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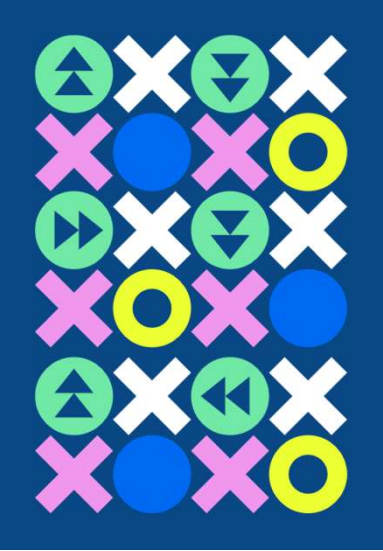
# Game objectives

- Playbook – Financing options
- Rules of the game – Limits & restrictions
- House rules
- Coaching the borrower through the loan process
- Top defects & remedies



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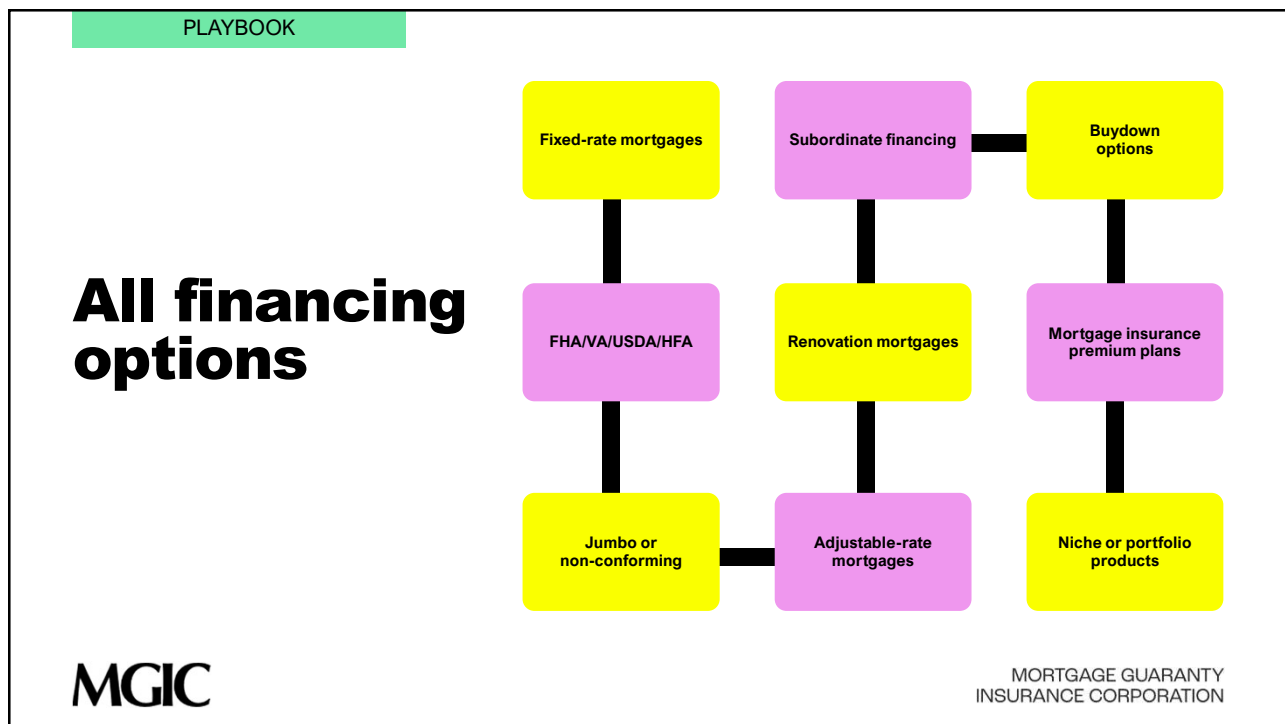


# Playbook

## Financing options & Transactional limitations

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PLAYBOOK

## Loan purpose

- Purchase
- Construction
- Refinance

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PLAYBOOK

## Refinance options

### Rate and term refinance

- No cash-out
- Limited cash-out (LCOR)

### Cash-out

- Delayed financing
- Debt consolidation

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PLAYBOOK

## Limited cash-out vs. no cash-out

### FNMA – Limited cash-out refinance (LCOR)

### FHLMC – No cash-out refinance

Pay off unpaid principal balance of existing first mortgage plus closing costs and prepaids  
 Pay off an existing HELOC **first mortgage** regardless of draw history if HELOC is in first lien position  
 Pay off subordinate liens used *in their entirety* to purchase the property

May receive cash back – **lesser** of 2% of new loan amount or \$2,000

Cash-back proceeds (**greater** of 1% or \$2,000) – ineligible for reserves requirements

Buying out co-owner pursuant to an agreement is allowed

Buying out co-owner – **ineligible**  
 May be considered a special purpose cash-out

Payoff of late fees – **not allowed**

Payoff of late fees – **allowed**

Cannot pay real estate taxes if > 60 days delinquent

Delinquent property taxes may not be paid with the proceeds of the “no cash-out”

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## PLAYBOOK

# Cash-out refinance

## Acceptable uses

- Used to pay off existing mortgage loan
- 12 mos. seasoning at time of refinance (doesn't apply to subordinate liens being paid off)
- At least one borrower on title 6 mos. prior to disbursement of new loan (outside of inheritance or legal award)
- Properties listed for sale must be off market before disbursement\*

\*Guideline requirement has been known to change

## Ineligible transactions

- Mortgage subject to temporary rate buydown
- Portion of proceeds used to pay off unseasoned land contract
- May be ineligible if loan amount includes delinquent real estate taxes
- Check investor guidelines for maximum cash-out amounts

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PLAYBOOK

## Separate ways

Sam and Selena have ended their relationship.  
They have jointly owned a home for the past six years.  
Selena is going to keep the home but needs to refinance the property to pay Sam his portion of equity.

What type of refinance would this be considered?

- A) No cash-out
- B) Limited cash-out refinance
- C) Cash-out refinance
- D) It depends

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PLAYBOOK

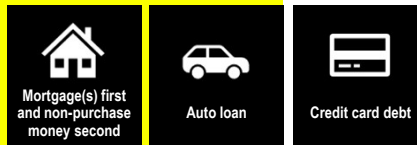
## Simplifying life

Gus feels overwhelmed by the number of bills he pays on a monthly basis, so he decides to speak to his mortgage loan originator about taking out a loan to pay off his first and second mortgages, along with his auto loan and several high-balance credit cards...

He is looking to “simplify his life.”

**What type of refinance would this be considered?**

- A) No cash-out refinance – since all monies will be paid to other parties and he is not going to walk away with any cash
- B) Cash-out refinance
- C) Limited cash-out refinance



**Consolidate to ONE convenient payment**

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PLAYBOOK

## Other transactional limitations

### Transaction types

- Second homes
- Investment properties
- 2- to 4-unit properties
- Delayed financing

### Limitations or additional requirements

- Gift funds
- Seller contributions
- Non-occupant co-borrowers
- Rental income
- Reserves
- Number of financed properties

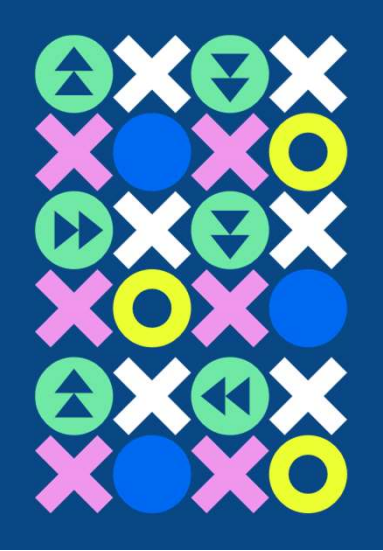
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## When should I consult the rules?

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- Purchase or refinance of 1-unit primary residence
- Parent is a non-occupant co-borrower on the transaction
- Borrower has a 799 credit score
- Purchase of property with an ADU
- Borrower has been at their job for 10 years and is paid a salary
- Borrower has ample funds saved for down payment & closing costs
- Borrower is on temporary leave
- Borrower is starting a new job after the loan closes

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**House rules**

Differences between  
FNMA and FHLMC

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## HOUSE RULES

## Key differences

TOPIC	FNMA	FHLMC
Alimony	Alimony payment can be considered as monthly debt OR deducted from the borrower's income for DTI calculation	Alimony payment must be deducted from borrower's income for DTI calculation
Buying out co-owner	Considered limited cash-out refinance	Considered cash-out refinance
Collections	2- to 4-unit properties or second homes: Anything exceeding \$5,000 must be paid off Investment: Individual collections of \$250 or aggregate of \$1,000 must be paid off	No written policy as long as collection does not affect first lien position
Credit score	Minimum is 620 DU® will use average median score for all borrowers	Minimum is 620
DACA	Borrowers with current, unexpired DACA status may be eligible	Borrowers with deferred action status, including DACA, are NOT eligible

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## HOUSE RULES

**Key differences (continued)**

TOPIC	FNMA	FHLMC
<b>Wedding/graduation gifts</b>	Considered large deposits	Considered gifts
<b>Self-employment documentation</b>	DU determines # of years of tax returns needed	Years of self-employment/business operation determines documentation requirements
<b>Student loans in deferment or forbearance</b>	Use 1% of outstanding balance or fully amortizing payment	Use 0.5% of the outstanding balance
<b>Rental income</b>	Some transactions require housing payment or management experience in order to use rental income	Some transactions require current home ownership or management experience in order to use rental income
<b>Mortgage payment not reported on credit report</b>	Requires verification of payment history	Does not require verification of payment history with LPA <sup>®</sup> Accept

LPA<sup>®</sup> is a registered trademark of Freddie Mac.**MGIC**MORTGAGE GUARANTY  
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## HOUSE RULES

## Which path should I choose? FNMA or FHLMC

1. Borrower is refinancing to pay off student loans
2. Borrower has several student loan accounts currently in deferment. DTI is high
3. Rental income is needed to offset mortgage; borrower has been renting for the last 12 months and does not currently own a home
4. Borrower has a current, unexpired DACA status
5. Transaction is a second home purchase, and borrower has some old collections exceeding \$5,000
6. Loan amount is \$400,000 and borrower has applied for R/T refinance. Borrower would like as much cash back as possible

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# Coaching

Guiding the borrower through the loan process

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COACHING

# Setting expectations

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-  Set them to meet them
-  Provide a process road map
-  Introduce the team
-  Go over time frames
-  Explain documentation expectations
-  Agree on how you will communicate

COACHING

## The art of the interview

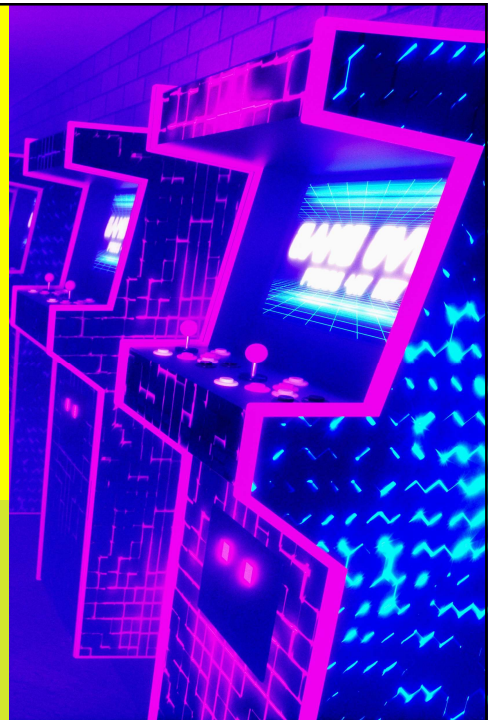
- Stress the importance of a complete application
- Avoid mortgage speak; ask questions they understand
- Request detailed information
- Provide written bullet-pointed documentation requests

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## COACHING

## AUS best practices

- Use all applicable dropdowns when identifying:
  - Income source
  - Assets
  - REO & property types
- Review all feedback and documentation requirements for accuracy
- Correct all data entry errors
- Mitigate all red flags properly
- Confirm details of transaction
- Double-check declarations

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COACHING

## Provide a “what not to do” list

### DON'T...

- Pack or ship documents that might be needed for the loan
- Apply for additional credit
- Co-sign for other loans
- Stop paying your bills on time
- Quit or switch your job or alter income stream
- Accept undocumented cash
- Make large deposits or withdrawals
- Move assets from one account to another

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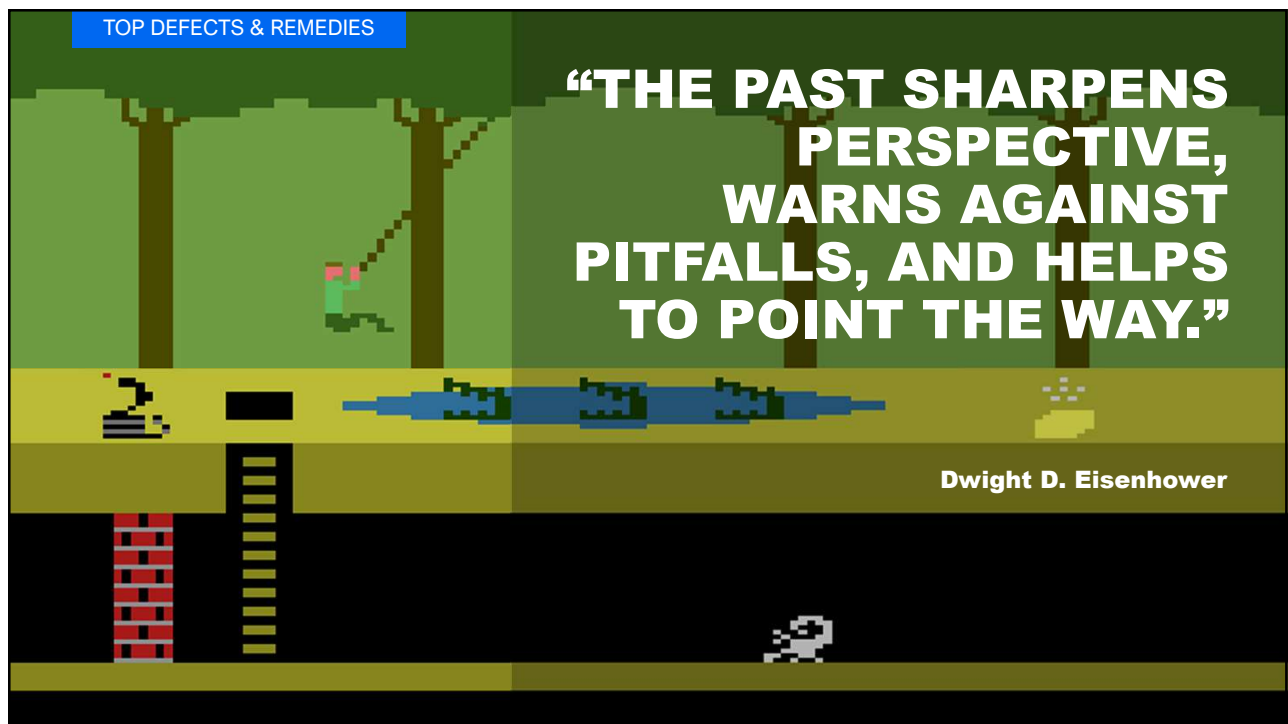


# Top defects & remedies

## Avoiding pitfalls

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## TOP DEFECTS &amp; REMEDIES

# Loan application

## COMPLETION

- Declarations incomplete
- HMDA information incomplete
- Missing SEB indicators
- Missing employed by family indicator
- Property address inconsistencies
- Undisclosed liabilities

## DOCUMENTATION

- Undisclosed liabilities
- Debts not paid off when indicated
- Prior derogatory information not documented
- File inconsistencies
- Property address inconsistencies
- Omission of debts not documented

## ELIGIBILITY

- Excessive LTV/CLTV/HCLTV ratios
- Misrepresentation of occupancy (investment or primary)
- Application not fully executed
- Program not eligible or offered
- Borrower not eligible for program
- Property not eligible for program

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TOP DEFECTS & REMEDIES

## Avoiding top 1003 defects

- Missing SEB indicators
- Missing employed by family indicator

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## TOP DEFECTS &amp; REMEDIES

# Credit

## COMPLETION

- Expired documents
- Not addressing SSN, address, employment history discrepancies
- Fraud alerts not addressed or mitigated
- Mortgage payment history missing, defective or unacceptable
- Erroneous credit information not addressed

## DOCUMENTATION

- Disputed tradelines
- Minimum credit score requirement not met
- Outstanding collection, non-mortgage charge-offs or past-due balances
- Outstanding judgements or liens
- Significant derogatory credit event – waiting period not met
- Unacceptable mortgage history

## ELIGIBILITY

- SSN discrepancy not addressed or verified
- Fraud alerts not addressed or mitigated
- Address history conflicts with application
- Employment history conflicts with application
- Missing monthly payment(s) not verified

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TOP DEFECTS &amp; REMEDIES

## Avoiding top credit defects

- Undisclosed liabilities
- Not addressing SSN, address, employment history discrepancies and fraud alerts

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## TOP DEFECTS &amp; REMEDIES

# Income

## CALCULATION/ANALYSIS

- Incorrect base calculation
- Incorrect OT, bonus, commission or other income calculation
- Incorrect SSI gross-up
- Incorrect rental income /loss
- History of second job unacceptable
- Incorrect SEB cash flow
- Expired documentation

## DOCUMENTATION

- Employment offer requirements not met
- Expired documentation
- Income not documented
- Age of tax return requirements not met
- Multiple jobs not documented
- Employed by family member or interested party not documented

## ELIGIBILITY

- Continuance unacceptable
- History of second job unacceptable
- History of SEB unacceptable
- History of OT, bonus, commission or other not met
- Other income source unacceptable

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## TOP DEFECTS &amp; REMEDIES

## Avoiding top income defects

- Self-employed income not documented correctly
- Incorrect SEB cash flow
- Incorrect rental income/loss
- Earnings trend not considered when evaluating variable income

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## TOP DEFECTS &amp; REMEDIES

# Assets

## CALCULATION/ANALYSIS

- Borrower not confirmed as account holder
- Insufficient assets for 30-day charge accounts
- Insufficient assets to close
- Gift guidelines not met
- Insufficient reserves
- Large deposits not addressed
- Expired documentation

## DOCUMENTATION

- Expired documentation
- Documentation incomplete or illegible
- Borrower not confirmed as account holder
- Earnest money missing
- Gift letter missing
- Liquidation of asset missing
- Net proceeds missing

## ELIGIBILITY

- Gift funds unacceptable
- Gift on investment not allowed
- IPC exceeds borrower's costs
- IPC exceeds allowed percentage
- Borrower minimum contribution not met
- Source of funds unacceptable

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TOP DEFECTS &amp; REMEDIES

## Avoiding top asset defects

- Borrower not confirmed as account holder
- Insufficient assets to close
- Large deposits not addressed

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## TOP DEFECTS &amp; REMEDIES

# Appraisal/Sales contract

## DESKTOP APPRAISAL

- Expired desktop appraisal
- Ineligible for desktop appraisal
- Missing desktop exhibits
- Wrong form based on desktop requirements

## GENERAL APPRAISAL REQUIREMENTS

- Appraisal on wrong form
- Failure to report sales contract information in appraisal
- Failure to use 3 comparable sales
- Ineligible for appraisal waiver
- Excess land
- Appraisal incomplete or missing required attachments
- Inspections not completed

## SALES CONTRACT

- Missing pages
- Missing all counteroffers
- Personal property included in offer
- Sales concessions not provided or addressed, yet CD shows IPC

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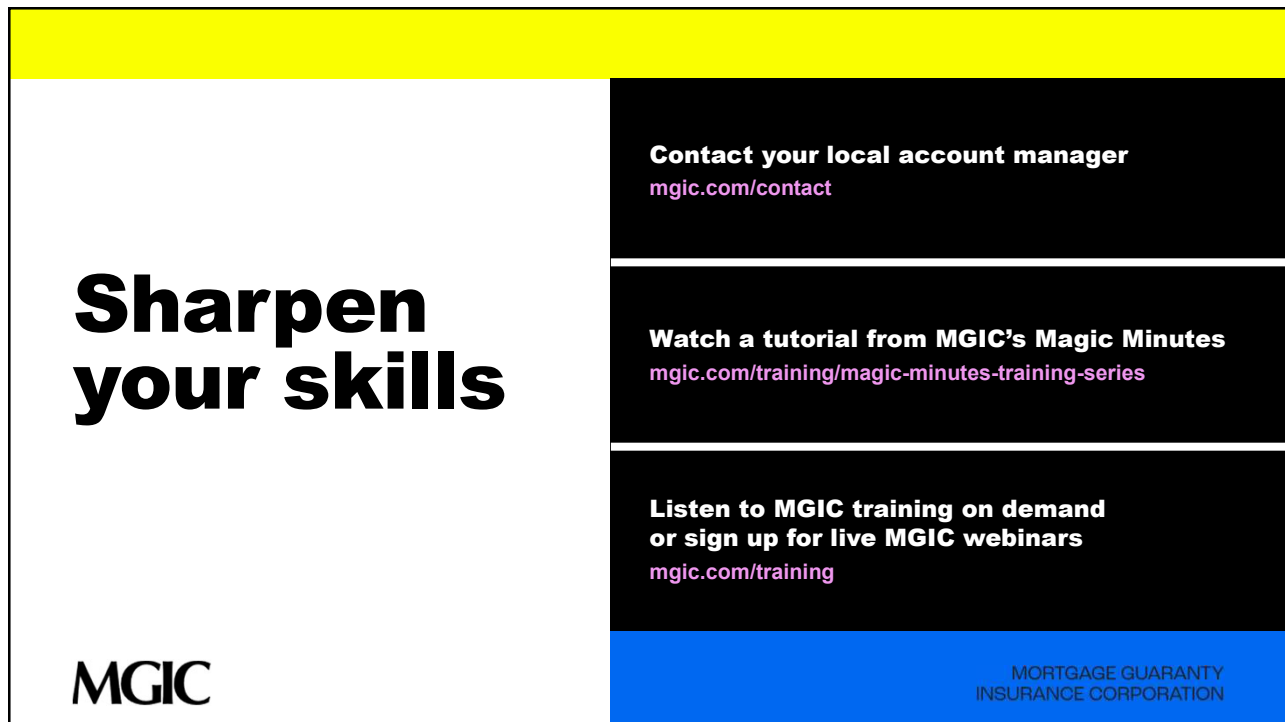
TOP DEFECTS & REMEDIES

## Avoiding top appraisal defects

- Appraisal on wrong form
- Appraisal incomplete or missing required attachments
- Failure to use 3 suitable comparable sales

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your skills**

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**Thanks for  
teaming  
up with us**

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