ▪ Closing costs, (including prepaid items), ▪ Subordinate financing where all proceeds were not used for purchase, ▪ Disbursing other funds to borrower
No Cash-Out Refinances	Per Agency Guidelines	<p>No Cash-out refinances are defined as loans that involve:</p> <ul style="list-style-type: none"> ▪ Payoff the first mortgage, regardless of its age ▪ Payoff any junior liens secured by the mortgaged premises that were used in their entirety to acquire the subject property 	<p>Limited Cash-out refinances are defined as loans that involve:</p> <ul style="list-style-type: none"> ▪ The payoff of the outstanding principal balance of an existing first mortgage; ▪ The payoff of the outstanding principal balance of any



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Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
No Cash-Out Refinances (continued)		<ul style="list-style-type: none"> ▪ Pay related closing costs, financing costs and prepaid items ▪ Disburse cash out to the borrower (or any other payee), not to exceed two percent of the new refinance mortgage or \$2,000, whichever is less <p>When a junior lien is paid off as part of a no cash-out transaction, documentation that demonstrates the full amount of the lien was used to purchase the property is required.</p>	<p>existing subordinate mortgage that was used in whole to acquire the subject property;</p> <ul style="list-style-type: none"> ▪ The financing of closing costs and prepaid expenses ▪ Cash back to the borrower in an amount no more than the lesser of 2% of the balance of the new refinance mortgage or \$2,000 <p>A subordinate mortgage used in whole to acquire the subject property may be included in a limited cash-out refinance transaction. A copy of the HUD-1 Settlement Statement, contract of sale or other title documentation is required.</p> <p>Limited cash-out refinance secured by a property located in a declining market:</p> <ul style="list-style-type: none"> ▪ Loan amount is limited to the unpaid principal balance of the existing first mortgage (rounded up to the next \$100) and the borrower may receive no additional funds from the transaction. ▪ Subordinate liens must be paid from borrowers own funds or resubordinate the debt to the new mortgage
Streamline Refinance	Per Agency Guidelines	Refer to Freddie Mac Refinance Programs matrix	Refer to Fannie Mae Refinance Programs matrix
No Cash-Out Refinance Verification of Funds to Close	Per Agency Guidelines	Verification of funds to close not required	<ul style="list-style-type: none"> ▪ Verification of funds to close is required except in the following circumstances: <ul style="list-style-type: none"> ▪ +
Special Purpose Cash-out Refinances	Not permitted	Not permitted	Not permitted
Miscellaneous			
Bridge Loans	Per Agency Guidelines	<p>Bridge loan payments and previous housing payments may be excluded if the file contains:</p> <ul style="list-style-type: none"> ▪ The executed sales contract ▪ A Lender's commitment to the new borrower if there is a financing contingency ▪ Six months reserves on liens on the previous residence 	<p>Bridge loan payments and previous housing payments may be excluded if the file contains:</p> <ul style="list-style-type: none"> ▪ The executed sales contract ▪ A Lender's commitment to the new borrower if there is a financing contingency ▪ Six months reserves on liens on the previous residence
Buydowns	Per Agency Guidelines	Refer to Freddie Mac/Fannie Mae Buydown matrix	Refer to Freddie Mac/Fannie Mae Buydown matrix
Non-Permanent Resident Aliens	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ A non-permanent resident alien is eligible for a mortgage on the same terms as U.S. Citizen ▪ Two year residency, employment and credit history may be a combination of U.S. and foreign documentation 	<ul style="list-style-type: none"> ▪ A non-permanent resident alien is eligible for a mortgage on the same terms as U.S. Citizen ▪ Two year residency, employment and credit history may be a combination of U.S. and foreign documentation
IRS Form 4506	Per Agency Guidelines	<p>If the borrower's federal income tax returns are used to determine stable income Principal Residential must:</p> <ul style="list-style-type: none"> ▪ Have borrower sign IRS Form 4506 or 8821 at application. Additionally, the borrower must sign another Form 4506 or 8821 on the note date, OR ▪ Borrower must sign Form 4506 or 8821 at application and send the form to the IRS during the processing of the mortgage. 	<p>If the borrower's federal income tax returns are used to determine stable income Principal Residential must:</p> <ul style="list-style-type: none"> ▪ Have borrower sign IRS Form 4506 or 8821 at application. Additionally, the borrower must sign another Form 4506 or 8821 on the note date, OR ▪ Borrower must sign form 4506 or 8821 at application and send the form to the IRS during the processing of the mortgage.



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Limitation on the Number of Loans to One Borrower	<ul style="list-style-type: none"> ▪ The maximum number of mortgage loans financed for a single borrower by Principal Residential at any one time is limited to ten (10) for conforming loans. Refer to the Optimal Jumbo guidelines for nonconforming loans. ▪ The ten (10) loan limitation applies to loans financed with other lenders to comply with agency guidelines. ▪ For limitation purposes, joint ownership in residential real estate is considered the same as total ownership of an individual property. However, ownership in commercial or multi-family (more than four units) real estate is not included in the limitation 	<ul style="list-style-type: none"> ▪ No limit when the mortgage is on a primary residence or second home. ▪ Borrowers which own more than 1 investment property must meet the following requirements: <ul style="list-style-type: none"> ▪ Borrower may have individual or joint ownership of no more than ten 1-4 unit properties that are financed including the subject property. (Refer to Investment Properties Special Underwriting Requirements for additional requirements.) 	<ul style="list-style-type: none"> ▪ No limit when the mortgage is on a primary residence ▪ If the mortgage is secured by a second home or investment property the borrower(s) may not have more than 10 financed properties (including the primary residence) and borrowers may not be affiliated with developer, builder or property seller. ▪ Limitation on properties financed does not apply to commercial properties or multifamily real estate (more than 4 unit properties)
Mortgage Credit Certificate	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ Acceptable on fixed and balloon transactions ▪ Document receipt of MCC ▪ Receipt of completed Mortgage Credit Certificate Worksheet (Freddie Mac Exhibit 21) to validate appropriate amount of adjustment 	<ul style="list-style-type: none"> ▪ Acceptable on fixed rate ▪ Document receipt of MCC ▪ Acceptable to reduce qualifying rate to take into account an appropriate adjustment for the interest credit, see guide on how to determine reductions.
Non-Occupant Co-Borrower	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, when the LTV is greater than 90%, an endorser, guarantor or surety whose income or financial strength was used for qualification purposes, must occupy the property ▪ When the LTV is less than 90% the occupant borrower must qualify and make the down payment in accordance with Freddie Mac guidelines ▪ For Accept Mortgages with LTV less than 95%, the occupant borrower must make the down payment as required in accordance with Freddie Mac guidelines ▪ The endorser, guarantor or surety may not be an interested party to the transaction ▪ If a traditionally underwritten mortgage with insufficient or erroneous credit has a non-occupying borrower, the occupant borrower's monthly debt payment to income ratio should not exceed 43% of the occupant borrower's stable monthly income 	Traditional Mortgages must be: <ul style="list-style-type: none"> ▪ Maximum LTV of 90% ▪ Occupant borrower must qualify with debt to income ratio not to exceed 43% ▪ 5% down payment must come from occupying borrower when LTV exceeds 80%
Principal Residence for Disabled Adult Children or Elderly Parents	Per Agency Guidelines	Not permitted	<ul style="list-style-type: none"> ▪ Parents who want to provide housing for their physically handicapped or developmentally disabled adult children who are unable to work or who have income that is not sufficient for them to qualify for a mortgage on their own have special financing needs. In recognition of this, Fannie Mae will consider a residence that parents



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Topic	Principal Residential Policy	Freddie Mac	Fannie Mae
Principal Residence for Disabled Adult Children or Elderly Parents (continued)			<p>purchase or refinance for such children to be a principal residence for purposes of satisfying our mortgage eligibility requirements even though the parent-borrower will not be an occupant of the property.</p> <ul style="list-style-type: none"> ▪ Fannie Mae will extend the same flexibility to children who want to provide housing for elderly parents who are unable to work or who have insufficient income to qualify for a mortgage on their own.
Ratios	Per Agency Guidelines	<ul style="list-style-type: none"> ▪ For Accept Mortgages, the ratios are acceptable ▪ For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, if the ratios exceed 28/36, a written explanation justifying the underwriting decision must be included in the file ▪ For Traditionally Underwritten Mortgages with Insufficient or Erroneous Credit, the debt ratio must not exceed 50% unless Principal Residential Mortgage, Inc. proves with documentation that the Borrower has been carrying an equivalent level of debt for at least 12 months while maintaining an acceptable credit history. Documentation must consist of monthly statements showing the payment of all debts for at least one-year. Credit reports are not acceptable documentation. 	<p>For traditionally underwritten mortgages with insufficient or erroneous credit:</p> <ul style="list-style-type: none"> ▪ Benchmark debt to income ratio (unless specified by particular mortgage product, non occupant co borrower or approved AUS system) is 36%