



Federal Home Loan Bank  
NEW YORK

# Mortgage Asset Program (MAP<sup>®</sup>) Underwriting Guide

Effective March 30, 2026

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## 1. Introduction

The Mortgage Asset Program (MAP®) is an initiative of the Federal Home Loan Bank of New York (FHLBNY). The MAP Underwriting Guide (Underwriting Guide), the MAP Selling Guide, the MAP Servicing Guide, product specific manuals, forms, exhibits, (together referred to herein as the “Guide”), and the Program Documents apply to all Participating Financial Institutions (PFIs) originating or delivering MAP Mortgage Loans into MAP. This Underwriting Guide outlines the requirements and/or processes for PFIs to originate and deliver MAP Mortgage Loans under MAP. The guidelines are designed to establish sound underwriting criteria and support the MAP mortgage product offerings. This Underwriting Guide generally follows industry standard guidelines with some enhancements, restrictions, or overlays. All MAP Mortgage Loans delivered under MAP must meet these guidelines. PFIs must abide by the procedures, terms, and conditions set forth in this Underwriting Guide, as it may be amended from time to time. Failure of a PFI to perform its obligations under either the Program Documents or the Guide constitutes an Event of Default entitling FHLBNY to exercise all available remedies as provided in the Guide and Program Documents.

### A. Zero Tolerance

MAP has a zero-tolerance policy on matters relating to fraud or misrepresentation. PFIs must have appropriate processes in place to escalate and report suspicious activities.

## 2. Mortgage Loan File

The Mortgage Loan File must be maintained in accordance with MAP requirements. All documents that demonstrate compliance with all applicable standards and MAP requirements must be included in the Mortgage Loan File. All documents in the Mortgage Loan File must be legible. The following are composite parts of the Mortgage Loan File:

1. Underwriting Documents
  - i.e., standard disclosures, Credit, Income, Asset, and Property documents
2. Special Purpose Documents
  - i.e., Consolidation, Extension, and Modification Agreement (CEMA), Form 1004D/442
3. Closing Documents
  - i.e., Closing Disclosure or Settlement Statement, 1008, final title policy, Note, Security Instrument

### A. Underwriting Documents

The following underwriting documentation must be retained in the Mortgage Loan File:

- The initial and final Uniform Residential Loan Application (most current version of the Fannie Mae Form 1003 / Freddie Mac Form 65);
- A credit report meeting the requirements of this Underwriting Guide and which shows valid Credit Scores;
- For a Mortgage Loan originated in a jurisdiction that requires a Borrower's consent to obtain the Borrower's credit information (report), this consent must be included in the Mortgage Loan File and must extend to the PFI's successors and assigns and/or to subsequent investors and Servicers.
- Verification of Employment and Income;
- Verification of all sources of cash or other equity or assets used for down payment, prepaid items, closing costs, financing costs, and reserves;
- An accurate and complete payment history for the Mortgage Loan beginning with the closing date of the Mortgage Loan;
- Verification of the Borrower's housing payment history;
- A completed Uniform Underwriting and Transmittal Summary (most current version of Fannie Mae Form 1008 / Freddie Mac Form 1077) for manually underwritten Mortgage Loans;
- A written explanation fully supporting the underwriting decision for any special or extenuating circumstances;
- The Uniform Residential Appraisal Report;
- Automated Underwriting System Certificate for loans underwritten with Desktop Underwriter® (DU) or Loan Product Advisor® (LPA); and
- Any document not listed above used to determine eligibility.

### B. Special-Purpose Documents

The following special purpose documents must be retained in the Mortgage Loan File, if applicable:

- For New York Consolidation, Extension, and Modification Agreements (CEMA) loans, the original previous Notes and the gap Note listed on Exhibit A of the Fannie Mae/Freddie Mac Form 3172.

- A legible signed copy of the sales contract, or an equivalent document, is required for purchase transactions.
- A Satisfactory Completion Certificate (Fannie Mae Form 1004D / Freddie Mac Form 442), or equivalent, is required to be completed and maintained in the Mortgage Loan File when the Appraisal is made subject to conditions.
- The legal opinion, if any, addressed to the PFI and FHLBNY, unconditionally confirming the legal conclusions in the certification of compliance with the warranties of condominium or PUD projects.
- If the Mortgaged Property is dependent upon assurance of an adequate supply of water from a water or an irrigation company that supplies water only to its shareholders, the Mortgage Loan File must contain a stock certificate, duly endorsed to FHLBNY, entitling the property owner to an adequate supply of water.
- If the Mortgaged Property is on a leasehold estate, the Mortgage Loan File must contain a Ground Lease Analysis (Fannie Mae/Freddie Mac Form 461).

### 1. For Mortgage Loans with subordinate financing

The following documents must be retained in the Mortgage Loan File:

- A copy of the subordinate Note;
- A copy of the subordinate Security Instrument;
- A copy of the Closing Disclosure or HELOC closing Statement, as applicable.
  - If the Mortgaged Property is secured by existing subordinate financing, the Mortgage Loan File must contain a copy of the executed note, trust deed, and subordination agreement; or
  - If the Mortgaged Property is secured by new subordinate financing, the Mortgage Loan File must contain a copy of the note executed at closing on the subordinate financing, if available and settlement statement or Home Equity Line of Credit (HELOC) closing statement, as applicable.

## C. Closing Documents

The following closing documents must be retained in the Mortgage Loan File:

- A copy of all pages of Note showing all endorsements, any applicable addenda and allonges, and any related modification or Assumption/Release of Liability instrument;
- Power of Attorney (if applicable) attached to the copy of the Note;
- A copy of all Assignments of Mortgage of the Security Instrument with any applicable riders and any documents that modify the mortgage terms;
- The final, fully executed Closing Disclosure detailing all costs to the home buyer and seller;
- Closing instructions;
- All disclosures required under Applicable Law (including all Loan Estimates provided to the Borrower, along with documentation of any Changed Circumstance supporting the delivery of a revised Loan Estimate);
- The original mortgage insurance certificate or proof of insurance from the MI company (if applicable);
- Title policy;
- Plat of survey or title insurance that provides coverage over "matters of survey";
- Current, endorsed property insurance policy, or suitable evidence of insurance, obtained at closing;
- Flood zone determination;
- Flood insurance policy (if required); and
- All flood insurance documents necessary to comply with Applicable Law.

Until the final evidence of flood insurance is available and placed in the Mortgage Loan File, one of the following documents must be retained in the Mortgage Loan File:

- Completed and executed National Flood Insurance Program (NFIP) flood insurance agent's receipt marked "paid";
- Completed and executed NFIP flood insurance application with the final closing Disclosure indicating the flood insurance premium collected at closing;
- Completed and executed NFIP General Change Endorsement Form showing the assignment of the current flood insurance policy from the property seller to the Borrower; or
- An NFIP Certification of Proof of Purchase of Flood Insurance, executed by the insurance agent.
- If the flood insurer is not the NFIP, the insurer's equivalent of the applicable NFIP form is acceptable.

#### D. Access to Records

Upon request, the PFI must deliver all Mortgage Loan records and documents to FHLBNY or MAP Designee. Each Mortgage Loan File must be clearly identified. If the records have been microfilmed or otherwise condensed, the PFI must reproduce them at its own expense. FHLBNY will not execute any trust receipts for documents it requests and will not participate in, or provide compensation for, their delivery.

### 3. General Documentation Requirements

#### A. Application Documents (Updated 12/1/2020)

To comply with MAP program requirements a Mortgage Loan File must be documented according to the following guidelines.

The following requirements apply when documenting Mortgage Loans:

- The Mortgage Loan File must contain acceptable documentation to support the underwriting decision;
- When standard documentation does not provide sufficient information to support the decision, additional explanatory statements or documentation must be provided;
- Letters of explanation regarding financial circumstances must specifically address the financial or credit concern presented and must contain a complete explanation in the Borrower's own words, and be signed and dated by the Borrower.
- For loans underwritten with an AUS, the documentation requirements must comply with the applicable AUS. For loans underwritten manually, the documentation requirements must comply with MAP Program Requirements;
- All required documentation must be verified and retained in the Mortgage Loan File;
- Certified true copies may be individually stamped certified true and exact (the signature must contain at least the first initial of the signer and the full surname), or a "blanket" true and exact certification identifying the loan and the name of the person certifying the documents may be included;
- Erasures and white-outs are not permitted on any document.
- Any documentation discrepancies must be adequately explained and documented in the Mortgage Loan File; and
- Escrow/closing or settlement instructions (if applicable.)

Note: Any available technology may be used to produce copies of the documents in the Mortgage Loan File, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to the PFI in hardcopy or via email or other electronic means.

#### 1. Initial Application (Form 1003/65)

A complete, signed, and dated version of the original and final Form 1003/65 or Form 1003(s)/65(s) must be included in the Mortgage Loan File. In addition, a complete Loan Application requires the following:

- All declaration questions must be marked and indicate how the Loan Application was taken.
  - If the interview is conducted face-to-face, the HMDA Demographic information addendum must be completed. If the Borrower chooses not to participate, the interviewer must complete the HMDA addendum based on observation.
- The interviewer's name and employer must be completed, including NMLS numbers for each.

Except as provided below, if either the Note or the Security Instrument is executed pursuant to a power of attorney in accordance with this MAP Guide, then the final (but not the original) loan application may also be executed pursuant to that same power of attorney. See Signature requirements and Power of Attorney for additional information. Notwithstanding the preceding, a power of attorney may be used to

execute both the original and final Form 1003/1003(s) if borrower is on military service with the United States armed forces serving outside the United States or deployed aboard a United States vessel, as long as the power of attorney:

- expressly states an intention to secure a loan on a specific property, or
- complies with the requirements under the VA Lender’s Handbook relating to powers of attorney for VA-insured Mortgage Loans, or
- Such use is required of PFI by Applicable Law.

## B. Age of Documents

### 1. Credit Documents

Credit documents include credit reports and employment, income, and asset documentation. For all Mortgage Loans (existing and new construction), the credit documents must be no more than one hundred and twenty (**120**) days old on the Note date. When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than one hundred and twenty (120) days old on the note date. If the credit documents are older than allowed, the PFI must update them. For age requirements related to appraisals, see [Appraisal Age](#). Some documents, such as tax returns or divorce decrees, are not subject to these timeframes, as their validity does not change over time.

### 2. Federal Tax Returns

When tax returns (personal or business) are required to verify income as stated in the guidelines; the “most recent year’s” tax return is defined as the last return scheduled to have been filed with the IRS. For example:

If Today’s Date is ...	Then the Most Recent Year’s Tax Return would be ...
February 15, 2019	2017
April 17, 2019	2018
December 15, 2019	2018

The following table describes which tax-related documentation to obtain depending on the application date and disbursement date of the Mortgage Loan.

Application Date	Disbursement Date	Documentation Required With Respect To Most Recent Tax Return
<p><b>October 15<sup>1</sup></b>, [current year minus 1] to <b>April 14<sup>2</sup></b>, current year</p>	<p><b>October 15<sup>1</sup></b> [current year minus 1] to <b>April 14<sup>2</sup></b>, current year</p>	<p>The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.</p>
	<p><b>April 15<sup>1</sup></b>, current year to <b>June 30</b>, current year</p>	<p>The previous year's tax return (the return due in April of the current year) is recommended, but not required.</p> <p>The PFI must ask the borrower whether they completed and filed their return with the IRS for the previous year. If the answer is yes, the PFI must obtain copies of that return. If the answer is no, the PFI must obtain copies of tax returns for prior two years.</p> <p>PFI's must only obtain completed and signed IRS Form 4506-C for transcripts of tax returns provided by the borrower to the PFI. (The PFI is not required to file IRS Form 4506-C for tax returns not provided by the borrower.)</p>
	<p><b>July 1</b>, current year to <b>October 14<sup>2</sup></b>, current year</p>	<p>The PFI must obtain</p> <ul style="list-style-type: none"> <li>• The most recent year's tax return, OR all of the following:                             <ul style="list-style-type: none"> <li>• A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS,                                     <ul style="list-style-type: none"> <li>○ The PFI must review the total tax liability reported on IRS Form 4868 and compare it with the borrower's tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the PFI to require the current returns in order to proceed.</li> </ul> </li> <li>• IRS Form 4506-C transcripts confirming "No Transcripts Available" for the applicable tax year, <b>AND</b></li> <li>• Returns for the prior two years</li> </ul> </li> </ul>
<p><b>April 15<sup>1</sup></b>, current year to <b>October 14<sup>2</sup></b>, current year</p>	<p><b>April 15<sup>1</sup></b>, current year to <b>December 31</b>, current year</p>	<p>The PFI must obtain</p> <ul style="list-style-type: none"> <li>• The most recent year's tax return, OR all of the following:                             <ul style="list-style-type: none"> <li>• A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filed with the IRS,                                     <ul style="list-style-type: none"> <li>○ The PFI must review the total tax liability reported on IRS Form 4868 and compare it with the borrower's tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for the PFI to require the current returns in order to proceed.</li> </ul> </li> <li>• IRS Form 4506-C transcripts confirming "No Transcripts Available" for the applicable tax year, <b>AND</b></li> <li>• Returns for the prior two years</li> </ul> </li> </ul>
	<p><b>January 1</b>, [current year plus 1] to <b>April 14<sup>2</sup></b>, [current year plus 1]</p>	<p>The most recent year's tax return is required. The use of a Tax Extension (IRS Form 4868) is not permitted.</p>

<sup>1</sup> Or the April/October filing dates for the year in question as published by the IRS.

<sup>2</sup> Or the day prior to the April/October filing dates for the year in question as published by the IRS.

## C. Blanket Authorization

The PFI obtains the borrower's signature on the following Blanket Authorization form to obtain the documentation needed to evaluate the borrower's creditworthiness:

I hereby authorize \_\_\_\_\_ (the "lender") to verify my past and present employment earnings records, bank accounts, stock holdings, and any other asset balances that are needed to process my Mortgage Loan application. I further authorize the lender to order one or more consumer credit reports and verify other credit information, including past and present mortgage and landlord references. It is understood that a photocopy of this form also will serve as authorization. The information the lender obtains is only to be used in the processing of my application for a Mortgage Loan.

The PFI attaches a copy of the Blanket Authorization form to each Form 1005/Form 1005(S) or Form 1006/Form 1006(S) sent to a verifying institution. The information must be requested directly from the institution. The completed form(s) must be signed and dated and must be sent directly from the verifying institution.

The PFI also must obtain the Borrower's signature on a credit authorization when obtaining supplemental credit documents or reverifying credit.

## D. Direct Written Verifications

Written verifications for employment, deposit accounts and/or mortgage/rental history (VOE/VOD/VOM/VOR) must pass directly between the PFI and employer, financial institution, mortgagor/landlord, as applicable, without being handled by any third party (including the Borrower). Documentation must not contain any alterations, erasures, correction fluid or correction tape.

## E. Alternative Documentation Requirements

### 1. Eligibility Criteria

Alternative documentation provided in lieu of Verifications of Employment and/or Verifications of Deposit are permitted if they are legible originals or certified true and exact copies. The documentation cannot contain any alterations, erasures or white-outs.

Each copy must be stamped and signed by the loan processor or branch manager, certifying that they are true copies of the originals.

### 2. Fax or Emailed Copies

Faxed or scanned copies in lieu of original document copies are acceptable subject to the following:

- Verification must be transmitted directly from the PFI to an employer, depository institution, mortgagee or landlord. The employer, depository institution, mortgagee or landlord must transmit the verification directly back to the PFI;

- Photocopies or faxes of documents in the Borrower's control, such as paystubs or bank statements, may be received by the PFI directly from the Borrower; and
- Documents that are emailed or faxed to the PFI must clearly identify the name of the employer, depository institution, mortgagee or landlord as sender, and the source of information—for example, by including that information in the fax banner at the top of the document or email message.

### 3. Internet Documentation

Internet documents or downloads of credit reports, as well as income, employment and asset verifications are acceptable. This allowance for internet documents does not change the required content or level of documentation needed. The information must be easy to read, understandable, and have no evidence of alterations, erasures or white-outs, and must make sense based on the borrower profile and transaction terms.

The following source validation criteria apply to all documents obtained via the internet:

- Documents must identify the Borrower as the employee or owner of the applicable account;
- Documents must identify the credit reporting agency, employer, or depository/investment firm's name and source of information;
- Headers, footers, and the banner portion of the printout of the downloaded web page(s) must reflect the appropriate firm;
- Documents must display the Internet uniform resource locator (URL) address and the date and time printed; and
- When an internet download is sent by fax, the fax header may not cover URL information.

## 4. Mortgage Loan Eligibility

### A. Loan Limits (Updated 1/1/2026)

There is no minimum loan amount for Mortgage Loans delivered under MAP. The following maximum original loan amounts apply to Conventional Mortgage Loans with a Funding Date on or after January 1, 2026.

Properties in:	Contiguous States and District of Columbia	Alaska and Hawaii
<b>Number of Units</b>	<b>Maximum Original Loan Amount for Conventional Mortgages</b>	
1	\$832,750	\$1,249,125
2	\$1,066,250	\$1,599,375
3	\$1,288,800	\$1,933,200
4	\$1,601,750	\$2,402,625

The high-cost area loan limits are established for each county (or equivalent) and are published on Fannie Mae's website and on FHFA's website.

<https://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limit.aspx>

Loans subject to the high-cost area limits are referred to as High-Balance Loans and must comply with the High-Balance Loan requirements described in the MAP Underwriting Guide, Chapter 5.C.

### B. Loan Attributes

An investment quality Mortgage Loan is a loan that is made to a Borrower, from whom repayment of the debt can be expected, is secured by one-to-four-unit residential real property and is originated in accordance with the requirements of the MAP Guide, Government Agency requirements, and Applicable Laws. The PFI warrants that all Mortgage Loans delivered to FHLBNY have the characteristics of an investment quality Mortgage Loan. In addition, the following standards must be met:

#### 1. Term

The Note must provide for a fixed interest rate and full amortization by maturity through regular fixed monthly payments up to a maximum term of thirty **(30)** years. Amortization must begin within sixty-two **(62)** days of the final disbursement of the Mortgage Loan proceeds.

#### 2. Maturity

For the fifteen-year product type, the original maturity of the Mortgage Loan must be equal to fifteen **(15)** years.

For the twenty-year product type, the original maturity of the Mortgage Loan must be more than fifteen **(15)** years and must not extend beyond twenty **(20)** years from the Note date.

For the thirty-year product type, the original maturity of the Mortgage Loan must be more than twenty **(20)** years and must not extend beyond thirty **(30)** years from the Note date.

### 3. Payment Type

Monthly Payments must:

- Consist of Principal and Interest payments that do not change for the life of the loan;
- Fully amortize the Mortgage Loan over the term of the loan; and
- Have no potential negative amortization, rate concessions or graduated-payment mortgage (GPM) features.

### 4. Qualified Mortgage (QM)/Safe Harbor

MAP will only purchase loans that meet QM requirements and are considered safe harbor. MAP will not purchase QM loans that have the rebuttable presumption protection (**QMs that are high priced**):

- Loans must be underwritten in compliance with the Ability to Repay (ATR) rules.
- QMs cannot be considered **high priced**.
  - A General or Temporary QM is considered high priced if the APR is 1.5% or more than the Average Prime Offer Rate (APOR).
  - A Small Creditor QM is considered high priced if the APR is 3.5% or more than the APOR.
  - An FHA QM is considered high priced if the APR is greater than the APOR plus 1.15% plus the on-going Mortgage Insurance Premium (MIP) rate.

### 5. Escrow Waivers (Updated 11/29/2024)

The FHLBNY strongly suggests the establishment of an escrow account for the payment of taxes and insurance, particularly for;

- Borrowers with blemished credit history,
- first-time homebuyers,
- mortgages secured by 2-4 unit properties,
- second home mortgages,
- borrowers with less than 6 months of reserves, or
- borrowers who have been past due on taxes in the past.

The PFI may waive the requirement for an escrow account only if a borrower has a savings history, credit history, and income sufficient to pay for the escrow items when due. Escrow for MI premiums cannot be waived. PFIs are required to follow applicable Government Agency requirements and MI company guidelines regarding waiving and reinstating escrow accounts.

## C. LTV and TLTV Ratios

### 1. Calculating LTV and TLTV Ratios

The LTV is determined by dividing the original mortgage amount by the value. For purchase Mortgage Loans, "value" is the lower of the appraised value of the Mortgaged Property at the time of closing, or

the purchase price. <sup>1</sup> For refinance Mortgage Loans, “value” is the appraised value of the Mortgaged Property at the time the refinance Mortgage Loan is closed.

The Total Loan-to-Value Ratio (TLTV) is determined by dividing the sum of the original Mortgage Loan, and secondary financing amounts, by the value, as defined above.

The data delivery format for the LTV should be delivered in the following format: xx.xxx (3 decimal places). (For example, 80.021 percent.)

**i. HELOC Calculation**

If the secondary financing is a Home Equity Line of Credit (HELOC), use the first lien plus the full HELOC limit, even if undrawn, to determine the TLTV.

**2. LTV Ratios & Occupancy Eligibility for Conventional Conforming Mortgage Loans**

The following eligibility grids are for manually underwritten loans only. Loans underwritten with Desktop Underwriter® or Loan Product Advisor® must follow the eligibility requirements issued by the applicable agency (Fannie Mae or Freddie Mac). The eligibility grids for Fannie Mae can be found by clicking the following link: [Fannie Mae Eligibility Matrix](#).

The Freddie Mac eligibility grids can be found in the Freddie Mac Single-Family Seller/Servicer Guide. Note: Loans underwritten manually or with an AUS are subject to a maximum LTV of 95%.

<b>TERMS OF 30 YEARS OR LESS MANUAL UNDERWRITING</b>		
<b>PURCHASE AND RATE &amp; TERM/LIMITED CASH-OUT REFINANCE TRANSACTIONS</b>		
<b>Property Type</b>	<b>Maximum LTV<sup>1</sup></b>	<b>Maximum TLTV (HELOC<sup>2</sup> or CES)</b>
1 Unit Primary Residence	95%	95%
1 Unit Second Home	90%	90%
2 Unit Dwelling	85%	85%
3-4 Unit Dwelling	75%	75%

<sup>1</sup> With exceptions for the determination of whether Private Mortgage Insurance is required on purchase loans in the State of New York only. This does not change how LTV is calculated as referenced in this Underwriting Guide for said loans and accompanying restrictions relating to LTV. See [LTV Ratio Determination in New York State for Mortgage Insurance](#) for further details.

<sup>2</sup> If the secondary financing is a HELOC, use the first lien plus the full HELOC limit, even if undrawn, to determine the TLTV.

<b>MANUAL UNDERWRITING</b>		
<b>CASH-OUT REFINANCE TRANSACTIONS</b>		
<b>Property Type</b>	<b>Maximum LTV<sup>1</sup></b>	<b>Maximum TLTV (HELOC<sup>2</sup> or CES)</b>
1 Unit Primary Residence	90%	90%
1 Unit Second Home	85%	85%
2-4 Unit Dwelling	75%	75%

**D. Mortgage Loan Seasoning (Updated 7/7/2023)**

**1. Conventional Mortgage Loan Seasoning Requirements**

Conventional Mortgage Loans must also meet the following criteria:

Category	Mortgage Loans with 24 or fewer monthly payments applied	Mortgage Loans with more than 24 monthly payments applied
Notification to FHLBNY prior to submitting the loan for Loan Presentment or opening a Delivery Commitment.	Not Required.	Required.  At its discretion, the FHLBNY may require the Mortgage Loans to meet additional criteria.
Applicable eligibility and underwriting requirements	MAP requirements in effect on the Note date, with the exception of the maximum original loan amount, which must comply with MAP loan limits in effect on the Funding Date.	MAP requirements in effect on the Funding Date.  If the Loan Application Date is on or after January 10, 2014, the Mortgage Loan must be a “safe harbor” qualified mortgage.
FICO score maximum age on Funding Date	180 days. If original FICO score is over 180 days old, a new representative FICO score must be obtained and the results added in the “recent FICO” and “recent FICO date” fields in the “borrower details” tab in the MAP Connect System	180 days and the FICO score must be the greater of: <ul style="list-style-type: none"> <li>• 660; or</li> <li>• The minimum applicable credit score in effect on the Funding Date for the loan characteristics</li> </ul>
Minimum Transaction Amount	None.	\$2,500,000 for a single transaction.
Payment History on Funding Date	<ul style="list-style-type: none"> <li>• The Mortgage Loan has not been thirty (30) days or more delinquent in the most recent twelve (12) months.</li> <li>• The Borrower’s most recent monthly payment cannot be past due as follows: <ul style="list-style-type: none"> <li>○ For Actual/Actual and Actual/Actual Single remittance types, the monthly payment must not be more than fifteen (15) days past the payment due date;</li> <li>○ For Scheduled/Scheduled remittance types, the Mortgage Loan must be current through the end of the month prior to the Funding Date.</li> </ul> </li> </ul>	

By delivering the Mortgage Loan under the MAP, the PFI represents and warrants that from the Note date to the Funding Date, the Mortgage Loan has met the following requirements:

- The value of the Mortgaged Property has not declined;
- The Mortgage Loan has not been modified;
- The Mortgage Loan’s lien priority has not been adversely affected;
- The occupancy status of the Mortgaged Property has not changed; and
- The Mortgage Loan has been serviced in compliance with Applicable Standards.

## 2. Government Mortgage Loan Seasoning Requirements

Government Mortgage Loans must also meet the following criteria:

Category	Mortgage Loans with 24 or fewer monthly payments applied	Mortgage Loans with more than 24 monthly payments applied
Notification to FHLBNY prior to submitting the loan for Loan Presentment or opening a Delivery Commitment.	Not Required.	Required.  At its discretion, the FHLBNY may require the Mortgage Loans to meet additional criteria.
Applicable eligibility and underwriting requirements	MAP and Government Agency requirements in effect on the Note Date.	MAP and Government Agency requirements in effect on the Funding Date.
Minimum Transaction Amount	None.	\$2,500,000 for a single transaction.
Payment History on Funding Date	<ul style="list-style-type: none"> <li>• The Mortgage Loan has not been thirty (30) days or more delinquent in the most recent twelve (12) months.</li> <li>• The Borrower’s most recent monthly payment cannot be past due as follows:                             <ul style="list-style-type: none"> <li>○ For Actual/Actual and Actual/Actual Single remittance types, the monthly payment must not be more than fifteen (15) days past the payment due date;</li> <li>○ For Scheduled/Scheduled remittance types, the Mortgage Loan must be current through the end of the month prior to the Funding Date.</li> </ul> </li> </ul>	

## 5. Transaction Eligibility

### A. Purchase Transactions

A purchase transaction allows the Borrower to use the proceeds of the Mortgage Loan to finance the acquisition of the Mortgaged Property. Alternately, the purchase Mortgage Loan proceeds could pay off the outstanding balance owed on a land contract or convert an interim construction loan into permanent financing. The Borrower should not receive any cash at settlement, except reimbursement of overpaid fees and charges, or refunds required by regulation. The Borrower may also receive reimbursement for costs paid in advance for such items as the Appraisal, earnest money, credit report, or a pro-rated real estate tax credit in areas where real estate taxes are paid in arrears. The Borrower should not be on title to the Mortgaged Property prior to the closing.

#### 1. Non-Arm's Length Transactions

A non-arm's-length transaction is a transaction where there exists a personal or business relationship between the borrower and any party involved in the transaction.

A non-arm's-length transaction on a newly constructed second home is not permitted.

#### 2. Private Transfer Fee Covenants (Updated 8/26/2024)

A private transfer fee, typically imposed by a recorded or unrecorded private transfer fee covenant, is a payment required of a transferee or transferor in connection with, or as a result of, a transfer of title to real estate. Private transfer fees do not include fees, charges, payments, or other obligations that:

- Are imposed by or payable to the federal government or a state or local government; or
- Defray the actual costs of the transfer of the property, including transfer of membership in the relevant homeowners' association.

A Mortgage Loan secured by a Mortgaged Property encumbered by a private transfer fee covenant is ineligible for sale under MAP.

However, MAP may accept a Mortgaged Property encumbered by certain "excepted transfer fee covenants" described in 12 CFR 1228.1 which:

- Require payment of a private transfer fee to a "covered association" (such as a homeowner's association) and limit the use of such transfer fees exclusively to purposes which provide a direct benefit to the Mortgaged Property (such as common area operating maintenance charges); or
- Relate to shared equity programs for affordable homeownership preservation described in 12 CFR 1282.34(d)(4)(i)(A) and (d)(4)(ii), except that no household income limit shall apply.

## B. Refinance Transactions

A refinance Mortgage Loan is a transaction for which the proceeds are used to pay off an existing mortgage(s), and the current Borrower executes a new Note using the same property as security. The property may not be currently listed for sale.

### 1. Rate and Term Refinance (Updated 9/23/2025)

A rate and term refinance transaction allows a Borrower to pay off an existing Mortgage Loan by obtaining new financing secured by the same property, the proceeds of which can only be used to:

- Pay off the existing first mortgage, regardless of its age;
- Satisfy related closing costs, financing costs, and prepaid items;
- Disburse cash not to exceed the greater of \$2,000 or 1% of the Principal Balance of the new Mortgage Loan; and
- Pay off any junior liens secured by the Mortgaged Property which were used in their entirety to acquire such property
  - Documentation demonstrating that the full amount of the lien was used for the purchase must be maintained in the Mortgage Loan File.

For AUS-scored loans, neither Fannie Mae nor Freddie Mac use the name “Rate and Term”; rather, these transactions are considered limited cash-out refinances.

#### i. Limited Cash-Out Refinance

A limited cash-out refinance allows a Borrower to pay off an existing Mortgage Loan and retain minimal cash from the proceeds of a new loan secured by the same property. The new loan may lower the interest rate, shorten the term or convert from an adjustable-rate Mortgage Loan to a fixed-rate Mortgage Loan.

In addition to the meeting the requirements detailed in [Rate and Term Refinance](#) above, the proceeds from a limited cash-out refinance may be used for the following:

- Pay off the existing first mortgage, regardless of its age;
- Buy out equity of a co-owner who is a divorced spouse, a former domestic partner, or a family member in an inherited property situation;
- Payoff a non-purchase money subordinate loan that was used for repair of [disaster-related property damage](#) or to obtain reimbursement for out-of-pocket expenses used to complete repairs;
- Pay off any junior liens secured by the Mortgaged Property which were used in their entirety to acquire such property;
- Satisfy related closing costs, financing costs and prepaid items;
- Pay off a land contract, lease with option to buy, or a construction loan; and
- Disburse cash not to exceed the greater of \$2,000 or 1% of the Principal Balance of the new Mortgage Loan.

The transaction must meet the following criteria:

- Payoff of the current Mortgage Loan only includes the principal balance plus accrued interest and any required prepayment penalty.

- Other costs such as late fees and past due amounts such as delinquent taxes cannot be paid with the new Mortgage Loan proceeds.
- A copy of the Closing Disclosure from the Borrower's purchase of the Mortgaged Property must be provided and retained in the Mortgage Loan File evidencing that any subordinate financing being paid off with the new Mortgage Loan was used in its entirety to acquire the Mortgaged Property.
  - If any of the liens being paid off are a HELOC, documentation showing proceeds were fully disbursed on the date of the purchase-money loan without subsequent draws.
- The only fees included in the new Mortgage Loan are standard loan fees (e.g., closing costs on the new Mortgage Loan; prepaid items such as interest, taxes, insurance, etc. and points).

The Borrower may be refunded overpaid fees and charges due to federal or state laws or regulations. Refunds such as these are not included in the maximum cash back limitation, provided the Closing Disclosure clearly identifies the refund with a notation of the reason and the Mortgage Loan File includes documentation to support the amount and the reason for the refund.

The eligibility requirements for delivery of a limited cash-out refinance used to buy out the equity of a co-owner are as follows:

- The co-owner (other than a family member who inherited an interest in the Mortgaged Property) receiving the buy-out proceeds must have jointly owned the Mortgaged Property with the borrower for a minimum of twelve (12) months prior to the initial Loan Application;
- All parties (other than parties who inherited an interest in the Mortgaged Property) must provide evidence that they occupied the Mortgaged Property as their Primary Residence from an acceptable source of verification, such as a driver's license, or a bank statement, credit card bill, utility bill, etc. that was mailed to the individual at the address of the Mortgaged Property;
- A written agreement, signed by all parties (including the borrower), stating the terms of the property transfer and the disposition of the proceeds from the refinance transaction;
- The Borrower who retains ownership of the Mortgaged Property may not receive any buyout proceeds from the refinance transaction; and
- The Borrower who retains ownership of the Mortgaged Property must be able to qualify for the Mortgage Loan under the applicable underwriting guidelines.

## ii. Limited Cash-Out Refinance for Disaster Impacted Properties

Borrowers impacted by a natural disaster are afforded certain flexibilities as to the requirements for limited cash-out refinance transactions. To be eligible, the following criteria must be met:

- The Mortgaged Property must be located in any county, city, or parish that is designated by the Federal Emergency Management Agency (FEMA) as eligible for individual assistance as a result of a natural disaster (FEMA Disaster Areas);
- The Mortgage Loan must be delivered under MAP within two (2) years of the FEMA disaster declaration date (available on the FEMA website); and
- The Mortgaged Property must be a Primary Residence. The following flexibilities may be offered for eligible transactions:
  - A Borrower may obtain cash-out for reimbursement of documented out-of-pocket expenses for the completed repair of disaster-related property damage in an amount not to exceed the lesser of \$15,000 or ten (10%) percent of the Principal Balance of the new Mortgage Loan; and/or

- The new Mortgage Loan may be used to consolidate any subordinate financing used for repair of disaster-related property damage. The subordinate financing, including any draws on an existing HELOC, must post-date the disaster.

Documentation that post-dates the disaster must be obtained as evidence that a portion of the subordinate financing and/or the entire requested cash-out amount were used for disaster-related property repairs. Some examples of acceptable documentation are copies of cancelled checks, receipts, work orders, etc., related to the cost of materials and labor. The Borrower may not receive reimbursement for their “sweat equity” in connection with the repairs.

The Mortgaged Property must be appraised “as is” with no conditions that affect the livability, soundness, or structural integrity of the property. If those conditions do exist, the Mortgaged Property must be appraised subject to completion of the specific repairs, and a completion report must be provided prior to delivery of the new Mortgage Loan. An escrow for incomplete repairs is not allowed.

## 2. Cash-Out Refinances (Updated 5/1/2023)

A cash-out refinance transaction allows a Borrower to pay off an existing Mortgage Loan by obtaining new financing secured by the same property or allows the Borrower to obtain a Mortgage Loan on a property that is currently owned free and clear. The Borrower must have purchased or acquired the property at least six (**6**) months prior to consummation of the new Mortgage Loan transaction unless one the following exceptions is met:

- The delayed financing requirements are met; or
- The Borrower acquired the property through an inheritance or was legally awarded the property (i.e. divorce, separation, or dissolution of a domestic partnership).

The Mortgage Loan proceeds from a cash-out refinance may be used for the following:

- Pay off the existing first mortgage. Effective May 15, 2023, the existing first mortgage being paid off must be seasoned at least 12 months as measured from the note date of the existing loan to the note date of the new loan.
- Pay off any junior liens secured by the Mortgaged Property for which proceeds were not used solely to acquire such property;
- Satisfy related closing costs, financing costs and prepaid items; and / or
- Pay “cash out” to the Borrower (or any other payee) in an amount that exceeds the lesser of \$2,000 or two percent (2%) of the Principal Balance of the new Mortgage Loan.

### i. Delayed Financing Exception

Borrowers who have purchased the subject property within six (**6**) months of the disbursement date of the new Mortgage Loan are eligible for a cash-out refinance if in addition to meeting the eligibility requirements in the Guide, the transaction also meets the following requirements:

- The original purchase transaction was an arms-length transaction;
- The purchase transaction must be documented as confirming no Mortgage Loan financing was used to obtain the property, either with a settlement statement or a recorded trustee’s deed (or similar alternative) confirming the amount paid by the grantee to trustee;

- The preliminary title search or report must confirm that there are no existing liens on the subject property;
- The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property); and
  - If the source of funds was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the new loan Mortgage Loan must reflect that all cash-out proceeds will be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the new Mortgage Loan. Funds that are received as gifts and used to purchase the property may not be reimbursed with proceeds of the new Mortgage Loan.
- The new loan amount can be no more than the actual documented amount of the Borrower’s initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new Mortgage Loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value).

### C. Conventional High-Balance Mortgage Loans

To determine the maximum original loan amount for Conventional High-Balance Mortgage Loans, see the applicable Conventional High-Cost Area Loan Limits exhibit (Exhibit F). Properties located in counties that are not listed on Exhibit F are subject to the Conventional Mortgage Loan limits above.

#### 1. LTV Ratios & Occupancy Requirements for Conventional High-Balance Mortgage Loans (Updated 9/23/2025)

The following eligibility grids are for manually underwritten loans only. Loans underwritten with Desktop Underwriter® or Loan Product Advisor® must follow the eligibility requirements issued by the applicable agency (Fannie Mae or Freddie Mac). The eligibility grids for Fannie Mae can be found by clicking the following link: [Fannie Mae Eligibility Matrix](#).

The Freddie Mac eligibility grids can be found in the Freddie Mac Single-Family Seller/Servicer Guide.

TERMS OF 30 YEARS OR LESS MANUAL UNDERWRITING			
PURCHASE, RATE AND TERM REFINANCE, AND LIMITED CASH-OUT REFINANCE			
Purpose	Maximum LTV	Maximum TLTV	Minimum Primary Credit Score*
1 Unit Primary Residence	90%	90%	700 > 75% LTV or TLTV 660 ≤ 75% LTV and TLTV
1 Unit Second Home	65%	65%	740
2-4 Unit Primary Residence	75%	75%	740

TERMS OF 30 YEARS OR LESS MANUAL UNDERWRITING			
CASH-OUT REFINANCE TRANSACTIONS			
Purpose	Maximum LTV	Maximum TLTV with Secondary Financing	Minimum Primary Credit Score*
1 Unit Primary Residence only	60%	60%	740

\*Minimum Primary Credit Score should meet the standards stated in Section 9. FICO Scores of this document.

## 2. Additional High-Balance Mortgage Loan Requirements (Updated 5/1/2023)

High-Balance Mortgage Loans are subject to the following criteria in addition to all other underwriting requirements:

- Expedited refinance transactions are not permitted;
- Cash-out refinance transactions are allowable only for primary residences;
- Cash-out refinance transactions are allowable only if the property was purchased more than six **(6)** months prior to the transaction;
- If mortgage insurance is financed, the maximum LTV, including the financed mortgage insurance premium, cannot exceed ninety percent (90%);
- Every Borrower must have a valid Credit Score based on an established credit history.
- A field review Appraisal is required in addition to the full Appraisal report if:
  - The loan amount is > \$726,200 and the LTV/TLTV is > 80%; or
  - The property value is > \$1,000,000 and the LTV/TLTV is > 75%;
- If a field review Appraisal is required, the “value” to determine maximum LTV/TLTV ratios and eligibility must be calculated using the lower of the value determined by the original Appraisal or the value determined by the field review Appraisal.

The Appraisal for a condominium unit must contain at least two **(2)** comparable sales from outside the condominium project, in addition to a comparable sale from within the condominium project.

### D. Payoff of a Land Contract

When the proceeds of a Mortgage Loan are used to pay off the outstanding balance on an installment land contract (also known as contract or bond for deed) that was executed within the 12 months preceding the date of the loan application, FHLBNY will consider the Mortgage Loan to be a purchase money Mortgage Loan. The LTV ratio for the Mortgage Loan must be determined by dividing the new loan amount by the lesser of the total acquisition cost (defined as the purchase price indicated in the land contract, plus any costs the purchaser incurs for rehabilitation, renovation, or energy conservation improvements) or the appraised value of the property at the time the new Mortgage Loan is closed. The expenditures included in the total acquisition cost must be fully documented by the Borrower.

When the installment land contract was executed more than 12 months before the date of the loan application, FHLBNY will consider the Mortgage Loan to be a limited cash-out refinance. In this case, the LTV ratio for the Mortgage Loan must be determined by dividing the new loan amount by the appraised value of the property at the time the new Mortgage Loan is closed.

Cash-out refinance transactions involving installment land contracts are not eligible for delivery.

## E. Prohibited Refinancing Practices

The PFI may not intentionally target Mortgage Loans delivered under MAP for refinance. A PFI may not separate Mortgage Loans in its own portfolio or sold to other investors from those sold to FHLBNY for differential treatment in terms of refinance advertising, offers, or practices.

The PFI must incorporate adequate controls in its origination and refinancing procedures to prevent unacceptable refinance practices by the PFI or any of its mortgage brokers and correspondents. If a PFI has knowledge or reason to believe a mortgage broker, a correspondent, Originator, or the PFI has received an application to refinance or has agreed to refinance a Mortgage Loan (either orally or in writing) that would violate the unacceptable refinance practices policy or Applicable Law, it may not deliver such Mortgage Loan under MAP. The following are considered unacceptable refinance practices:

- The delivery of any Mortgage Loan that is in the process of being refinanced (even if no agreement for future refinancing was entered into at the time of origination);
- Refinancing activity that is prohibited by Applicable Law; and
- Refinancing activity that causes the refinance loans or the refinance PFI to be included within a category defined by Applicable Law, which is subject to additional restrictions, limitations or requirements as a result of being included in such category. Such categories include but are not limited to high-cost loans, high-risk loans, and higher-priced loans.

The PFI must monitor the prepayment levels of its Mortgage Loans, particularly refinance Mortgage Loans. If the PFI becomes aware of circumstances likely to result in unusually high prepayment rates on Mortgage Loans sold to FHLBNY, it must notify its FHLBNY Representative immediately. If requested to do so by FHLBNY, the PFI is obligated to cooperate fully and promptly with FHLBNY personnel and to provide adequate information to determine the reason and solution for any high prepayment rates. FHLBNY reserves the right to initiate an investigation of high prepayment rates of a particular PFI.

A PFI:

- Engaging in unacceptable refinance practices;
- Knowingly selling or delivering Mortgage Loans to FHLBNY from mortgage brokers or correspondents it knew, or should have known, were engaging in unacceptable refinance practices; or
- Failing to maintain proper controls for such Mortgage Loans being sold or delivered to FHLBNY:

will be subject to any and all the remedies available to FHLBNY at law or in equity or pursuant to the Guide and the PFI Agreement, including, but not limited to, disqualification, suspension and / or requiring the PFI to make FHLBNY whole for losses, including losses associated with repurchases at par for Mortgage Loans delivered at premium prices.

## F. Subordinate Finance Transactions

Second trust deeds, junior liens and subordinate liens (subordinate financing) are defined as mortgages that have rights that are secondary (inferior) to that of another Mortgage Loan on the same property.

Subordinate financing, new or existing, is acceptable, provided that, in addition to all other underwriting guidelines provided in this Guide, the following requirements are met:

- The monthly payments on the subordinate loan must be included in calculating the Borrower's monthly housing expense ratio;
- The maximum TLTV ratio for the first and second mortgage must comply with the limits outlined in this Guide;
- The subordination agreement must be recorded concurrently and clearly in second position with the first mortgage/deed of trust, as applicable;
- "Piggyback" or simultaneous second mortgages that are recorded in a clear second position, evidenced by the closing instructions and the final title policy when issued; and
- Seller financed mortgages at a market interest rate and with a minimum payment that covers the interest due for the corresponding period.

Note: If subordinate financing provided by the property seller is more than 2% below the typical interest rate for subordinate financing acquired through a state or federally regulated financial institution, the subordinate financing must be considered a sales concession and must be deducted from the sales price.

### 1. Acceptable types of Subordinate Financing

The following types of subordinate financing are acceptable:

- If a closed-end loan, must be a "safe harbor" Qualified Mortgage (QM) loan;
- Open-end periodic payment mortgages, in which the payment amount does not change during the loan term, with a minimum payment that covers the interest due for the corresponding period;
- Open-end periodic payment mortgages, in which the payment amount may vary from period to period, with the following restrictions:
  - The minimum payment covers the interest due for the corresponding period; and
  - The periodic payment must remain constant for each 12-month period over the term of the secondary mortgage, with the exception of Home Equity Lines of Credit (HELOCs) which may have monthly payments that do not remain constant for 12- month periods.

### 2. Employer Housing Assistance/Subordinate Financing

Employer-funded subordinate financing structured in one of the following ways (the financing terms may provide for the employer to require full repayment of the debt if the Borrower's employment is terminated before the maturity date of the subordinate financing):

- Fully amortizing, level monthly principal and interest payments;
- Payments deferred for a certain period before changing to fully amortizing, level principal and interest payments;
- Payments are deferred over the entire term; or
- The debt is forgiven over time.

See [Employer Housing Assistance](#) for additional details related to this topic.

### 3. Unacceptable Subordinate Financing

The following types of subordinate financing are unacceptable:

- Mortgages that are cross-collateralized and held by the originating institution;
- Mortgages with negative amortization;

- Mortgages that restricts prepayments, such as with prepayment penalties;
- Mortgages that do not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage;
- Mortgages with “wraparound” terms that combine the indebtedness of the first mortgage with that of the secondary mortgage;
- Mortgages where the terms of the note provide for future advances (excluding HELOCs); and/or
- PACE Loans.

#### 4. New or Existing Subordinate Finance

New subordinate financing may not be provided by an Interested Party. The PFI will need the following documentation at time of underwriting:

- Existing: A copy of the executed Note, Security Instrument and subordination agreement.
- New: A copy of the Note that will be executed at closing on the new subordinate financing, if available.

#### 5. Home Equity Lines of Credit (HELOCs)

Mortgaged Property secured by subordinate financing in the form of a HELOC is permitted.

The total of the first Mortgage Loan balance plus the HELOC limit may not exceed ninety-five percent (95%) of the Mortgaged Property value.

For the purposes of loan eligibility and Loan Presentment, the TLTV must be calculated using the full HELOC limit, even if undrawn.

$$\frac{(1^{st} \text{ Mortgage} + \text{HELOC Limit})}{\text{Mortgaged Property Value}} = \text{TLTV}$$

The following table provides an example of how to calculate the TLTV for loan eligibility and Loan Presentment:

1) First Mortgage Amount	2) Full HELOC Limit	3) Outstanding HELOC Amount	4) Mortgaged Property Value	TLTV (1+2) / 4
\$160,000.00	\$20,000.00	\$15,000.00	\$200,000.00	90%

## G. Amortization and Principal Amount

### 1. Fixed Rates

FHLBNY only purchases conventional, fully amortizing, and fixed-rate first mortgages.

The payments must be structured as follows:

- level monthly installments of principal and interest (P&I),
- due on the first day of each month, and
- payment of interest in arrears.

## 2. Adjustable Rate Mortgages

Adjustable Rate Mortgages (ARMs) are not eligible for MAP

## 3. Principal Amount

The full principal amount of the Mortgage must have been disbursed or advanced to the Borrower or disbursed or advanced according to the direction of the Borrower. The Borrower may not have an option under the Security Instrument to borrow additional funds secured by the Security Instrument. The outstanding Principal balance of the Mortgage must be as represented by the PFI to FHLBNY and must be fully secured by the Security Instrument. Loans will not be purchased during any applicable rescission period.

## H. Eligible Occupancy types

Only Mortgage Loans secured by properties that are Primary Residences or Second Homes are eligible for delivery under MAP.

### 1. Primary Residence

The following criteria must be considered to determine whether a Mortgaged Property is a Primary Residence:

- It is occupied by the owner for the major portion of the year;
- It is in a location relatively convenient to the owner’s principal place of employment;
- It is the address of record for such activities as federal income tax reporting, mail delivery, and similar functions;
- It possesses the physical characteristics to accommodate the owner’s immediate dependent family; and
- The Borrower states an intent to occupy the property as a Primary Residence.

The following tables’ list instances where the Borrower does not intend to occupy the property, but the property is still considered a Primary Residence:

Borrower Classification	Occupancy Requirements
Multiple Borrowers	Only one Borrower is required to occupy the property, provided the <a href="#">Non-Occupant Co-Borrower</a> requirements are met.
Parents or legal guardians providing housing for a physically handicapped or developmentally disabled adult child	Permitted when the child cannot work or has insufficient income to qualify for the Mortgage Loan on their own. In this instance, the parent/legal guardian is considered the owner and occupant.
Adult children providing housing for parents	Permitted when the parent cannot work or has insufficient income to qualify for the Mortgage Loan on their own. In this instance, the child is considered the owner and occupant.

## 2. Second Homes

Eligible second homes are one-unit properties (including condominiums and PUDs) that the Borrower will occupy for a portion of the year. If the second home is in a condominium or PUD project, the Borrower may only own one unit in the project. Second homes that are two-four (2–4) unit properties are not eligible.

The property must be suitable for year-round use, have full kitchen facilities with standard-sized appliances, separate rooms for living and sleeping, and no lockout bedrooms. While there are no specific mileage requirements regarding the distance between a second home and primary residence, a second home should generally not be in the same local market as the Borrower's primary residence. However, there can be exceptions, such as properties that are located in a recreational area but also part of a metropolitan area, or properties that are used to minimize the commute to work. The property must not be part of a timesharing or rental pool agreement.

### I. Loans with Resale Restrictions

#### 1. Properties Subject to Age Restrictions

If a housing development has an age restriction, it must comply with the Fair Housing Act exemptions.

#### 2. Properties Subject to Resale Restrictions (Income)

Income-based restrictions (inclusionary zoning) may be imposed by a state or local government in order to ensure that a certain number or a certain percentage of properties in a designated area are dedicated to low- or moderate-income families.

Properties subject to these restrictions are eligible if all requirements are met and if the restrictions comply with all federal, state, and local laws and regulations. Requirements must be met regarding right of first refusal, resale controls, public land records, etc. The Appraisal must include at least three **(3)** comparables with similar resale restrictions.

### J. HomeReady and Home Possible Loans (Updated 11/29/2024)

Fannie Mae's HomeReady and Freddie Mac's Home Possible mortgage loans are eligible for sale in MAP provided they meet all MAP overlays and restrictions in section 8.A.2 in the MAP Underwriting Guide.

### K. Ineligible Transactions, Products, or Attributes (Updated 3/30/2026)

Only MAP product offerings outlined in this guide are eligible for delivery. No other investor products, including those from Fannie Mae and Freddie Mac, are eligible for delivery under MAP.

In addition, the following products or attributes are ineligible under MAP, regardless of underwriting method used:

#### Transaction Types:

- Texas 50(a)(6) mortgages (Texas Cash-out);

- Home improvement/rehabilitation loans;
- Construction loans, unless the terms of [Construction to Permanent Financing in Chapter 16](#) are followed;
- Fannie Mae's Refi Plus and Freddie Mac's Open Access;
- Freddie Mac's Relief Refinance Mortgages<sup>SM</sup>;
- Mortgage Loans with property inspection waivers (PIWs);
- Negative amortization;
- Rate concessions;
- GPM features;
- ARMs;
- Balloon mortgages;
- Interest only;
- Prepayment Penalties;
- Temporary buydowns

Property and Occupancy Types:

- Co-ops;
- Manufactured homes/mobile homes;
- [Modular housing](#) is eligible provided Guide criteria are met;
- Illinois land trust;
- Non-Owner Occupied (Investment) properties;
- Condotels;
- Time shares;
- Unimproved land;
- Agricultural properties, such as farms or ranches;
- Properties that are not suitable for year-round occupancy, regardless of location;
- Properties on the island of Hawaii located within lava zone 1 or 2  
(As defined by the U.S. Geological Survey Hawaiian Volcano Observatory).

## 6. Borrower Eligibility

### A. Verification of Borrower Identity

The Borrower's identity must be confirmed and established with acceptable documentation such as:

- State issued identification (ID), such as a driver's license or state ID with photo; or
- Federally issued identification, such as a passport (may be a foreign passport for legal resident aliens).

Any other documents deemed necessary to comply with federal obligations (birth certificate, social security card, military ID, US alien registration, etc.) must be verified by the PFI.

Copies of government-issued identification should not be maintained in the Mortgage Loan File when prohibited by law. The following steps are required to document verification of Borrower's identity:

- Verify the accuracy of the data contained on the ID against the information provided by the Borrower;
- Record the following information on a document to be retained in the Mortgage Loan File:
  - The type of ID provided (state issued I.D., passport, etc.);
  - The expiration date of the ID document provided by the Borrower;
  - Any unique number assigned to the ID by the issuer of the ID (driver's license number, passport number, etc.);
- Personal data listed on the identification that specifically identifies the Borrower (photograph, home address, social security number, birth date, etc.); and
- Any additional information regarding other steps or procedures the PFI performed in order to validate the Borrower's identity.

The verification of the documentation should be signed and dated by the individual completing the validation of the Borrower's identity and clearly identify the type of ID used.

#### 1. Social Security Number and Individual Taxpayer Identification Number Verification

All Borrowers must have a valid Social Security Number (SSN) or, in the case of permanent or non-permanent resident alien who do not have an SSN, a valid Individual Taxpayer Identification Number (ITIN). The Borrower's SSN or ITIN must be consistent throughout the Mortgage Loan File. Minor name variations, such as a Borrower who uses a shortened or abbreviated name are acceptable when the Mortgage Loan File contains documentation that the Borrower is the same person as the name variation(s). When there are inconsistencies or multiple SSNs and/or ITINs for any Borrower(s), acceptable documentation resolving the discrepancies must be included in the Mortgage Loan File by either:

- Verification of the Borrower's SSN and/or ITIN directly through the Social Security Administration (SSA), such as through the submission of Form SSA-89 (or any other form or method accepted by the SSA) to the SSA for validation; or
- Verification of the Borrower's SSN and/or ITIN through a vendor that validates directly through the SSA.

If the SSN or ITIN cannot be validated with the SSA, the Mortgage Loan is not eligible for delivery under MAP.

## 2. OFAC

All Borrowers' names must be checked against Office of Foreign Asset Control (OFAC) lists of known or suspected terrorists or terrorist organizations including the Specifically Designated Nationals and Blocked Persons (SDN) list. The Mortgage Loan is ineligible for delivery under MAP if a match is confirmed.

## B. Eligible Borrowers

The Borrower should be of legal age per local and state jurisdiction and able to enter into a binding contract. All eligible Borrowers must have a valid and verifiable SSN or ITIN. Other forms of taxpayer identification are not allowed. If any discrepancies are found involving a Borrower's SSN or ITIN, these must be resolved before closing.

The following are eligible Borrowers:

- Natural persons and
- Inter vivos revocable trusts

### 1. Non-U.S. Citizens

A non-U.S. citizen Borrower, who is lawfully residing in the U.S. as a permanent or non-permanent resident alien, is eligible for a Mortgage Loan on the same terms as a U.S. citizen.

Borrowers must have current acceptable documentation from the Bureau of Citizenship and Immigration Services (BCIS), within the Department of Homeland Security, evidencing the person's legal residency status in the U.S.

### 2. Non-Occupant Co-Borrowers (Updated 12/1/2020)

The Non-Occupant Co-Borrower applies with the Borrower for joint credit and may take title to the Mortgaged Property but will not occupy the property. The Non-Occupant Co-Borrower will be required to sign the Note and/or Security Instrument. The Non-Occupant Co-Borrower may not be an Interested Party (e.g. a real estate agent, builder, or seller).

The Occupant Borrower must be able to qualify for the loan using solely his/her own income with a total debt ratio at or below 43%. Once that requirement is met, the Non-Occupant Co-Borrower's income may be used for qualifying purposes, subject to the following LTV and occupancy requirements:

LTV	Co-Borrower Occupancy Status
90.01%-95%	The co-Borrower must occupy the property, unless the Mortgage Loan was underwritten and approved using Desktop Underwriter® or Loan Product Advisor®
90% or below	The co-Borrower is not required to occupy the property

**i. Down Payment Requirements**

For manually underwritten loans, if the income of a guarantor, co-signer, or non-occupant borrower is used for qualifying purposes, the occupying borrower(s) must make the first 5% of the down payment from their own funds unless:

- The LTV or TLTV ratio is less than or equal to 80%; or
- The occupying borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower’s minimum contribution.

**3. Inter Vivos Revocable Trust**

An inter vivos revocable trust is a trust that:

- One or more individuals create during their lifetime;
- Becomes effective during the creator’s lifetime;
- Can be changed or canceled by its creator at any time for any reason, during that individual’s lifetime;
- Names the creator as its beneficiary; and
- Has at least one of the creators as a trustee or an institutional trustee that customarily performs trust functions and is authorized to act as trustee under the laws of the applicable state.

An inter vivos revocable trust is an eligible Borrower if it has an interest in the property securing the Mortgage Loan and if the primary beneficiary of the trust is the individual establishing the trust.

The Mortgage Loan must be underwritten with one of the individuals establishing the trust as the Borrower or co-Borrower, and the beneficiary must become personally liable on the Note, acknowledge the Security Instrument and occupy the Mortgaged Property.

As evidence that the trust meets state and MAP standards, the Mortgage Loan File must contain a copy of the trust agreement or trust certificate and at least one of the following:

- An attorney’s opinion stating the trust meets all applicable state requirements; or
- Certification from a title company evidencing compliance with any applicable state requirements.

The trust agreement must state that the trustee is authorized to borrow money for the purpose of purchase or refinance (as applicable for the transaction being requested), and if consent of the beneficiary is required, such written consent must be obtained and retained in the Mortgage Loan File.

Title to the property must be vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name of the individual Borrower or in the trustee(s) of more than one inter vivos revocable trust.

In addition, the title insurance policy must meet the following requirements:

- The title insurance policy (or attorney's opinion of title) shall not list any exceptions with respect to the trustee holding title to the property or to the trust;
- Title held in the trust must not reduce FHLBNY's rights, including the right to have full title to the property should foreclosure proceedings be initiated;
- The title insurance policy must ensure full title protection to FHLBNY; and
- Title to the security property must be vested solely in the trustee(s) of the inter vivos revocable trust, jointly in the trustee(s) of the inter vivos revocable trust and in the name(s) of the individual borrower(s), or in the trustee(s) of more than one inter vivos revocable trust.

The PFI must ensure that all loan documents are properly executed according to Applicable Law to ensure the granting of a first lien is properly conveyed.

#### **4. Limitations on Financed Properties**

There are no restrictions regarding the maximum number of loans permitted for a single Borrower.

#### **5. Ineligible Borrowers**

The following types of borrowers are ineligible:

- Persons without SSNs or ITINs;
- Land trusts;
- Any corporate entities such as corporations, general and limited partnerships, limited liability companies, or "Doing Business As" (d/b/a) entities;
- Religious or nonprofit organizations;
- Persons with a life estate in the mortgaged property; or
- Persons who are acting on behalf of another person involved in the transaction as a court appointed guardian.

## 7. Property Eligibility

### A. Eligible Property Types (Updated 1/1/2025)

Eligible property types are 1–4 units including condos, and PUDs, located in any of the fifty **(50) states and the District of Columbia**.

[Modular, panelized or prefabricated homes](#) are not considered manufactured housing and may be delivered under MAP as standard single-family dwellings.

The mortgaged premises must be:

- residential in nature as defined by the characteristics of the property and surrounding market area;
- safe, sound, and structurally secure;
- adequately insured MAP guidelines for property and flood insurance;
- the highest and best use of the property as improved (or as proposed per plans and specifications), and the use of the property must be legal or legal non-conforming;
- readily accessible by roads that meet local standards;
- served by utilities that meet community standards; and or
- suitable for year-round use.

Note: Certain aspects of the location of a property will require special consideration. For example, properties in resort areas that attract people for seasonal or vacation use are acceptable only if they are suitable for year-round use.

Manufactured/mobile homes are defined as dwellings built on permanent chassis, attached to permanent foundation, and evidenced by a HUD plate and Certification label. Manufactured/mobile homes are not eligible for MAP financing.

#### 1. Multiple Parcels

When the Mortgaged Property consists of more than one parcel, the appraiser must consider all parcels in the Appraisal, and the site description must accurately describe the land and any improvements on each parcel.

A Mortgaged Property consisting of more than one parcel is eligible if the following conditions are met:

- The parcels must be adjoining;
- Only one parcel contains a residence (the adjoining parcel(s) may contain a non-residential structure such as a garage);
- All parcels must be zoned residential; and
- The Mortgage Loan must be a valid first lien on all parcels.

#### 2. Mixed-Use Properties

Mixed-use properties are dwellings that have a business use in addition to residential use. Examples of mixed-use properties are homes that have a space set aside for a day-care facility or a beauty salon.

Mixed-use properties are acceptable if the following requirements are met:

- The property must be an owner-occupied, single-family Primary Residence, or second home;
- The mixed use of the property must be a legal, permissible use of the property under the local zoning requirements;
- The Borrower must be both the owner and the operator of the business;
- The property must be primarily residential in nature, and the business use must be compatible with use of the property as a Primary Residence; and
- The market value of the property must be primarily a function of its residential characteristics, rather than the business use or any special business-use modifications that were made.

See [appraisal](#) section for additional requirements for mixed-use properties.

## B. Rural Properties

Rural properties should meet the following requirements:

- Be primarily residential in nature;
- Be accessible by public highways or private roads that have recorded easements and shared maintenance agreements; and
- Have adequate sewage, water, and utilities available and in service.

## C. Condition of Mortgaged Property

The Mortgaged Property must be in acceptable condition (as indicated by the [Appraisal](#)) at the time of closing, including, but not limited to the following:

- Property must be habitable;
- All appliances, plumbing, electrical, etc. must be functional and in good working condition;
- The kitchen must be functional;
- All utilities must be turned on and in good working order; and
- All bathrooms must be complete and functional.

## D. Acceptable Forms of Property Ownership

Title to the Mortgaged Property must be held as fee simple or leasehold estate. Properties cannot be in the name of a corporate entity.

### 1. Leasehold Estate

A leasehold arrangement is one in which there is a separate owner of the land and the improvements on the land. The landowner grants a lease to the owner of the improvements that gives the right to use the land in exchange for a rental payment. The ownership interest in the improvements with the rights granted in the lease to use the land is called the leasehold estate. The rent due under the lease is called the leasehold payment.

In order for a Mortgaged Property that is a leasehold estate to be eligible for sale through the MAP Program, the leasehold estate and the improvements must constitute real property, be subject to the mortgage lien and be insured by the PFI's title policy. The lease or sublease must be valid, in good standing, and in full force. The leasehold estate must be assignable and/or transferable. All rents must

be current. In addition, the use of leasehold or ground rent estates for residential property must be an accepted practice in the area where the Mortgaged Property is located, and such property must be readily marketable. If the lease is not typical for the market, then the appraiser must fully explain the effect on marketability. Government Mortgage Loans must comply with the leasehold requirements of the applicable Government Agency.

#### i. Ground Lease Requirements

If the land is subject to a leasehold interest, the terms must be typical and customary for the market.

If it is not typical for the market, the effect on marketability must be fully explained. The leasehold term must be as long as the term of the Mortgage Loan. The Fannie Mae/Freddie Mac Form 461 (Ground Lease Analysis) is required for each leasehold Mortgage Loan and must be retained in the Mortgage Loan File. A separate Freddie Mac Form 461 is required for each leasehold Mortgage Loan originated which arises from resale of units in such developments.

For subleasehold mortgages, the amount of the sublease payments must be at least equal to the amount of the lease payments. The sublease payments must be due no less frequently than the lease payments.

In addition, the lease must meet the following requirements:

- The lease and any sublease are recorded in the appropriate public land records;
- The lease is a lease of the fee or a sublease executed by both the fee owner and the sublessor;
- The instrument creating the lease, sublease or conveyance reserving ground rents is in a form commonly acceptable to mortgage PFIs in the area where the mortgage property is located;
- The lease must not contain provisions for termination in the event of damage to or destruction of the mortgaged residence so long as the leasehold mortgage exists; and
- An increase in the lease payments, or sublease payments, during the term of the mortgage is permitted only if the increase is a specified amount at a defined, scheduled date or time interval. During this period, increases based on the cost of living index or other indices or reappraisal are acceptable if the amount of such increases is subject to a maximum limitation.
- The lease must have the following provisions to protect the interests of FHLBNY:
- The lease must provide for the right of FHLBNY to cure a default for the lessee's account within the time permitted to the lessee plus reasonable additional time. The lease must provide for a new lease of the same priority to be given to FHLBNY if the lease terminates because of default which could not be cured by FHLBNY, or provide for no termination for non-curable default as long as no default in rent exists;
- A provision exists in the lease for payment to FHLBNY of a condemnation award to which the lessee is entitled. This payment must not be less than the total award minus the value of the land considered as unimproved;
- The lease must provide that in the case of a partial condemnation, the lessee will rebuild and restore the improvements on the mortgaged property, unless FHLBNY consents to the distribution of the proceeds instead. The proceeds must be applied first to the reduction of the leasehold mortgage debt;

- The lease must contain a provision for FHLBNY's right to acquire the lease in its own name or in the name of a nominee upon foreclosure or assignment in lieu of foreclosure;
- The lease must provide for FHLBNY's right to exercise any renewal options that may exist; and
- If FHLBNY or MAP Designee determines, with evidence of the ground lease analysis, that the Mortgage Loan is not a suitable investment due to underwriting considerations, the PFI will purchase the leasehold Mortgage Loan from FHLBNY.
- The lease must include the following provisions to address the rights of the lessor and lessee:
  - The lease must permit mortgaging of the leasehold estate;
  - The lease must permit Assignments of the leasehold estate without the lessor's consent;
  - The lease must provide for release of an assigning lessee; and
  - The lease must provide for written notice from the lessor, notifying the MAP Designee of default by the lessee as a condition of the validity of the notice of default.

## 8. Underwriting Standards and Methods

### A. Permitted Underwriting Methods

Conventional and government mortgage loans may be manually underwritten in accordance to the guidelines specified in this Guide. Conventional and government mortgage loans may also be underwritten according to the applicable GSE's automated underwriting system (AUS) subject to the restrictions specified in this Guide.

#### 1. Manual Underwriting

Conventional Mortgage Loans may be manually underwritten. Manually underwritten loans must follow the underwriting and eligibility guidelines of this Guide.

#### 2. Automated Underwriting Systems (AUS) - (Updated 12/17/2025)

Mortgage Loans may be underwritten using Fannie Mae's Desktop Underwriter® or Freddie Mac's Loan Product Advisor® AUS. Mortgage Loans underwritten with either AUS must follow the overall MAP requirements, underwriting requirements, and eligibility requirements of the applicable GSE for that Mortgage Loan and not the manual underwriting guidelines of this Guide. The only MAP Requirements that supersede Fannie Mae/DU and Freddie Mac/Loan Product Advisor requirements are the following:

- Maximum LTV: 95%;
- Maximum CLTV with Affordable Housing/Community seconds: 105%;
- Purchase/Limited cash out refi maximum LTVs
  - 2 units – 85%
  - 3-4 units – 75%
- Minimum Credit Score: 660;
- Maximum DTI: 45%;
- Full interior/exterior Appraisal, regardless of what Appraisal type the AUS may allow (Property inspection waivers (PIWs) are ineligible);
- Occupancy requirements (primary or second home only);
- Age of credit documents (income, employment, and credit report documents) must be within 120 days of the conversion date on single close construction loans;
- Property type eligibility (for example: Co-ops are not eligible under MAP); and
- Products or loan attributes on the ineligible list (see [list](#)).

### B. Fannie Mae Desktop Underwriter® (DU®)

Fannie Mae's DU® guidelines provided in this Guide do not apply to the use of Fannie Mae's Desktop Originator® (DO®), which is an ineligible AUS System under MAP.

#### 1. DU® Recommendation

Mortgage Loans must receive an "Approve/Eligible" recommendation from DU®, and any verification messages or approval conditions specified on the Desktop Underwriter® Findings Report must be

satisfactorily resolved before closing. Terms and conditions of the closed Mortgage Loan and underwriting information in the Mortgage Loan File must match the data on which the DU® recommendation/verification messages are based.

If DU® returns any recommendation other than “Approve/Eligible”, then the Mortgage Loan must be manually underwritten to MAP underwriting guidelines to be eligible for delivery.

#### i. Delivery Requirements

Any Mortgage Loan to be delivered for purchase as a DU®-underwritten Mortgage Loan must include all applicable DU® reports as listed below:

- Underwriting Findings (includes Risk/Eligibility, Findings, Verification Messages/Approval Conditions, and Observations);
- Credit Report Summary; and
- Underwriting Analysis Report.

### C. Freddie Mac Loan Product Advisor® (LPA®)

#### 1. LPA® Risk Class

Mortgage Loans must receive an “Accept” risk class from LPA®, and any verification messages or approval conditions specified on the last Loan Product Advisor® Feedback Certificate must be satisfactorily resolved before closing. However, a full interior/exterior Appraisal is required for all Mortgage Loans underwritten with Loan Product Advisor®, regardless of what Appraisal type Loan Product Advisor® may allow. Terms and conditions of the closed Mortgage Loan and underwriting information in the Mortgage Loan File must match the data on which the Loan Product Advisor® “Accept” risk class is based.

If Loan Product Advisor® returns any response other than “Accept”, then the Mortgage Loan must be manually underwritten to MAP underwriting guidelines to be eligible for delivery.

#### i. Loan Product Advisor® Delivery Requirements

Any Mortgage Loan File delivered as a Loan Product Advisor®-underwritten Mortgage Loan must include:

- Loan Product Advisor® Feedback Certificate; and
- Credit documentation as required by Loan Product Advisor®, including all credit reports and all Credit Scores generated.

Additional submission requirements may apply.

### D. FHA Mortgage Loans

FHA Mortgage Loans may be underwritten manually in compliance with the requirements of this Underwriting Guide as well as FHA requirements, or underwritten using Desktop Underwriter® or Loan Product Advisor® as described below.

## 1. DU® Underwritten FHA Mortgage Loans

Any FHA Mortgage Loan underwritten using DU® must comply with the following:

- DU® for FHA Mortgage Loans must include the Underwriting Findings report(s) in the file;
- All conditions and requirements identified through DU® must be included in the file; and
- Files must be packaged in accordance with FHA published requirements.

Any FHA Mortgage Loan underwritten using DU® must comply with the terms of the FHA Lenders Handbook and Fannie Mae's Desktop User Guide.

Any FHA Mortgage Loans underwritten using DU®, except a Streamline Refinance and assumption, must be scored through TOTAL Mortgage Scorecard. TOTAL Mortgage Scorecard is not an AUS, but a scorecard that interfaces with an AUS such as DU® and provides a Feedback Certificate/Finding Report. The TOTAL Mortgage Scorecard Feedback Certificate/Finding Report used in the underwriting decision must be included in the FHA case binder. All data entered into the AUS must be verified as accurate and complete, and the entire mortgage application must comply with all FHA requirements.

## 2. Loan Product Advisor® Underwritten FHA Mortgage Loans

Any FHA Mortgage Loan underwritten using Loan Product Advisor® must comply with the following:

- Loan Product Advisor® Mortgage Loan Files must include Loan Product Advisor® Feedback Certificate; and
- All documents as indicated by the Loan Product Advisor® Feedback Certificate, including all conditions.

Any FHA Mortgage Loan, except a Streamline Refinance and assumption, must be scored through TOTAL Mortgage Scorecard. TOTAL Mortgage Scorecard is not an AUS, but a scorecard that interfaces with an AUS such as Loan Product Advisor® and provides a Feedback Certificate/Finding Report. The TOTAL Mortgage Scorecard Feedback Certificate/Finding Report used in the underwriting decision must be included in the FHA case binder. All data entered into the AUS must be verified as accurate and complete, and the entire mortgage application must comply with all FHA requirements.

## E. VA Mortgage Loans

VA Mortgage Loans may be underwritten manually in compliance with the requirements of this Underwriting Guide as well as VA requirements, or underwritten using Desktop Underwriter® or Loan Product Advisor® as described below.

### 1. DU® Underwritten VA Mortgage Loans

- Any VA Mortgage Loan underwritten using DU® must comply with the terms of the VA Lenders Handbook and Fannie Mae's DU® requirements.
- Any VA Mortgage Loan underwritten using DU® must include the Underwriting Reporting the Mortgage Loan File as well as meet all conditions and requirements identified by DU®.

## 2. Loan Product Advisor® Underwritten VA Mortgage Loans

Any VA Mortgage Loan underwritten using Loan Product Advisor® must comply with the terms of the VA Lenders Handbook and the Freddie Mac Loan Product Advisor® requirements.

Loan Product Advisor® Mortgage Loan Files must include:

- Loan Product Advisor® Feedback Certificate; and
- All documents as indicated by the Loan Product Advisor® Feedback Certificate, including all conditions

## 9. Credit Assessment

### A. Credit Scores

A current Credit Score is required for each Borrower. The three major credit repositories offer a product that scores each consumer's credit history using the Fair Isaac FICO®<sup>1</sup> model. Trademark names of scores derived from the Fair Isaac model include the Experian "FICO Advanced Risk Score", Trans Union "FICO Risk Score NextGen" and Equifax "Pinnacle." All are acceptable and are referred to as the Credit Score.

The term "Underwriting Representative Credit Score" refers to the overall Credit Score applicable to a specific Mortgage Loan transaction, as determined using the "middle, lower, then lowest" Credit Score selection methodology further described below.

#### 1. FICO Scores

Credit Scores are an objective and consistent measure of credit risk. Credit Scores should not be used as a substitute for underwriting judgment. The PFI is responsible for determining that each score received was based on credit reports that are sufficient and accurate.

Credit Scores based on the Fair Isaac model may be obtained from any of the three major credit repositories:

- Equifax Credit Information Services;
- Experian Information Systems and Services; and
- Trans Union Credit Information Company.

#### 2. Minimum Credit Score

Whether the loan is underwritten manually or using an AUS, the minimum Credit Score is the greater of a score required in other sections of this Guide or 660.

Exceptions to the minimum Credit Score requirement(s) are:

- The Borrower has an unusable Credit Score. If [unable to obtain a Credit Score](#), the PFI may determine Borrower eligibility for established credit or non-established credit; or
- The Borrower [lacks traditional credit](#) and therefore a Credit Score is unobtainable, further described in "Credit Score Selection".

##### i. For High-Balance Mortgage Loans

In addition to the Credit Score requirements in this Guide, each Borrower must have a valid Credit Score based on an established credit history. The use of alternative credit references is not allowed in lieu of a valid Credit Score. The lowest primary Credit Score for all Borrowers must meet the required minimums.

<sup>1</sup> FICO® is a registered trademark of the Fair Isaac Corporation.

### 3. Credit Score Selection

The following criteria should be used to determine each individual Borrower's Credit Score:

- If there are three valid Credit Scores for a Borrower, the middle score of the three scores is used;
- If there are three valid Credit Scores for a Borrower, but two of the scores are the same, the score appearing twice is used;
- If there are two valid scores for a Borrower, the lower of the two scores is used; and
- If there is one valid score for a Borrower, that score is used.

The Credit Score determined for each individual Borrower must be input when loans are submitted to MAP.

After selecting the appropriate Credit Score for each Borrower, the Underwriting Representative Credit Score must then be determined as follows:

- If there is more than one Borrower, the lowest selected middle Credit Score among all Borrowers is the Underwriting Score; or
- When there is only one Borrower, the selected Credit Score for that Borrower is also the Underwriting Representative Credit Score.

If the loan was underwritten using Fannie Mae's DU® or Freddie Mac's LPA®, the system generated score must be reflected on the loan submission form (Fannie Mae 1008/Freddie Mac 1077).

Additionally, the original credit report must be included in the Mortgage Loan File showing the score.

#### i. Unobtainable Credit Score

If a Credit Score is unobtainable due to a lack of traditional credit history, Borrower eligibility should be determined in accordance with the requirements of this Underwriting Guide for [non-established credit](#).

If a Credit Score cannot be obtained, follow the instructions within this Underwriting guide for Loan Presentment Request Instructions for data delivery in lieu of a Credit Score.

## B. Credit Reports

The credit history of the Borrower, as evidenced in the residential mortgage credit report, is critical in analyzing the Borrower's ability to repay the proposed loan.

### 1. Credit Report Requirements

The following is required with respect to Borrower credit reports:

- Credit reports must be obtained for each Borrower on the Loan Application who has an individual credit record. Acceptable report types are a Residential Mortgage Credit Report (RMCR), an in-file credit report, or a merged credit report;
- Reports must include information from all three repositories (Experian, TransUnion and Equifax) and the reports should display Credit Scores;

- If all three credit reports are not available, the Mortgage Loan File must indicate that all three agencies were accessed and that a report (or score) was not available;
- Each report must be an unaltered original and must include the full name, address and telephone number of the reporting agency and the names of national repositories from which data was drawn;
- For each debt listed, the report must provide the creditor's name, date opened, amount of highest credit balance, current status, required payment, unpaid balance, and payment history. The historical status must be in a number of times past due format—0X30, 0X60, 0X90 days late. Statements such as "current," "as agreed" or "satisfactory" are not acceptable by themselves. Additional statements such as "unable to verify" may be included where applicable;
- The credit report must list all inquiries that have been made in the past 90 days;
- The credit reports must indicate the dates the accounts were last updated with the creditor;
- All available public record information such as judgments, foreclosures, tax liens and bankruptcies must be included, with source of information;
- Residence history and most recent two years' employment history are required to appear on credit reports;
- Frozen credit is not permitted. If unfrozen by the Borrower after application, a new three- file merged report must be obtained;
- The credit report must reflect all open credit account lists on the Loan Application. For any debts listed on the Loan Application that do not appear on the credit reports, an independent written verification must be obtained;
- The credit report must reflect a twelve-month **(12)** mortgage or rental payment history for all properties owned or rented in the most recent twelve **(12)** months;
- Credit reports must show a minimum of three **(3)** tradelines with a 12-month history of satisfactory payment; and
- Foreign credit reports are not permitted.

## 2. Disputed Information

If a borrower indicates that any significant information in the credit report is not accurate, the information must be reviewed with the borrower in detail and the credit reporting agency should be contacted to confirm accuracy. If there are multiple disputes, the PFI should request written correspondence from the borrower explaining the reason for the dispute.

If the credit reporting agency confirms that the disputed information is incorrect or incomplete and underwriting of the Loan Application needs to be completed before the credit files can be corrected, the PFI cannot use the Credit Score(s) in the underwriting of the Loan Application. The credit risk assessment must be based on a review of the Borrower's traditional credit history, typically through manual underwriting.

Use of a "Credit Repair" company is not acceptable.

## C. Credit History

Current and past credit histories for all Borrowers on the loan must be analyzed through the review of a credit bureau report prepared by a national credit bureau. If a Borrower does not have a traditional credit history, then the Borrower's nontraditional credit history must be analyzed.

Nontraditional credit history is not eligible on High-Balance Mortgage Loans.

The PFI is responsible for verifying that all credit histories and credit references are valid and that all credit documentation is accurate up until closing.

## 1. Credit Fraud Alerts

When there is an existing fraud alert on a credit bureau report, the Loan Application may not be processed without contacting the individual in accordance with instructions that usually accompany a fraud alert (i.e., a victim's statement), or otherwise employing additional steps to verify the individual's identity.

## 2. Delinquent Payments

Late payments are not considered significant when they have occurred only sporadically and if all of the following exist:

- The late payments were not recent;
- The late payments did not extend beyond one month;
- The number and size of delinquent accounts is not large in relation to the overall credit;
- The credit history does not show multiple revolving accounts with high balances-to-limits or high overall utilization of revolving credit; and
- All other credit has been paid as agreed.

Histories displaying evidence of late charges being imposed on mortgage related debts, even when not shown on a credit report as being thirty **(30)** days delinquent, will require a satisfactory explanation and may preclude Borrowers from obtaining new financing. Sporadic 30-day delinquent payments on non-mortgage related trade lines that have not occurred within the past twelve **(12)** months do not need an explanation if all other credit is paid as agreed.

## 3. Housing Payment History

Housing payment history verification is required for all mortgages not reported on the credit report.

- All private mortgages must be seasoned for twelve **(12)** months. The history must be documented by providing canceled checks;
- All mortgage tradelines must be updated within thirty **(30)** days of application;
- Rental history must be verified, when required; and
- Excessive prior housing payment delinquency is not eligible for delivery to MAP. Excessive delinquency is one or more 60, 90, 120+ days late within the previous twelve months.

## 4. Credit Inquiries

If there are any credit inquiries on the credit report from the last ninety **(90)** days, the inquirer must provide a detailed explanation that specifically addresses both the purpose and outcome of each credit inquiry within the last ninety **(90)** days.

If a new account has been established, the terms, balance and monthly payment must be obtained, verified, and included in debt to income ratios.

## 5. Authorized User Accounts

A Borrower listed as an authorized user of a credit account is only acceptable if:

- Another Borrower in the Mortgage Loan transaction is the owner of the credit account; or
- The Borrower can provide written documentation (e.g. canceled checks, payment receipts, etc.) that they have been the actual and sole payer of the monthly payment on the account for at least the twelve **(12)** months preceding the date of the Loan Application.

If there is written documentation of the Borrower’s monthly payments as an authorized user, then the payment history (particularly any late payments that are indicated) must be considered in the credit analysis, and the monthly payment obligation must be included in the debt-to-income ratio.

An authorized user tradeline must be considered if the owner of the tradeline is the borrower’s spouse and the spouse is not a borrower in the mortgage transaction.

## 6. Credit Monitoring

It is highly recommended that the PFI obtain a soft pull or engage a credit monitoring service to assure no new debts are opened prior to closing the loan that may affect eligibility. If the PFI chooses not to engage in a similar service, and the loan chosen for QC reveals an undisclosed liability obtained prior to closing that increases the DTI outside of the guidelines, the loan will be subject to repurchase.

## D. Adverse Credit

When significant adverse credit is identified in a Borrower’s credit history, documentation must be provided evidencing whether the derogatory information was due to extenuating circumstances, and that an acceptable credit history has been re-established.

### 1. Significant Adverse Credit Events

A Borrower who has had a previous bankruptcy or foreclosure is acceptable as long as the Borrower meets the guidelines in the following table.

<b>Derogatory Event</b>	<b>Waiting Period Requirements</b>	<b>Waiting Period with Extenuating Circumstances</b>
Ch. 7 or 11 Bankruptcy	4 years	2 years
Ch. 13 Bankruptcy	2 years from discharge date 4 years from dismissal date	2 years from discharge date 2 years from dismissal date
Multiple bankruptcy filings	5 years if more than one filing within the past 7 years	3 years from the most recent discharge or dismissal date

Foreclosure	7 years	3 years Additional requirements after 3 years up to 7 years: <ul style="list-style-type: none"> <li>• 90% maximum LTV ratios</li> <li>• Purchase, principal residence</li> <li>• Limited cash-out refi, all occupancy types</li> </ul> Note: The purchase of second homes cash-out refinances (any occupancy type) are not permitted until a 7-year waiting period has elapsed.
Deed-in-Lieu or Pre-foreclosure Short Sale	4 years	2 years

**i. Extenuating Circumstances**

Extenuating circumstances are nonrecurring events that are beyond the Borrower’s control, and result in a sudden, significant and prolonged reduction in income or a catastrophic increase in financial obligations. Documentation to support a Borrower’s claim of extenuating circumstances should confirm the nature of the event that led to the adverse credit issue and should demonstrate that the Borrower had no other reasonable option than to default on his/her financial obligations. Examples of extenuating circumstances include loss of employment, serious long-term illness and medical bills that are not covered by insurance.

**2. Reestablishing Credit**

A Borrower must provide a written explanation for any adverse credit events. The explanation should include a period that matches the time of the delinquency.

Acceptable re-established credit following a major credit incident, such as bankruptcy or a foreclosure-related action, is defined as:

- A minimum of four **(4)** accounts with at least one traditional credit reference on the credit report and one housing-related reference;
- At least three **(3)** of the four **(4)** accounts must have been opened and active for the most recent twenty-four **(24)** months;
- For installment and revolving accounts, no more than two **(2)** 30-day late payments during past twenty-four **(24)** months;
- For housing-related payments, no late payments since the adverse credit event;
- No new bankruptcies, foreclosures, unpaid judgments, or collections; and
- All payments on the credit report must be current at the time of the Loan Application.

Additional consideration should be given to Borrowers demonstrating stable income and a savings history. For Borrowers who have been through credit counseling, twelve **(12)** months of re-established credit from the conclusion of the counseling is required.

## E. Limited or No Traditional Credit History (Updated 9/23/2025)

If a Borrower has limited or no traditional credit history as required in this Guide, four **(4)** credit references from the credit report and / or alternative sources should be documented as open, and active for at least twelve **(12)** months for each Borrower whose income is being used for qualification.

Non-traditional mortgage credit reports may not be used to offset derogatory references or to enhance a poor credit history as reported through traditional credit providers.

A twelve-month **(12)** mortgage or rental payment history is required for all properties owned or rented in the most recent twelve **(12)** months and must be verified using:

- Copies of the Borrower's cancelled checks for last twelve (12) months; or
- A Verification of Mortgage or Verification of Rent.

In order of importance, the following obligations can be used to develop alternative credit sources:

- Housing payments (mortgage or rental); and
- Utilities (if not included in housing payment), such as electricity, gas, water, or cable and telephone service payments.

If four **(4)** credit references cannot be obtained from the credit sources listed above, then the references listed below should be supplemented in order to obtain the requisite number of credit references.

- Medical insurance coverage payments (excluding payroll deductions);
- Automobile insurance payments;
- Life insurance policy payments (excluding payroll deductions);
- Homeowner's (or renter's) insurance payments;
- Local store payments (department, furniture, appliance);
- Rental payments or loan payments related to durable goods (including automobiles);
- Medical bill payments;
- School tuition payments;
- Child care payments (if paid to an individual, must be verified with cancelled checks); and/or
- Payments on a loan obtained from an individual (repayment terms must be documented in a written agreement and verified with cancelled checks).

For all credit sources, acceptable documentation (e.g., verification of credit, cancelled checks, or bills marked paid by the creditor) must be obtained indicating that payments are made in a consistent, continual nature. If any Borrower has limited or no traditional credit history as required in this Guide and is relying on non-traditional credit to qualify, the following requirements apply:

1. The subject property must be a one-unit, primary residence.
1. The transaction must be a purchase or limited cash-out refinance.
1. The maximum debt to income ratio must be 36%.
1. The loan amount must meet conforming loan limits – high balance loans are not permitted.

## 10. Liability Assessment

If a current liability is not reflected on the credit report, it must be verified by acceptable documentation.

If a current liability appears on the credit report but is not on the application, the Borrower should provide a reasonable explanation for the undisclosed debt. Documentation may be required to support the Borrower's explanation.

All of the Borrower's obligations outstanding at the time of closing must be included in the determination of the Borrower's capacity to repay the Mortgage Loan and the calculation of the total debt ratio. The total debt ratio reported for Loan Presentment and any applicable AUS must reflect all the Borrower's obligations.

Any liability incurred after the application but prior to closing not considered when underwriting a Mortgage Loan that, when taken into account, renders the loan ineligible under the MAP, will result in the loan being subject to repurchase.

### A. Qualifying Ratios

Debt ratios are calculations used to determine whether the Borrower will be able to meet the expenses involved in home ownership. There are two ratios used to assess the Borrower's eligibility— housing-to-income ratio and debt-to-income ratio.

#### 1. Housing Expense Ratios

The Borrower's monthly housing expense is needed in order to calculate the debt-to-income ratio. Monthly housing expense includes the following:

Principal and interest for the mortgage that is secured by the subject property;

Monthly amounts for:

- Subordinate financing on the subject property;
- Hazard insurance;
- Real estate taxes;
- Mortgage insurance premiums;
- Assessments; and
- When applicable:
  - Homeowners association dues;
  - Optional credit insurance;
  - Leasehold payments;
  - Special assessments;
  - Flood insurance fees; and
  - Tax abatements.

The housing-to-income ratio is calculated by dividing the sum of all monthly housing expenses by the total of stable monthly income of all borrowers.

$$\frac{\text{Monthly Housing Expense}}{\text{Total Monthly Income}} = \text{Monthly Housing Expense Ratio}$$

PFI must enter all components of the monthly housing expense on the application including other financing P&I, property insurance, real estate taxes, mortgage insurance, homeowners’ association dues, and other proposed housing expenses.

If the subject mortgage is secured by the borrower’s principal residence, the monthly housing expense is based on the qualifying payment required in accordance with [Qualifying Payment section](#). This amount is the monthly housing expense used to calculate the debt-to-income (DTI) ratio.

If the subject mortgage is secured by a second home, the qualifying payment amount is considered one of the borrower’s monthly debt obligations when calculating the DTI ratio. The monthly housing expense in these cases represents the PITIA associated with the borrower’s principal residence.

Refer to the [Qualifying Payment section](#) for details on calculating the qualifying payment.

**i. Calculating Monthly Real Estate Tax Payment**

The PFI must base its calculation of real estate taxes for borrower qualification on no less than the current assessed value. (The taxes are listed on the title commitment.) However, the PFI may (or must in some circumstances) project the real estate taxes if it can document one of the following:

- The amount of taxes will be reduced based on federal, state, or local jurisdictional requirements. However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.
- If the transaction is new construction, the PFI must use a reasonable estimate of the real estate taxes based on the value of the land and completed improvements.
- There is a tax abatement on the subject property that will last for no less than 5 years from the note date. For example:
- For a municipality with a 10-year abatement, the PFI may qualify the borrower with the reduced tax amount; or
- For a municipality with a 10-year abatement and with annual real estate tax increases in years 1 through 10, the PFI must qualify the borrower with the annual taxes that will be required at the end of the 5th year after the first mortgage payment date.

**2. Debt-to-Income Ratios**

The DTI ratio consists of two components:

- Total monthly obligations, which includes the qualifying payment for the subject Mortgage Loan and other long-term and significant short-term monthly debts (see **Calculating Total Monthly Obligation** below); and
- Total monthly income of all borrowers, to the extent the income is used to qualify for the mortgage (see [Income](#) for more details).

**Maximum Ratios**

Underwriting Method	Maximum Debt-to-Income Ratio
Manually Underwritten	43%
Loan Product Advisor® Accept	45% (regardless of LPA® finding)
Desktop Underwriter® Approve	45% (regardless of DU® finding)

A Mortgage Loan with a debt-to-income ratio of 43.01% is considered in excess of 43% and is not eligible for delivery if manually underwritten.

### **Calculating Total Monthly Obligation**

The total monthly obligation is the sum of the following:

- The monthly housing expense of the borrower's principal residence (or the qualifying payment amount if the subject Mortgage Loan is secured by the borrower's principal residence (see [Housing Expense](#));
- Monthly alimony, child support, or maintenance payments that extend beyond ten months (alimony (but not child support or maintenance) may instead be deducted from income, see [Monthly Debt Obligation](#));
- The qualifying payment amount if the subject Mortgage Loan is secured by a second home or investment property (see [Qualifying Payment section](#));
- Monthly payments on installment debts and other mortgage debts that extend beyond ten months;
- Monthly payments on installment debts and other mortgage debts that extend ten months or less if the payments significantly affect the borrower's ability to meet credit obligations;
- Monthly payments on revolving debts;
- Monthly payments on lease agreements, regardless of the expiration date of the lease; and
- Monthly payments for other recurring monthly obligations; and any net loss from a rental property.

## **B. Qualifying Payment**

The qualifying payment is based off of the note rate. Qualification must consider the borrower's current obligations and other mortgage-related obligations, i.e., PITIA.

## **C. Monthly Debt Obligations**

This topic describes obligations that should be considered in underwriting the loan.

### **1. Alimony/Child Support/Separate Maintenance Payments**

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement—and those payments must continue to be made for more than ten months—the payments must be considered as part of the borrower's recurring monthly debt obligations. However, voluntary payments do not need to be taken into consideration and an exception is allowed for alimony.

For alimony obligations, the PFI has the option to reduce the qualifying income by the amount of the alimony obligation in lieu of including it as a monthly payment in the calculation of the DTI ratio. If the PFI exercises this option, a copy of the divorce decree, separation agreement, court order or equivalent documentation confirming the amount of the obligation must be obtained and retained in the loan file.

## 2. Business Debt

A business debt is a financial obligation of a business and may be the sole responsibility of the business, or personally secured by the business owner, which makes that person liable for the debt.

If the Borrower is personally liable for a business debt (whether the debt is reflected on the Borrower's personal credit report or not) the Borrower is personally liable, and the debt must be included in the debt-to-income ratio.

If the Borrower can provide twelve (**12**) months' proof of payment/canceled checks drawn against a business account, this debt need not be included in the debt-to-income ratio.

## 3. Court Order

If the obligation to make payments on a debt has been assigned to another person by court order, such as a divorce decree, and transfer of ownership of any related property has taken place, the payment may be excluded from long-term debt. The following documents are required:

- A copy of the court order; and
- For mortgage debt, a copy of the recorded documents transferring ownership of the property (e.g., quitclaim deed).

If a transfer of ownership has not taken place, late payments associated with the loan repayment of the debt owing on the property should be taken into account when reviewing the Borrower's credit profile.

## 4. Debts Paid by Others (Contingent Liabilities)

Contingent liabilities are debts (including, but not limited to, auto loans, student loans, or mortgages) that the borrower is not currently required to pay but may be required to pay in the future (e.g., court-ordered payments, a previous residence sold through assumption of mortgage with no release of liability).

A contingent liability may be disregarded if the Borrower provides conclusive evidence from the creditor that there is no possibility that the creditor will pursue debt collection against the Borrower should the other party on the debt default.

### Non-Mortgage Debt

When a borrower is obligated on a non-mortgage debt - but is not the party who is actually repaying the debt - the PFI may exclude the monthly payment from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt but is not applicable if the other party is an Interested Party to the subject transaction (such as the seller or realtor). Non-mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance. See below for treatment of payments due under a federal income tax installment agreement.

### Mortgage Debt

When a borrower is obligated on a mortgage debt - but is not the party who is actually repaying the debt - the PFI may exclude the full monthly housing expense (PITIA) from the borrower's recurring monthly obligations if:

- The party making the payments is obligated on the mortgage debt;
- There are no delinquencies in the most recent 12 months; and
- The borrower is not using rental income from the applicable property to qualify.

In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the PFI must obtain the most recent 12 months' cancelled checks (or bank statements) from the other party making the payments that document a 12-month payment history with no delinquent payments.

When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties.

#### i. Co-Signed Loans

The monthly payment on a co-signed loan may be excluded from long-term debt only with evidence of timely payments being made for the previous twelve **(12)** months by the primary obligor.

## 5. Deferred Payment Accounts

Some debts may have deferred payments or be in a period of forbearance. These debts must be included in the qualifying ratios if there are ten **(10)** or more months of payments remaining. If there are fewer than ten **(10)** monthly payments remaining, the debt is not required to be included in the total monthly debt calculation, unless the debt affects the Borrower's ability to repay the Mortgage Loan.

When payments on an installment debt are not given on the credit report or are listed as deferred, documentation supporting the required payment must be provided. If documentation of the payment cannot be provided, then the monthly payment must be based on 2% of the outstanding balance.

## 6. Federal Income Tax Installment Agreements

When a borrower has entered into an installment agreement with the IRS to repay delinquent federal income taxes, the PFI may include the monthly payment amount as part of the borrower's monthly debt obligations (in lieu of requiring payment in full) if:

- There is no indication that a Notice of Federal Tax Lien has been filed against the borrower in the county in which the subject property is located; and
- The PFI obtains the following documentation:
  - An approved IRS installment agreement with the terms of repayment, including the monthly payment amount and total amount due; and
  - Evidence the borrower is current on the payments associated with the tax installment plan. Acceptable evidence includes the most recent payment reminder from the IRS, reflecting the last payment amount and date and the next payment amount owed and due date. At least one payment must have been made prior to closing.

The payments on a federal income tax installment agreement can be excluded from the borrower's DTI ratio if the agreement meets the terms in [Debts Paid by Others](#) or [Installment Debt](#) described in the guide. If any of the above conditions are not met, the borrower must pay off the outstanding balance due under the installment agreement with the IRS in accordance with [debts paid off at or prior to closing](#).

## 7. Installment Debt and Garnishments

Installment debts and garnishments with ten **(10)** or more remaining monthly payments must be included in the debt-to-income ratio. Installment debts with fewer than ten **(10)** remaining monthly payments are not required to be included in the debt-to-income ratio unless the debt affects the Borrower's ability to repay the Mortgage Loan.

## 8. Open-End Lines of Credit (HELOCs)

The monthly payment on every HELOC with a balance, regardless of the apparent number of payments remaining, must be included in the Borrower's total debt calculation.

The monthly HELOC payment may be found on the credit report or may be verified by the creditor. If no minimum monthly payment is given, then the greater of five percent (5%) of the outstanding balance or ten dollars (\$10) must be used.

## 9. Lease Payments

The monthly payment associated with a rental or auto lease must be included in the total monthly obligations, regardless of the number of payments remaining until the end of the lease term. If the lease is near the end of its term, the new lease payment should be determined and included in the total monthly debt.

## 10. Loans Secured by Financial Assets

When a borrower uses their financial assets—life insurance policies, 401(k) accounts, individual retirement accounts, certificates of deposit, stocks, bonds, etc.—as security for a loan, the borrower has a [contingent liability](#).

The PFI is not required to include this contingent liability as part of the borrower's recurring monthly debt obligations provided the PFI obtains a copy of the applicable loan instrument that shows the borrower's financial asset as collateral for the loan. If the borrower intends to use the same asset to satisfy financial reserve requirements, the PFI must reduce the value of the asset (the account balance, in most cases) by the proceeds from the secured loan and any related fees to determine whether the borrower has sufficient reserves.

## 11. Open Accounts 30-Day Charge Accounts

Open 30-day charge accounts require the balance to be paid in full every month. MAP does not require open 30-day charge accounts to be included in the debt-to-income ratio. See [debts paid off at or prior to closing](#), for additional information on open 30-day charge accounts.

## 12. Revolving Accounts

The monthly payment on every revolving and open-end account with a balance, regardless of the apparent number of payments remaining, must be included in the Borrower's long-term debt-to-income ratio calculation.

If an account is to be paid off by the Borrower at or prior to closing, the outstanding balance is not required to be included in the debt-to-income ratio. However, if the account is not paid in full at or prior to closing, then the revolving account or line of credit must be included in the debt-to-income ratio.

When the revolving account is required to be included in the Borrower's monthly debt obligations, the minimum monthly payment for the revolving account must be used, which may be found on the credit report or may be verified by the creditor. In the absence of a stated payment on a revolving account, or a copy of the monthly statement indicating the required payment, then the greater of five percent (5%) of the outstanding balance or ten dollars (\$10) must be used.

### 13. Student Loans

If a monthly student loan payment is provided on the credit report, the PFI may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the PFI may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows \$0 as the monthly payment, the PFI must determine the qualifying monthly payment using one of the options below.

#### Income-driven payment plans

The PFI may obtain student loan documentation to verify the actual monthly payment is \$0. The PFI may then qualify the borrower with a \$0 payment.

#### Deferred loans or loans in forbearance

Two options are acceptable for qualification:

- A payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment); or
- A fully amortizing payment using the documented loan repayment terms.

### 14. Unreimbursed Business Expenses

The PFI must determine whether the borrower has unreimbursed employee business expenses for the following scenarios:

- When a borrower has commission income that represents 25% or more of the borrower's total annual employment income; or
- When an automobile allowance is included in the borrower's monthly qualifying income.

The PFI must determine the borrower's recurring monthly debt obligation for such expenses by developing a 24-month average of the expenses, using information from the borrower's IRS Form 1040 including all schedules (Schedule A and IRS Form 2106). Automobile depreciation claimed on IRS Form 2106 should be netted out of this calculation.

For both of the above scenarios when calculating the total debt-to-income ratio, the monthly average for unreimbursed expenses should be subtracted from the borrower's stable monthly income. Automobile lease or loan payments are not subtracted from the borrower's income; they are always considered part

of the borrower's recurring monthly debt obligations. See [Other Types of Income](#), for additional information regarding automobile allowances.

## D. Qualifying Impact of Other Real Estate Owned

When the borrower owns mortgaged real estate, the status of the property determines how the existing property's Principal, Interest, Taxes, Insurance, and Association Dues (PITIA) must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is:

- an existing investment property or a current principal residence converting to investment use, the borrower must be qualified in accordance with, but not limited to, the policies in topics [Rental Income](#), [Reserves](#), and, if applicable [Primary Residence Converted into an Investment Property](#);
- an existing second home or a current principal residence converting to a second home, the PITIA of the second home must also be counted as part of the borrower's recurring monthly debt obligations; or
- the borrower's current principal residence that is pending sale but will not close (with title transfer to the new owner) prior to the subject transaction, the PFI must comply with the policies in this topic.

### 1. Assumption with No Release of Liability

When a borrower remains obligated on mortgage that was assumed by another party, the borrower has a contingent liability. The contingent liability does not need to be counted in the borrower's debt to income ratio as long as the purchaser has a twelve-month history of making the mortgage payments. The PFI must confirm this information by obtaining:

- A copy of the executed assumption agreement;
- Evidence of the transfer of ownership;
- A credit report confirming timely payments of the assumed mortgage.

### 2. Property Settlement Buyout

When a borrower's interest in a property is bought out by another co-owner of the property, as often happens in a divorce settlement, but the PFI does not release the borrower from liability under the mortgage, the borrower has a [contingent liability](#).

If the PFI obtains documentation to confirm the transfer of title to the property, this liability does not have to be considered as part of the borrower's recurring monthly debt obligations.

### 3. Current Principal Residence Pending Sale

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new Mortgage Loan.

However, the MAP will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:

- the executed sales contract for the current residence, and

- confirmation that any financing contingencies have been cleared.

## E. Debts Paid Off at or Prior to Closing

This topic contains information on debts paid off at or prior to closing.

### 1. Payoff or Paydown of Debt for Qualification

Payoff or paydown of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. Generally:

- Installment loans that are being paid off or paid down to 10 or fewer remaining monthly payments do not need to be included in the borrower's long-term debt; and
- If a revolving account balance is to be paid off at or prior to closing, a monthly payment on the current outstanding balance does not need to be included in the borrower's long-term debt, i.e., not included in the debt-to-income (DTI) ratio. Such accounts do not need to be closed as a condition of excluding the payment from the DTI ratio.

See [Debt-to-Income Ratios](#) for additional guidance on calculating total monthly obligations for qualifying purposes.

### 2. Open 30-day accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, PFIs must verify borrower funds to cover the account balance. The verified funds must be in addition to any funds required for closing costs and reserves. If the borrower paid off the account balance prior to closing, the PFI may provide proof of payoff in lieu of verifying funds to cover the account balance (while documenting source of funds for payoff).

### 3. Collections, Charge-Offs of Non-Mortgage Accounts, Judgments, and Liens

Delinquent credit—including taxes, judgments, charge-offs of non-mortgage accounts (see below for exceptions), tax liens, mechanics' or materialmen's liens, and liens that have the potential to affect FHLBNY's lien position or diminish the borrower's equity—must be paid off at or prior to closing.

Delinquent federal income taxes that are approved to be paid by a monthly installment agreement with the IRS must be paid in full at or prior to closing if there is any indication that a Notice of Federal Tax Lien has been recorded against the borrower in the county in which the subject property is located. For additional information about federal income tax installment agreements, see [Monthly Debt Obligations](#).

For details regarding delinquent federal income taxes that the IRS has approved to be paid through an installment agreement that can be included as a monthly debt obligation, rather than being paid in full, also see [Monthly Debt Obligations](#).

For manually underwritten loans, collection accounts and charge-offs on non-mortgage accounts do not have to be paid off at or prior to closing if the balance of an individual account is less than \$250 or the

total balance of all accounts is \$1,000 or less. Collection accounts and charge-offs on non- mortgage accounts that exceed these limits do not have to be paid off at or prior to closing, provided the PFI can document a strong credit profile, and meaningful financial reserves.

#### 4. Balloon Loan Payments

Balloon-payment notes that come due within twelve **(12)** months of closing must be included in the total debt ratio.

## 11. Income Assessment

This chapter describes the requirements for evaluating income stability, adequacy, and likelihood of continuance — key factors used in qualifying the borrower and assessing their capacity to repay the mortgage over the life of the loan.

### A. Income Analysis

The income of all Borrowers who will be obligated for the Mortgage Loan debt must be analyzed to determine whether their income level can be reasonably expected to continue at least the first three **(3)** years from the Note date. Unless the PFI has knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per the specific income type), the PFI may conclude that the income is stable, predictable, and likely to continue. The PFI is not expected to request additional documentation from the borrower.

#### 1. Stable Monthly Income

Considerations in determining stable monthly income are the type of income received, the length of time received and whether the income is likely to continue. In addition, for salaried Borrowers, considerations in determining stable monthly income are the length of time employed in the current position and in a current profession. Borrowers who change jobs frequently within the same line of work but who advance in income and benefits are considered to have stable income.

#### 2. Variable income

All income that is calculated by an averaging method must be reviewed to assess the borrower's history of receipt, the frequency of payment, and the trending of the amount of income being received. Examples of income of this type include income from hourly workers with fluctuating hours, or income that includes commissions, bonuses, or overtime.

##### History of Receipt

Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history.

##### Frequency of Payment

The PFI must determine the frequency of the payment (weekly, biweekly, monthly, quarterly, semi-annually, or annually) to arrive at an accurate calculation of the monthly income to be used in the trending analysis (see below).

Examples:

- If a borrower is paid an annual bonus on March 31st of each year, the amount of the March bonus should be divided by 12 to obtain an accurate calculation of the current monthly bonus amount. Note that dividing the bonus received on March 31st by three months produces a much higher, inaccurate monthly average; and

- If a borrower is paid overtime on a biweekly basis, the most recent paystub must be analyzed to determine that both the current overtime earnings for the period and the year-to-date overtime earnings are consistent and, if not, why. There are legitimate reasons why these amounts may be inconsistent yet still eligible for use as qualifying income. For example, borrowers may have overtime income that is cyclical (transportation employees who operate snow plows in winter, package delivery service workers who work longer hours through the holidays). The PFI must investigate the difference between current period overtime and year-to-date earnings and document the analysis before using the income amount in the trending analysis.

### Income Trending

After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W-2's or signed federal income tax returns (or a standard Verification of Employment completed by the employer or third-party employment verification vendor).

- If the trend in the amount of income is stable or increasing, the income amount should be averaged;
- If the trend was declining, but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used; and
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.

### **3. Continuity of Income**

Unless the PFI has knowledge to the contrary, if the income does not have a defined expiration date and the applicable history of receipt of the income is documented (per the specific income type), the PFI may conclude that the income is stable, predictable, and likely to continue. The PFI is not expected to request additional documentation from the borrower.

If the income source does have a defined expiration date or is dependent on the depletion of an asset account or other limited benefit, the PFI must document the likelihood of continued receipt of the income for at least three years. If the PFI is notified that the borrower is transitioning to a lower pay structure, for example due to pending retirement, the PFI must use the lower amount to qualify the borrower.

The following table contains examples of income types with and without defined expiration dates. This information is provided to assist PFIs in determining whether additional income documentation may be necessary to support a three-year continuance. Note that PFIs remain responsible for making the final determination of whether the borrower's specific income source has a defined expiration date.

Expiration Date Not Defined	Defined Expiration Date*
<i>PFI does not need to document 3-year continuance</i>	<i>PFI must document 3-year continuance</i>
<ul style="list-style-type: none"> <li>• automobile allowance</li> <li>• base salary</li> <li>• bonus, overtime, commission, or tip income</li> <li>• capital gains income</li> <li>• corporate retirement or pension</li> <li>• disability income — long-term</li> <li>• foster-care income</li> <li>• interest and dividend income (unless other evidence that asset will be depleted)</li> <li>• military income</li> <li>• mortgage credit certificates</li> <li>• part-time job, second job, or seasonal income</li> <li>• rental income</li> <li>• self-employment income</li> <li>• Social Security, VA, or other government retirement or annuity</li> </ul>	<ul style="list-style-type: none"> <li>• alimony or child support</li> <li>• distributions from a retirement account – for example, 401(k), IRA, SEP, Keogh</li> <li>• mortgage differential payments</li> <li>• notes receivable</li> <li>• public assistance</li> <li>• royalty payment income</li> <li>• Social Security (not including retirement or long-term disability)</li> <li>• trust income</li> <li>• VA benefits (not including retirement or long-term disability)</li> </ul>
<p>*Because these income sources have a defined expiration date or allow the depletion of an asset, care must be taken when this is the sole source or majority of qualifying income. The PFI must consider the Borrower's continued capacity to repay the Mortgage Loan when the income source expires, or the distributions will deplete the asset prior to maturation of the Mortgage Loan.</p>	

*Income sources that are not listed above will require PFI judgment to determine if documentation of continuance must be obtained.*

#### 4. Determining the Need for Federal Income Tax Returns

The PFI must obtain copies of the borrower's signed federal income tax returns filed with the IRS for the past one or two years (depending on the income type) for the following sources of income or employment. Refer to the applicable topics in this section for additional information about specific tax return requirements.

Tax returns are required if the borrower:

- earns 25% or more of their income from commissions;
- is employed by family members (two years' returns) or transaction participant;
- is employed by interested parties to the property sale or purchase (two years' returns);
- receives rental income from an investment property;
- receives income from temporary or periodic employment (or unemployment) or employment that is subject to time limits, such as a contract employee or a tradesman;
- receives income from capital gains, royalties, or other miscellaneous non-employment earnings reported on IRS Form 1099;
- receives income that cannot otherwise be verified by an independent and knowledgeable source (two years' returns);
- uses foreign income to qualify;
- uses interest and dividend income to qualify;

- uses tip income reported on IRS Form 4137 that was not reported by the employer on the W-2 to qualify; or
- receives income from sole proprietorships, limited liability companies, partnerships, or corporations, or any other type of business structure in which the borrower has a 25% or greater ownership interest. Borrowers with a 25% or greater ownership interest are considered self-employed. The PFI must document and underwrite the loan application using the requirements for self-employed borrowers, as described in [Self-Employment Income](#).

#### i. Employment by a Relative or Transaction Participant

If the Borrower is employed by a relative, a closely-held family business, the Mortgaged Property seller, real estate agent, or any party to the real estate transaction, additional review of income is required. In addition to the requirements above, recent paystubs along with W-2 forms are required.

Current income reported on the paystub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current paystub, further investigation is needed to determine whether income is stable.

The Borrower's personal tax returns must be used to verify that the Borrower is not an owner of the business. If this is not evident from the personal tax returns, the Borrower must provide a signed copy of the partnership or corporate tax return showing the ownership percentages, verifying that the Borrower is not an owner of the business.

## 5. Tax-Exempt Income

The PFI should give special consideration to regular sources of income that may be nontaxable, such as child support payments, Social Security benefits, workers' compensation benefits, certain types of public assistance payments, and food stamps.

The PFI must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the PFI may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable income to the borrower's income.

If the actual amount of federal and state taxes that would generally be paid by a wage earner in a similar tax bracket is more than 25% of the borrower's nontaxable income, the PFI may use that amount to develop the adjusted gross income, which should be used in calculating the borrower's qualifying ratio.

## 6. Unacceptable Types of Income (Updated 8/26/2024)

The following examples of unacceptable sources of income:

- Income based on trailing spouse income;
- Draw income;
- VA education benefits;
- Illegal income under state or federal law, including cannabis related income;
- Taxable income not listed on tax returns;

- Any income that cannot be documented and/or verified;
- Passive income from partnerships and S corporations;
- Income that is not stable;
- Grants: and
- Income received in the form of virtual currency, such as cryptocurrencies.

## B. Standards of Documentation

The PFI must verify employment income for all borrowers whose income is used to qualify for the Mortgage Loan. This verification can be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.

### 1. Paystubs

The paystub must clearly identify the following:

- Borrower as the employee;
- Borrower's gross earnings for the most recent pay period and year-to-date earnings;
- If the Borrower is paid hourly, the number of hours for the pay period must be noted on the pay stub;
- Paystubs must be dated no earlier than thirty **(30)** days prior to the initial Loan Application Date; and
- Paystubs must be computer-generated (not handwritten). If the employer does not provide an acceptable computer-generated pay stub, the most recent year's income tax return is required.

Paystubs that are issued electronically, via e-mail or downloaded from the internet are acceptable and must include the following:

- Internet Uniform Resource Locator (URL internet address) identifying the source of the information;
- Date and time printed; and
- Documents downloaded directly from the Internet to a Word document or Excel spreadsheet are not acceptable.

### 2. W-2 Forms

W-2 forms must clearly identify the Borrower as the employee and must be the employee's copy provided by the employer. Additionally:

- W-2 forms that are marked "Employer Copy" are not acceptable;
- Handwritten W-2 forms or paystubs are not acceptable. Tax returns must be obtained if computer-generated documents are not available.

### 3. Federal Tax Return

This section addresses the standards that apply when using Income Tax Returns to verify income. Tax returns, if required, must be true copies of filed returns and must be signed by all Borrowers. Tax return copies that are signed by a tax preparer are not acceptable.

Additional information may be requested such as a business license, business tax returns, a profit and loss statement and/or balance sheet, if it is necessary to further support the determination of the stability of the Borrower's income.

Personal Income Tax Returns must be:

- Complete with all schedules and W-2 Forms, IRS Forms 1099, K-1 schedules, etc.;
- Signed and dated; and
- The Borrower's copy filed with the IRS.

Business Income Tax Returns must be:

- Complete with all schedules;
- Signed and dated; and
- The Borrower's copy filed with the IRS.

If tax returns are not signed and dated by the Borrower, one of the following must be obtained:

- Documentation confirming that the tax returns were filed electronically;
- A completed IRS Form 4506-C (signed by the Borrower) for the year in question; or
- IRS transcripts that validate the tax return.

Tax returns that are amended and filed by the Borrower after the Loan Application Date are not allowed. Tax returns that are amended and filed by the Borrower prior to the Loan Application Date with the IRS are acceptable in the following circumstances:

- Both the original filed return and the amended return are obtained; and/or
- If the return was amended sixty (**60**) days or less prior to the application, evidence of payment must also be provided, if applicable.

The original tax return and the amended tax return must be carefully compared for consistency to determine whether the use of the amended return is warranted. Any discrepancies between the tax transcripts and the tax returns must be explained and documented in the Mortgage Loan File.

Tax returns amended solely for the purpose of qualifying are not acceptable. Back tax years must be filed prior to the Loan Application Date.

#### 4. Written Verification of Employment

The PFI may use the Request for Verification of Employment (Fannie Mae Form 1005/1005(S)) (VOE) to document income for a salaried or commissioned borrower. The date of the completed form must comply with [Age of Documents](#). When a written VOE is required, it must contain the following information:

- Dates of employment;
- Position;
- Prospect of continued employment, when available;
- Base pay amount and frequency; for employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week; and
- Additional salary information which itemizes bonus, overtime, tip, gratuity, or commission income, if applicable.

If the employer completes the VOE form but does not indicate whether the employment will continue, the employment may be considered as likely to continue.

If a written VOE is used, it must be mailed or e-mailed directly to the employer, to the attention of the personnel department. Verifications of employment should never be mailed to a particular person's attention. If the Borrower indicates this is necessary, the file must contain verification that the employer was independently contacted and verified. The return address on the verification must be the PFI's address. Hand-carrying verifications is strictly prohibited.

When the borrower authorizes the PFI to obtain verifications of employment and income directly from the employer, the PFI must have the borrower sign Form 1005/1005(S). Alternatively, the PFI may have the applicant sign a signature authorization form, which gives the PFI blanket authorization to request the information it needs to evaluate the applicant's creditworthiness (see [Blanket Authorization](#))

## 5. VOE Provided by a Third-Party Employment Verification Vendor

Employment and income verification may be received directly from a third-party employment verification vendor. These VOEs are acceptable if:

- The Borrower provided proper authorization for the use of this verification method; and
- The date of the completed verification is no more than 120 days old at closing.

If necessary, the PFI must supplement these verifications by obtaining any missing information from the Borrower or his employer.

## C. Base Pay (Salary or Hourly), Bonus, and Overtime Income

### 1. Verification of Employment

The employment income of all Borrowers who will be obligated for the mortgage debt must be verified for at least the most recent two **(2)** years, unless otherwise indicated in the Guide. If the Borrower indicates that they were in school or the military for the most recent two **(2)** years, the Borrower must supply supporting documentation, such as college transcripts or military discharge paperwork.

The Borrower must provide a written explanation for any employment gaps of thirty **(30)** days or more.

Depending on the type of employment, various documentation requirements may be applied, based on full documentation or alternative documentation, and whether the Borrower is salaried, commissioned, or self-employed, etc.

### 2. Base Income

Employment and income for a salaried employee must be verified by obtaining all of the following documentation:

- The Borrower's W-2 forms for the past two **(2)** years, complete and legible;
- Paystubs covering a 30-day period. If paystubs are not available, then a written VOE (Form 1005/1005(s)) must be obtained; and
- A verbal VOE.

A Wage and Income Transcript from the IRS is an acceptable substitute for actual W-2 forms.

### 3. Bonus and Overtime Income

In addition to obtaining the base level of documentation mention above, Bonus and Overtime Income requires additional scrutiny.

Bonus and/or overtime income can be used if the Borrower has received bonus or overtime income for the past twelve (12) to twenty-four (24) months and the income is likely to continue. If the employer completes the VOE form but does not indicate whether the bonus income is likely to continue, the income may be considered as likely to continue. However, if the employer indicates the income is likely to cease, then the income may not be used to qualify the Borrower.

When calculating stable or increasing bonus or overtime income, an average of the last two (2) years, as documented in the tax returns, should be used as income. Bonus or overtime income received for less than two (2) years is acceptable, provided the PFI can justify and document in writing the reason for using the income for qualifying purposes.

If either type of income shows a continual decline, the PFI must document in writing a sound rationalization for including the income when qualifying the Borrower.

A period of more than two (2) years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.

### 4. Calculating Income

Borrowers receiving a fixed regular annual income paid either monthly, semimonthly, biweekly, weekly or by the hour, are known as wage earners. All receive regular compensation in the form of a paycheck with income reported at year end to the IRS on form W-2.

Borrowers who are re-entering the workforce after an extended leave must have a minimum of six months employment with evidence of a two-year previous employment history.

The following table shows to how to determine the Borrower’s monthly income:

Pay Interval	Calculation
Hourly:	Hourly rate X # hours X 52 weeks divided by 12
Weekly:	Weekly base X 52 weeks divided by 12
Biweekly:	Biweekly base X 26 weeks divided by 12
Semimonthly:	Semimonthly base X 24 weeks divided by 12
Monthly:	Monthly base as shown on paystub
Annually:	Annual rate of pay divided by 12

## 5. Returning to Work After an Extended Absence

Income from a Borrower returning to work after an extended absence of six **(6)** months or more may be considered in qualifying if the following requirements are met:

- The Borrower has been employed in the current job for six **(6)** months or longer;
- The Borrower can document a two **(2)** year work history prior to the absence using:
  - The Borrower's W-2 forms for the past two **(2)** years, complete and legible;
  - Paystubs covering a 30-day period. If paystubs are not available, then a written Verification of Employment (VOE) must be obtained; and
  - A verbal VOE as further described in Section H below.

A Wage and Income Transcript from the IRS is an acceptable substitute for actual W-2 forms.

## 6. Military Income

Military personnel may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance, and proficiency pay are acceptable sources of stable income, as long as the PFI can establish that the particular source of income will continue to be received in the future.

Income paid to military reservists while they are satisfying their reserve obligations also is acceptable if it satisfies the same stability and continuity tests applied to [secondary employment](#).

In lieu of a verbal or written VOE for military personnel, the PFI may either obtain a Military Leave and Earnings Statement dated within thirty **(30)** calendar days prior to the Note date or a verification of employment through the Defense Manpower Data Center.

## D. Commission Income

Commission income fluctuates from year to year. When the commission income represents **25%** or more of the Borrower's total annual income, the Borrower must provide copies of signed tax returns for the last two **(2)** years and the most recent paystub. An average of the last two **(2)** years should be calculated to determine the commission income to qualify.

Commission income that has been received for twelve **(12)** to twenty-four **(24)** months may be considered acceptable if other compensating factors exist to offset the short employment history. Commission income earned for less than twelve **(12)** months is ineligible, unless the Borrower's compensation was changed from salary to commission within a similar position with the same employer.

Any unreimbursed business expenses must be subtracted from the gross commission income, unless the expense is an actual automobile lease or loan payment and an automobile allowance is reported as part of monthly qualifying income.

If there is a decline in commission income, this is not considered stable and the worst-case scenario must be used.

## E. Secondary Employment

Secondary employment income is income that is derived from a second job or multiple jobs the borrower may have. The PFI must verify the following:

- Verification of a minimum history of two years of uninterrupted secondary employment income is recommended. However, income that has been received for a shorter period of time (no less than 12 months) may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history; and
- A borrower may have a history that includes different employers, which is acceptable as long as income has been consistently received.

## F. Seasonal Income

The PFI must verify the following for seasonal income:

- Verify that the borrower has worked in the same job (or the same line of seasonal work) for the past two years;
- Confirm with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season; and
- For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.

See [Other Types of Income](#) for more information on [unemployment benefits](#).

## G. 4506-C (Updated 1/1/2021)

A signed IRS 4506-C form is required for all loans, regardless of income type, unless the Borrower's income has been validated by the DU® validation service. When all of a Borrower's income is validated by the DU® validation service, the PFI is not required to obtain a signed IRS Form 4506-C for that Borrower. Borrowers that have not had their income validated through the DU® validation service are still required to sign an IRS 4506-C form at application and/or again at closing. If tax transcripts are not obtained during the origination process, an updated 4506-C is required at closing, which must show the Quality Control contractor in Section 5 of the 4506-C. (See Exhibit J for an example of a completed 4506-C). A 4506-C is required to be signed for business tax returns if used in underwriting.

When the PFI requests tax transcripts prior to closing, the transcripts must be returned/mailed directly to the PFI's underwriting or processing staff.

Transcripts must match the tax returns exactly.

The following table shows the minimum transcript information to request from the IRS under four typical income documentation scenarios:

If the level of income documentation used for underwriting the loan and reported on the Loan Presentment is:	The 4506-T Request must be for the most recent filing(s) of:			
	1040	1120 -or- 1065	1099	W-2
YTD Paystub & Two W-2s				2 years
YTD Income Information & Two 1099s/1040s	2 years		2 years	
Two Years Personal Returns	2 years			
Two Years Personal Returns & Two Years Business Returns	2 Years	2 Years		

The IRS tax return transcripts are not to be used to calculate the Borrower’s income. They are only to be used to validate the income documentation provided by the Borrower that was used as income verification during the underwriting process.

### H. Verbal Verification of Employment

A verbal VOE is required for all Borrowers, no more than ten (10) days prior to closing for employment income and within one hundred twenty (120) calendar days prior to closing for self- employed income. This policy applies to all income types with the exception of passive income.

The verbal VOE for employment income must include the following:

- Name and title of the person who confirmed the employment for the PFI;
- Name and title of the person who completed the verification for the employer;
- Applicant’s dates of employment;
- Applicant’s current position;
- Date of the call;
- Source of the phone number;
- Applicant’s current employment status; and
- Prospect of continued employment, when available.

#### 1. For Self-Employed Borrowers

The PFI must verify the existence of the Borrower’s business. Acceptable verification of the existence of the business includes, but is not limited to, the following:

- Third Party Verification, such as:
  - CPA;
  - Regulatory Agency;
  - Licensing Bureau; or
  - Phone listing.

The source of the verification of the existence of the business must be documented, as well as the name and title of the PFI’s employee who obtained the verification.

## 2. For Military Personnel

If the borrower is in the military, in lieu of a verbal or written VOE, the PFI must obtain either

- a military Leave and Earnings Statement dated within 30 calendar days prior to the note date (or 31 days for longer months), or
- a verification of employment through the Defense Manpower Data Center (<https://www.dmdc.osd.mil/appj/mla/>).

## I. Rental Income

### 1. Ineligible Properties

Generally, rental income from the borrower's principal residence (a one-unit principal residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower. However, MAP does allow certain exceptions to this policy for [boarder income](#).

Rental income from a second home may not be used for Borrower qualification. Examples include, but are not limited to, rental income from private lease agreements, timesharing, or rental pool agreements.

### 2. General Requirements for Documenting

If a borrower has a history of renting the subject or another property, generally the rental income will be reported on IRS Form 1040, Schedule E of the borrower's personal tax returns or on Rental Real Estate Income and Expenses of a Partnership or an S Corporation form (IRS Form 8825) of a business tax return. If the borrower does not have a history of renting the subject property or if, in certain cases, the tax returns do not accurately reflect the ongoing income and expenses of the property, the PFI may be justified in using a fully executed current lease agreement. Examples of scenarios that justify the use of a lease agreement are

- purchase transactions;
- refinance transactions in which the borrower purchased the rental property during or subsequent to the last tax return filing; or
- refinance transactions of a property that experienced significant rental interruptions such that income is not reported on the recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income).

When the subject property will generate rental income, one of the following Fannie Mae forms must be used to support the income-earning potential of the property:

- For one-unit properties: Single-Family Comparable Rent Schedule (Form 1007) (provided in conjunction with the applicable appraisal report); or
- For two- to four-unit properties: Small Residential Income Property Appraisal Report (Form 1025).

### 3. Borrower's Two- to Four-Unit Primary Residence

Stable rental income from the unit(s) in the Borrower's 2- to 4-Unit Primary Residence that are not occupied by the Borrower may be used to qualify the Borrower but cannot be used to directly offset the Mortgage Loan's PITIA.

The stability of the rental income must be documented with:

- A current lease(s) or agreement(s) to lease;
- A rental history from the previous twenty-four **(24)** months with gaps less than three **(3)** months; or
- A rental history from the previous twenty-four **(24)** months with gaps greater than three **(3)** months that are explained. Explanations may include student housing, seasonal rentals, military renters, or property rehabilitation.

The amount of the rental income must be verified with:

- IRS Form 1040 Schedule E; and
- Current lease(s) or agreement(s) to lease.

For refinance transactions where the Mortgaged Property was acquired after the most recent federal income tax filing, a copy of the current lease(s) or agreement(s) to lease must be used to document income.

See [Calculating Monthly Qualifying Rental Income](#).

### 4. Existing Investment Property

Stable rental income from an existing investment property owned by the Borrower may be used to qualify the Borrower but cannot be used to directly offset the Mortgage Loan's PITIA.

The stability of the rental income must be documented with:

- A current lease or an agreement to lease;
- A rental history from the previous twenty-four **(24)** months with gaps less than three **(3)** months; or
- A rental history from the previous twenty-four **(24)** months with gaps greater than three **(3)** months that are explained. Explanations may include student housing, seasonal rentals, military renters, or property rehabilitation.

The amount of the rental income must be verified with:

- IRS Form 1040 Schedule E; and
- Current lease(s) or agreement(s) to lease.

Depending upon the length of time the property has been owned, income must be documented with either leases or tax returns, in accordance with the requirements for rental income in a two- to four-unit Primary Residence.

A separate schedule of real estate is not required for rental properties as long as all properties are documented on the Uniform Residential Loan Application.

See [Calculating Monthly Qualifying Rental Income](#).

## 5. Primary Residence Converted into an Investment Property (Updated 3/30/2026)

If the Borrower is purchasing a new Primary Residence within MAP and is retaining the current Primary Residence (that is not a MAP loan) as an investment property, rental income earned from the departing Primary Residence can only be used to offset the PITIA of the related property.

## 6. Calculating Monthly Qualifying Rental Income (or Loss)

The method for calculating rental income (or loss) for qualifying purposes is dependent upon the documentation that is being used.

### Federal Income Tax Returns, Schedule E

When Schedule E is used to calculate qualifying rental income, the PFI must add back any listed depreciation, interest, homeowners' association dues, taxes, or insurance expenses to the borrower's cash flow. Non-recurring property expenses may be added back, if documented accordingly.

If the property was in service

- For the entire tax year, the rental income must be averaged over 12 months; or
- For less than the full year, the rental income must be averaged over the number of months that the borrower used the property as a rental unit.

### Lease Agreements or Form 1007 or Form 1025

When current lease agreements or market rents reported on Form 1007 or Form 1025 are used, the PFI must calculate the rental income by multiplying the gross monthly rent(s) by 75%. (This is referred to as "Monthly Market Rent" on the Form 1007.) The remaining 25% of the gross rent will be absorbed by vacancy losses and ongoing maintenance expenses.

See Treatment of the Income (or Loss) below for further instructions. Treatment of the Income (or Loss)

#### i. Treatment of Income (or Loss)

Any net rental income should be added to the Borrower's total income, and any net rental loss should be added to the Borrower's total monthly debt when calculating the total debt ratio.

The amount of monthly qualifying rental income (or loss) that is considered as part of the borrower's total monthly income (or loss) — and its treatment in the calculation of the borrower's total debt-to-income ratio — varies depending on whether the borrower occupies the rental property as their principal residence.

If the rental income relates to the borrower's principal residence:

- The monthly qualifying rental income (as defined above) must be added to the borrower's total monthly income. (The income is not netted against the PITIA of the property);
- The full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the debt-to-income ratio.

If the rental income (or loss) relates to a property other than the borrower's principal residence:

- If the monthly qualifying rental income (as defined above) minus the full PITIA is positive, it must be added to the borrower's total monthly income;

- If the monthly qualifying rental income minus PITIA is negative, the monthly net rental loss must be added to the borrower's total monthly obligations;
- The full PITIA for the rental property is factored into the amount of the net rental income (or loss); therefore, it should not be counted as a monthly obligation; and
- The full monthly payment for the borrower's principal residence (full PITIA or monthly rent) must be counted as a monthly obligation.

## 7. Offsetting Monthly Obligations for Rental Property Reported through a Partnership or an S Corporation

If the borrower is personally obligated on the mortgage debt (as evidenced by inclusion of the related mortgage(s) on the credit report) and gross rents and related expenses are reported through a partnership or S corporation, the business tax returns may be used to offset the property's PITIA. The steps described below should be followed:

1. Obtain the borrower's business tax returns, including IRS Form 8825 for the most recent year;
2. Evaluate each property listed on Form 8825, as shown below:
  - From total gross rents, subtract total expenses. Then add back insurance, mortgage interest, taxes, homeowners' association dues (if applicable), depreciation, and non-recurring property expenses (if documented accordingly);
  - Divide by the number of months the property was in service;
  - Subtract the entire PITIA (proposed for subject property or actual for real estate owned) to determine the monthly property cash flow;
3. If the resulting net cash flow is positive, the PFI may exclude the property PITIA from the borrower's monthly obligations when calculating the debt-to-income ratio; and
4. If the resulting net cash flow is negative (that is, the rental income derived from the investment property is not sufficient to fully offset the property PITIA), the calculated negative amount must be included in the borrower's monthly obligations when calculating the debt-to-income ratio.

In order to include a positive net rental income received through a partnership or an S corporation in the borrower's monthly qualifying income, the PFI must evaluate it according to the guidelines for income received from a partnership or an S corporation. See [Analyzing Partnership Returns for a Partnership or LLC](#) and [Analyzing Returns for an S Corporation](#).

Note: For AUS scored loans, the term "subject net cash flow" applies to net rental income from the subject property, and the term "net rental income" applies to rental income from properties other than the subject property.

## 8. Calculation Worksheets

MAP utilizes four worksheets that Fannie Mae makes available which PFIs may use to calculate rental income. Use of these worksheets is optional.

The Fannie Mae worksheets are:

- Rental Income Worksheet – Principal Residence, 2- to 4-unit Property ([Form 1037](#));
- Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 4 properties) ([Form 1038](#));

- Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 10 properties) ([Form 1038A](#)); and
- Rental Income Worksheet – Business Rental Income from Investment Property(s) ([Form 1039](#)).

## J. Other Types of Income (Updated 7/7/2023)

### 1. Documentation Requirements for Current Receipt of Income

The documentation required for each income source is described below. The documentation must support the history of receipt, if applicable, and the amount, frequency, and duration of the income. In addition, evidence of current receipt of the income must be obtained in compliance with the Allowable Age of Credit Documents policy, unless specifically excluded below. See [Age of Documents](#) or additional information.

Current receipt may be documented by various means, depending on the income type. Examples include, but are not limited to:

- Current paystubs;
- Bank statements confirming direct deposit;
- Canceled checks from the payer's account to the borrower;
- Court records; and/or
- Copies of the borrower's bank statements showing the regular deposit of these funds.

### 2. Alimony, Child Support, Maintenance

When a Borrower has received full, regular, and timely payments for child support or alimony for twelve **(12)** months with a three **(3)** year continuance from the Note date, the income will be considered stable. Child support may be "grossed up" under the same provisions as non-taxable income. This income must be supported by a divorce decree or separation agreement with evidence of receipt such as deposit slips, court records, bank statements, or tax returns to show twelve **(12)** months' receipt of this income.

Income received for less than twelve **(12)** but more than six **(6)** months may be used to qualify the Borrower for the Mortgage Loan provided the PFI can adequately document the payer's ability and willingness to make timely payments. If full or partial payments are received for less than six **(6)** months or made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the Borrower.

### 3. Boarder Income

Income from boarders in the borrower's principal residence or second home is not considered acceptable stable income with the exception of the following:

- When a borrower with disabilities receives rental income from a live-in personal assistant, whether or not that individual is a relative of the borrower, the rental payments can be considered as acceptable stable income in an amount up to 30% of the total gross income that is used to qualify the borrower for the Mortgage Loan. Personal assistants typically are paid by Medicaid Waiver funds and include room and board, from which rental payments are made to the borrower.

The following provides verification requirements for income from boarders:

- Obtain documentation of the boarder's history of shared residency (such as a copy of a driver's license, bills, bank statements, or W-2 forms) that shows the boarder's address as being the same as the borrower's address.
- Obtain documentation of the boarder's rental payments for the most recent 12 months.

If the rent paid by the boarder is not reported on the Borrower's tax returns, the income may not be used to qualify the Borrower.

#### 4. Disability Income

This section does not apply to disability income received from the Social Security Administration (SSA) (see Social Security Income for disability income received from the SSA).

Long term disability income must be verified by the Borrower's disability policy or benefits statement obtained from the benefits payer (insurance company, employer, or other qualified disinterested Party) to determine the Borrower's eligibility for the disability benefits, the amount and frequency of payments, and if there is a contractually established termination or modification date. Long term disability must be expected to continue (must not have a defined expiration date). A re-evaluation date is not considered a defined expiration date.

If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower. For additional information on short-term disability, see [Temporary Leave Income](#).

#### 5. Employer-Paid Mortgage Interest Subsidy

In an employment relocation situation, an employer may provide assistance by paying all or part of the Note rate differential between the employee's present Mortgage Loan payment and new Mortgage Loan payment. This subsidy is considered gross income and may be used as qualifying income (rather than to offset the Mortgage payment), provided the subsidy will continue for a minimum of three **(3)** years from the Note date. This subsidy must be verified with documentation from the employer indicating the amount, duration, and frequency of payments.

If this income is used on a purchase transaction, current receipt is not required to be documented except as verified in the employer letter. For refinance transactions where the income is continuing with the new loan, the recent receipt must be in compliance with the Allowable Age of Credit Documents policy (see [Age of Documents](#) for more information).

#### 6. Employment Offers or Contracts

A Mortgage Loan may close prior to the Borrower beginning new employment and receiving income if the Borrower will begin the new job within sixty **(60)** days of closing. However, the Mortgage Loan is not eligible for delivery under MAP until the Borrower begins employment and has received income.

The Mortgage Loan File must contain:

- Documentation of the Borrower's past income and employment history;
- The Borrower's new guaranteed, non-revocable employment contract or offer;
- A paystub obtained and dated prior to the Funding Date, that verifies the level of income used to qualify the Borrower; and
- Verification of sufficient income or cash reserves to support the Mortgage Loan payment and any other obligations between closing and the start of employment.

## 7. Foreign Income

Foreign Income is acceptable only if income can be verified on U.S. personal tax returns for the last two **(2)** years. The PFI must verify the income using the standard documentation required for the source and type of income.

Foreign income should be paid in U.S. currency; however, income paid in foreign currency may be considered on a case-by-case basis if it is converted into U.S. currency.

Foreign income must be documented on statements translated to English.

## 8. Foster Care Income

Foster care income received from a county, state, or federal government agency is acceptable, provided that the following requirements are met:

- Letters are obtained from the organization providing the foster care income; and
- The Borrower has received this income for at least two **(2)** years. If the Borrower does not have a two **(2)** year history of receiving this income but has received the income for at least twelve **(12)** months, then the income may not represent more than 30% of the qualifying income for the loan.

## 9. Interest and Dividend Income

Interest and dividend income may be used if documented by signed federal tax returns for the past two **(2)** years and proof of continuance for the next three **(3)** years from the Note date.

An average of the past two **(2)** years, as documented in the tax returns, may be used as stable income.

Any funds from interest and dividends that are used for down payment or closing costs must be subtracted before calculating the projected interest or dividend income.

Verify the borrower's ownership of the assets on which the interest or dividend income was earned.

Documentation of asset ownership must be in compliance with the Allowable Age of Credit Documents policy (see [Age of Documents](#) for more information).

## 10. VA Benefits

Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is eligible income, provided the documentation is provided by the VA. Verify that the income can be expected to continue for a minimum of three years from the date of the mortgage application. (Verification is not required for VA retirement or long-term disability benefits.)

VA education benefits used to offset education expenses are not an acceptable form of income.

## 11. Mortgage Credit Certificates

Certain states and municipalities offer Mortgage Credit Certificate (MCC) programs. These programs typically grant first-time homebuyers a federal income tax credit.

For first time home buyers that have applied for a Mortgage Loan to purchase their Primary Residence, the applicable amount of income tax credit must be added to the Borrower's monthly income (the Mortgage Loan payment cannot be reduced by the amount of the income tax credit) using this formula:

$$\frac{[(Mortgage\ Amount) \times (Note\ Rate\ \%) \times (MCC\ \%)]}{12} = Amount\ Added\ to\ Borrower's\ Monthly\ Income$$

A copy of the MCC and the calculation of the adjustment to the Borrower's income must be retained in the Mortgage Loan File.

For refinance transactions, the MCC may remain in place as long as verification is received from the MCC issuer that the MCC applies to the new Mortgage Loan. A copy of the reissue certification must be maintained in the Mortgage Loan File.

## 12. Notes Receivable, Installment Sales, and Land Contracts

Notes receivable, installment sales, and/or land contracts may be considered qualifying income if the Mortgage Loan File contains a copy of the note or contract and evidence that the Borrower is entitled to receive payments on the note and has received payments on a regular monthly basis for the most recent twelve (**12**) months. Notes receivable income must be expected to continue for at least the next three (**3**) years from the Note date. Payments on a note executed within the past 12 months, regardless of the duration, may not be used as stable income.

## 13. Public Assistance Income

Public assistance income must be verified by the appropriate state or federal government agency with letters or exhibits from the paying agency that state the amount, frequency and duration of the benefit payments. If the income does not have a defined expiration date, it should be considered as likely to continue for three (**3**) years from the Note Date.

The Housing Choice Voucher Program (more commonly known as Section 8) is also an acceptable source of qualifying income. There is no requirement for the Section 8 voucher payments to have been received for any period of time prior to the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application. Determine from the public agency that issues the vouchers the monthly payment amount and whether the income is nontaxable. If the income is nontaxable, the PFI can develop an adjusted gross income for the borrower. See [Tax-Exempt Income](#) for additional income.

## 14. Retirement, Government Annuity, and Pension Income (Updated 1/1/2023)

The PFI must not ask the Borrower about any future, possible retirement, unless the Borrower volunteers such information.

Retirement or pension income is an acceptable source of stable income as long as the Borrower’s regular receipt of payment is confirmed.

Retirement income must be verified by letters from the organization, Employer Letter, Award Letter, IRS W-2, 1099, or signed federal tax returns for proof of receipt.

If retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three **(3)** years after the date of the mortgage application. In addition:

The borrower must have unrestricted access without penalty to the accounts.

Documentation of asset ownership must be in compliance with the Allowable Age of Credit Documents policy (see [Age of Documents](#) for more information).

### 15. Royalty Income

Royalty income may be used for qualifying purposes, provided the following requirements are met:

- A copy of the royalty agreement is obtained which states the amount, frequency, and duration of the royalty payments;
- A copy of the Borrower’s most recent federal tax returns are obtained, which must include the IRS Form 1040, Schedule E;
- The Borrower can verify receipt of royalty income for at least twelve **(12)** months; and
- The income is expected to continue for at least three **(3)** years from the Note date. Refer to the [Variable Income](#) section for additional information on calculating amounts.

### 16. Social Security Income

Social Security income can be verified with the Social Security Awards letter from the Social Security Administration (SSA). Nontaxable Social Security income may be grossed up by 25%. The PFI may not request any additional information from the Borrower or the Borrower’s physician regarding the nature of the disability. Social Security income for retirement or long-term disability that the borrower is drawing from their own account/work record will not have a defined expiration date and must be expected to continue. However, if Social Security benefits are being paid as a benefit for a family member of the benefit owner, that income may be used in qualifying if the PFI obtains documentation that confirms the remaining term is at least three years from the date of the mortgage application.

Document regular receipt of payments, as verified by the following, depending on the type of benefit and the relationship of the beneficiary (self or other) as shown in the table below.

DOCUMENTATION REQUIREMENTS		
Type of Social Security Benefit	Borrower is drawing Social Security benefits from own account/work record <sup>1</sup>	Borrower is drawing Social Security benefits from another person’s account/work record <sup>2</sup>
Retirement		

Disability	<ul style="list-style-type: none"> <li>• Social Security Administrator’s (SSA) Award letter, or</li> <li>• Proof of current receipt</li> </ul>	<ul style="list-style-type: none"> <li>• <b>SSA</b> Award letter,</li> <li>• Proof of current receipt, <b>and</b></li> <li>• Three-Year continuance (e.g. verification of beneficiary’s age)</li> </ul>
Survivor Benefits	NA	
Supplement Security Income (SSI)	<ul style="list-style-type: none"> <li>• <b>SSA</b> Award letter, <b>and</b></li> <li>• Proof of current receipt</li> </ul>	NA

1. An SSA Award letter may be used to document the income if the borrower is receiving Social Security payments or if the borrower will begin receiving payments on or before the first payment date of the subject mortgage as confirmed by a recently issued award letter.
2. Examples of how a borrower might draw Social Security benefits from another person’s account/work record and use the income for qualifying:
  - A borrower may be eligible for benefits from a spouse, ex-spouse, or dependent parents (the benefit is paid to the borrower on behalf of the spouse, etc.); or
  - A borrower may use Social Security income received by a dependent (a minor or disabled dependent).

### 17. Temporary Leave Income (Updated 11/29/2024)

Temporary leave from work is generally short in duration, for reasons of maternity or paternity leave, short-term medical disability or other temporary leave types that are acceptable by law or the Borrower’s employer. PFIs must not ask the Borrower about possible, future maternity leave, unless the Borrower volunteers such information. Temporary leave income must be verified in accordance with Applicable Laws, including fair lending and fair housing laws.

If a PFI is made aware that a borrower will be on temporary leave at the time of closing of the Mortgage Loan, and that borrower’s income is needed to qualify for the loan, the PFI must determine allowable income and confirm employment as described below:

- The borrower’s employment and income history must meet standard eligibility requirements as described in [Income Analysis](#).
- The borrower must provide written confirmation of their intent to return to work.
- The PFI must document the borrower’s agreed-upon date of return by obtaining, either from the borrower or directly from the employer (or a designee of the employer when the employer is using the services of a third party to administer employee leave), documentation evidencing such date that has been produced by the employer or by a designee of the employer.
- Examples of the documentation may include, but are not limited to, previous correspondence from the employer or designee that specifies the duration of leave or expected return date or a computer printout from an employer or designee’s system of record. (This documentation does not have to comply with the [Allowable Age of Credit Documents](#) policy.)
- The PFI must receive no evidence or information from the borrower’s employer indicating that the borrower does not have the right to return to work after the leave period.
- The PFI must obtain a verbal verification of employment in accordance with [Verbal Verification of Employment](#). If the employer confirms the borrower is currently on temporary leave, the PFI must consider the borrower employed.

The PFI must verify the borrower’s income in accordance with the [Income Analysis](#) portion of this underwriting guide. The PFI must obtain:

- The amount and duration of the borrower’s “temporary leave income,” which may require multiple documents or sources depending on the type and duration of the leave period; and
- The amount of the “regular employment income” the borrower received prior to the temporary leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus).

**Note:** Income verification may be provided by the borrower, by the borrower’s employer, or by a third-party employment verification vendor.

**Requirements for Calculating Income Used for Qualifying**

If the borrower will return to work as of the first mortgage payment date, the PFI can consider the borrower’s regular employment income in qualifying.

If the borrower will not return to work as of the first mortgage payment date, the PFI must use the lesser of the borrower’s temporary leave income (if any) or regular employment income. If the borrower’s temporary leave income is less than their regular employment income, the PFI may supplement the temporary leave income with available liquid financial reserves (see [Minimum Reserve Requirements](#)).

Following are instructions on how to calculate the “supplemental income”:

$$\text{Supplemental Income} = \frac{\text{Available Liquid Reserves}}{\text{Number of Months of Supplemental Income}}$$

- available liquid reserves: subtract any funds needed to complete the transaction (down payment, closing costs, other required debt payoff, escrows, and minimum required reserves) from the total verified liquid asset amount.
- Number of months of supplemental income: the number of months from the first mortgage payment date to the date the borrower will begin receiving their regular employment income, rounded up to the next whole number.

After determining the supplemental income, the PFI must calculate the total qualifying income.

$$\text{Total Qualifying Income} = \text{Supplemental Income} + \text{Temporary Leave Income}$$

The total qualifying income that results may not exceed the borrower’s regular employment income.

**Example**

Regular income amount: \$6,000 per month

Temporary leave income: \$2,000 per month

Total verified liquid assets: \$30,000

Funds needed to complete the transaction: \$18,000

Available liquid reserves: \$12,000

First payment date: July 1

Date borrower will begin receiving regular employment income: November 1

$$\begin{array}{l} \text{Supplemental Income: } \frac{\$12,000 \text{ (Available Liquid Reserves)}}{4 \text{ Months}} = \$3,000 \\ \text{Total Qualifying Income: } \frac{\$3,000 + \$2,000}{\$3,000 + \$2,000} = \$5,000 \end{array}$$

For loan case files underwritten with Fannie Mae DU®, refer to Fannie Mae guide section “Income and Employment Documentation for DU®” for data entry guidance.

Note: These requirements apply if the PFI becomes aware through the employment and income verification process that the borrower is on temporary leave. If a borrower is not currently on temporary leave, the PFI must not ask if the Borrower(s) intends to take leave in the future.

## 18. Tip Income

Tip income may be included as qualifying income if the Borrower has received the income for the last two **(2)** years, as verified on a VOE, or on recent paystubs and W-2 forms from the past two **(2)** years. If the amount received fluctuates, the income trend must be evaluated to determine the amount most likely to continue for the next three **(3)** years from the Note date.

In some cases, the full amount of the tip income earned by the Borrower may not be reported by the employer on the VOE, paystub and W-2 form, and the Borrower may report additional tip income to the IRS using Form 4137 (Social Security and Medicare Tax on Unreported Tip Income), when filing tax returns.

## 19. Trust Income

Trust income may be considered qualifying income if documented with the amount, frequency and duration of payments. A copy of the trust agreement or a statement from the trustee confirming the amount, frequency and duration of payments is required.

It must be verified that trust income will continue for at least three **(3)** years from the Note date. Unless this income is received monthly, documentation of current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy (see [Age of Documents](#) for more information.)

## 20. Unemployment Income

Document that the borrower has received the payments consistently for at least two years by obtaining copies of signed federal income tax returns.

Unemployment compensation cannot be used to qualify the borrower unless it is clearly associated with seasonal employment that is reported on the borrower's signed federal income tax returns. Verify that the seasonal income is likely to continue. See [Secondary Employment](#) and [Seasonal Income](#) for additional information about verifying seasonal income.

Unemployment income must be documented for two **(2)** years and must be expected to continue.

## 21. Parsonage or Housing Income

Parsonage or housing allowance may be added to income but may not be used to offset the monthly housing payment when there is acceptable documentation that verifies the allowance has been received for the most recent 12 months and is likely to continue for the next three years.

Note: This requirement does not apply to military quarters' allowance. For information on military housing, refer to [Military Income](#).

## 22. Automobile Allowance

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least two years. The PFI must include the payment related to the automobile as a debt and the full allowance to the borrower's income.

## 23. Capital Gains

Income received from capital gains is generally a one-time transaction; therefore, it should not be considered as part of the borrower's stable monthly income. However, if the borrower needs to rely on income from capital gains to qualify, the income must be verified in accordance with the following requirements:

- Document a two-year history of capital gains income by obtaining copies of the borrower's signed federal income tax returns for the most recent two years, including IRS Form 1040, Schedule D.
- Develop an average income from the last two years (according to the [Variable Income section](#)), and use the averaged amount as part of the borrower's qualifying income as long as the borrower provides current evidence that they own additional property or assets that can be sold if extra income is needed to make future Mortgage Loan payments.

**Note:** Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.

Due to the nature of this income, current receipt of the income is not required to comply with the Allowable Age of Credit Documents policy. However, documentation of the asset ownership must be in compliance with the Allowable Age of Credit Documents policy (see [Age of Credit Documents](#) and [Federal Income Tax Returns](#), for additional information).

## 24. Employment-Related Assets as Qualifying Income (Updated 1/1/2023)

- Assets used for the calculation of the monthly income stream must be owned individually by the borrower, or the co-owner of the assets must be a co-borrower of the Mortgage Loan.
- The documentation must be in compliance with the Allowable Age of Credit Documents policy (see [Age of Documents](#) for additional information).
- Assets must be liquid and available to the borrower and must be sourced as one of the following:
  - A non-self-employed severance package or non-self-employed lump sum retirement package (a lump sum distribution) — these funds must be documented with a distribution letter from the employer (Form 1099-R) and deposited to a verified asset account.

- For 401(k) or IRA, SEP, Keogh retirement accounts – the borrower must have unrestricted access to the funds in the accounts and can only use the accounts if distribution is not already set up or the distribution amount is not enough to qualify. The account and its asset composition must be documented with the most recent monthly, quarterly, or annual statement.
- If a penalty would apply to a distribution of funds from the account made at the time of calculation, then the amount of such penalty applicable to a complete distribution from the account (after costs for the transaction) must be subtracted to determine the income stream from these assets.
- A borrower shall only be considered to have unrestricted access to a 401(k) or IRA, SEP, Keogh retirement account if the borrower has, as of the time of calculation, the unqualified and unlimited right to request a distribution of all funds in the account (regardless of any possible tax withholding or applicable penalty applied to such distribution).
- “Net documented assets” are equal to the sum of eligible assets minus:
  - a.) the amount of the penalty that would apply if the account was completely distributed at the time of calculation; and
  - b.) the amount of funds used for down payment, closing costs, and required reserves;

The source and amount of the retirement income must be stable based on factors such as, but not limited to, frequency and regularity of receipt of distributions, length of time the distributions have been taken, and rules governing distribution. For borrowers with fluctuating retirement income, the average income received over the previous two years must be used to calculate effective income. If the retirement income has been received for less than two years, the average income over the time of receipt must be used instead.

Ineligible assets are non-employment-related assets (for example, stock options, non-vested restricted stock, lawsuits, lottery winnings, sale of real estate, inheritance, and divorce proceeds). Checking and savings accounts are generally not eligible as employment-related assets, unless the source of the balance in a checking or savings account was from an eligible employment-related asset (for example, a severance package or lump sum retirement distribution).

Employment related assets are only eligible for loans scored through DU® with the following parameters; consult Freddie Mac Seller guide for specific LPA® requirements.

Parameter	Fannie Mae DU® Requirement
Maximum LTV/CLTV/HCLTV	70%
Minimum Credit Score	DU®: 660 Standard: 660
Loan Purpose	Purchase, rate and term refinance, and limited cash-out refinance
Occupancy	Principal residence and second home
Number of Units	One to four-unit properties
Income Calculation/Payout Stream	Divide “Net Documented Assets” by the amortization term of the Mortgage Loan (in months).

Note: If the Mortgage Loan does not meet the above parameters, employment-related assets may still be eligible under other standard income guidelines, such as [“Interest and Dividends Income,”](#) or [“Retirement, Government Annuity, and Pension Income.”](#)

## 25. Schedule K-1 income

For borrowers who have less than **25%** ownership of a partnership, S corporation, or limited liability company (LLC), ordinary income, net rental real estate income, and other net rental income reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1 may be used in qualifying the borrower provided the PFI can confirm the business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required. The borrower must provide the most recent two years of signed individual federal income tax returns and the most recent two years of IRS Schedule K-1.

Requirements for Schedule K-1 borrowers with less than **25%** ownership of a partnership, an S corporation, or an LLC:

- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower’s cash flow.
- If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the PFI must confirm the business has adequate liquidity to support the withdrawal of earnings. The PFI may use discretion in the method used to confirm the business has adequate liquidity.
- If the borrower has a two-year history of receiving “guaranteed payments to the partner” from a partnership or an LLC, these payments can be added to the borrower’s cash flow.

An exception to the two-year requirement of receiving “guaranteed payments to the partner” is if a borrower has recently acquired nominal ownership in a professional services partnership (for example, a medical practice or a law firm) after having an established employment history with the partnership. In this situation, the PFI may rely on the borrower’s guaranteed compensation. This must be evidenced by the borrower’s partnership agreement and further supported by evidence of current year-to-date income.

## 26. Non-Occupant Borrower Income

The income from a non-occupant borrower may be considered as acceptable qualifying income. This income can offset certain weaknesses that may be in the occupant borrower’s loan application, such as limited income, financial reserves, or limited credit history. However, it may not be used to offset significant or recent instances of major derogatory credit in the occupant borrower’s credit history. The occupant borrower must still reasonably demonstrate a willingness to make the mortgage payments and maintain homeownership. If the income from a non-occupant borrower is used for qualifying, the LTV ratios are limited to 90% (see Section 6-B-2).

See [Non-Occupant Co-Borrowers](#), for information about the maximum LTV, CLTV, and HCLTV ratios that apply when non-occupant borrower income is used for qualifying purposes for both AUS and manually underwritten loans.

## 12. Self-Employment Income

A self-employed Borrower is an individual who has twenty-five percent (25%) or greater ownership interest in a business or receives a 1099 statement to document income.

The Borrower must have at least two **(2)** consecutive years of self-employment in the same business entity in the same location, and ongoing, stable income. Income from a Borrower who has been self-employed between one **(1)** and two **(2)** years may be considered if the Borrower has at least two **(2)** years of documented previous, successful employment in the same line of work in which the Borrower is now self-employed. A combination of one **(1)** year of employment and formal education or training in the same line of work is also acceptable. If the Borrower has been self-employed for less than one **(1)** year, the income may not be used in qualifying.

A stable trend in earnings must be established. Significant decreases in income cannot be averaged using a previous higher income level.

Significant increases could affect the stability of the Borrower's income and require a satisfactory explanation and documentation that the increase is stable and likely to continue.

To determine a self-employed Borrower's income, an Income Analysis Form (Form 1084/Fannie Mae, Form 91/Freddie Mac) or equivalent must be completed and included in the Mortgage Loan File.

Income must be averaged as determined by the income documentation type.

The PFI is not required to analyze self-employment income or loss when the self-employment income is a secondary and a separate income source. Where such self-employment income is not analyzed, the PFI must qualify the Borrower using their primary source of income and other income that is not derived from self-employment. Additionally, the PFI is not required to analyze self-employment income or loss for a co-Borrower when the co-Borrower is not using the income in qualifying.

### A. Business Structures of Self-Employed Borrowers

#### 1. Sole Proprietorship

A sole proprietorship is an unincorporated business that is individually owned and managed. The individual has unlimited personal liability for all debts of the business. If the business fails, the Borrower will have to replace his income, as well as satisfy the outstanding obligations of the business.

Since no distinction is made between the owner's personal assets and the assets used in the business, creditors may take either (or both) to satisfy the Borrower's business obligations.

The income, expenses, and taxable profits of a sole proprietorship are reported on the Profit and Loss from Business (Schedule C) on the owner's Individual Federal Tax Return.

The individual tax return must be evaluated to determine if there is a sufficient cash flow to sustain the business and cover the mortgage payments. In addition, the business must have sufficient funds to support any withdrawals the Borrower may make to cover the mortgage payments.

## 2. Partnership or Limited Liability Company (LLC)

A partnership is an arrangement between two or more individuals who have pooled their assets and skills to form a business and who will share profits and losses. A partnership may be a general partnership or a limited partnership.

An LLC is a hybrid business structure which offers its member-owners the tax efficiencies of a partnership and the limited liability advantages of a corporation.

The partnership or LLC must report its profit or loss on the U.S. Partnership Return of Income (IRS form 1065). Each partner's or member-owner's share of the profit or loss is reported on the Partner's share of Income, Credits, Deductions, etc. (Schedule K-1, IRS form 1065). Each partner or member-owner uses the information from Schedule K-1 to report his share of the limited liability company's net profit or loss on his Federal Income Tax Return.

IRS form 1065 must be evaluated to determine the overall viability of the business. The PFI must determine whether withdrawal of cash from the partnership will affect the financial condition of the partnership.

Depreciation and depletion may be added back to the qualifying income in proportion to the Borrower's share of the partnership's income.

Total obligations payable by the partnership in less than one **(1)** year must be proportionately deducted from the Borrower's income.

## 3. Corporations

A corporation is a state-chartered legal entity that exists separately and distinctly from its owners, who are stockholders or shareholders. It is the most flexible form of business organization for purposes of obtaining capital. A corporation can sue, be sued, hold, convey or receive property, enter into contracts under its own name, and does not dissolve when its ownership changes.

Corporations must report income and losses on the Corporation Income Tax Return (IRS form 1120) and pay taxes on the income.

In order to determine a Borrower's self-employed income from a corporation, the adjusted business income must be determined and multiplied by the borrower's percentage of ownership. The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

Adjustment Item	Description
Fiscal vs. Calendar Year	If the corporation operates on a fiscal year that differs from the calendar year, an adjustment must be made to associate corporate income to the income on the Borrower's Form 1040.
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income
Taxable Income	Taxable income is the corporation's net income before federal income taxes. Reduce taxable income by the tax liability.
Cash Withdrawals	The withdrawal of cash from the corporation may have a negative impact on the corporation's ability to continue to operate. The PFI must analyze the cash withdrawal's effect on the overall financial condition of the corporation.

#### 4. "S" Corporations

An "S" corporation is a legal entity that has a limited number of stockholders and elects not to be taxed as a regular corporation. Business gains and losses are passed on to the stockholders. Stockholders are taxed at their individual tax rates for their proportionate share of ordinary income, capital gains, and other taxable items.

The ordinary income for the "S" corporation is reported on the Income Tax Return for an "S" Corporation (IRS form 1120S), with each shareholder's share of the income reported on the

Shareholder's Share of Income, Credits, Deductions, etc. (Schedule K-1). Because this income from the distribution of corporate earnings may or may not be distributed to the individual shareholders, it must be determined whether the borrower actually received a cash distribution from the "S" corporation.

IRS form 1120S must be evaluated to determine the overall viability of the business. The PFI must determine whether withdrawal of cash from the partnership will affect the financial condition of the partnership.

Depreciation and depletion may be added back to the qualifying income in proportion to the Borrower's share of the partnership's income.

Total obligations payable by the partnership in less than one **(1)** year must be proportionately deducted from the Borrower's income.

## B. Self-Employed Income Documentation Requirements

When self-employment income is used in qualifying, the PFI must document the effect the business income or loss has on the Borrower's income.

For sole proprietorships, the most recent two **(2)** years of signed federal tax returns, with all applicable tax schedules and year-to-date profit and loss (P&L) statements and balance sheets must be obtained to document self-employment income.

For a corporation, limited liability company, "S" corporation, or a partnership, the most recent two **(2)** years of the Borrower's signed federal business income tax returns, with all applicable tax schedules and year-to-date P&L statements and balance sheets must be obtained to document self-employment income.

If the income on the P&L is to be used to qualify the Borrower, the P&L must be reviewed or prepared by the Borrower's accountant.

If the Borrower owns a twenty-five percent (25%) or greater interest in a corporation or partnership, business tax returns must also be furnished.

In addition to the documentation of self-employed income, the existence of the self-employed Borrower's business must be verified within thirty **(30)** Business Days prior to closing.

Acceptable verification of the existence of the business includes, but is not limited to, the following:

- Third Party Verification, such as:
  - CPA;
  - Regulatory Agency; or
  - Licensing Bureau.

Phone listing and address for the Borrower's Business can be verified using a telephone book, the Internet, or directory assistance.

The source of the verification must be documented, as well as the name and title of the PFI's employee who obtained the verification.

## 13. Reviewing Tax Returns—Individual Forms

### Analyzing Individual Tax Returns

In analyzing a self-employed borrower's personal income, the PFI should focus on earnings trends and the actual sources of the income, not just on the total amount of the income. The PFI must confirm the stability and likelihood of continuance for each source of income that the borrower reports on their IRS Form 1040. The PFI should not include any income that does not appear to be stable or likely to continue. The PFI should, however, consider all recurring income that the borrower can expect to continue receiving over time.

### Adjusted Gross Income Approach

IRS Form 1040 permits a taxpayer to adjust their total reported income by reporting certain deductions in the "Adjusted Gross Income" section.

If a PFI uses the adjusted gross income approach to its cash flow analysis, it should add back to the borrower's cash flow all deductions in this section that represent:

- Voluntary payments to savings accounts (IRA and Keogh deductions);
- Deductions for taxes or health insurance plans;
- Deductions for obligations that must be counted in the calculation of the borrower's debt- to-income ratio (such as alimony or payments on student loans); and
- Other nonrecurring expenses (such as moving expenses or penalties for early withdrawal of savings).

### A. Income Reported on IRS Form 1040

To get an accurate picture of the borrower's cash flow, the PFI will need to make certain adjustments to some of the income (or loss) that the borrower reported on IRS Form 1040 since it may not be recurring income. The PFI also may need to further analyze the accompanying tax schedules or supplemental tax forms.

Eligibility criteria for accepting income from specific non-business sources is generally the same as that for salaried or commissioned borrowers (see [Income Assessment](#)).

### Wages, Salary, and Tips

If an amount is shown for wages, salary, or tips for a self-employed borrower, it may mean:

- The borrower operates as a corporation and pays himself or herself a salary; or
- The borrower's spouse is employed and receives a salary (either from the borrower's business or from another employer).

If the income relates to the borrower's spouse who is employed by another company and the income will be used in qualifying for the mortgage, the spouse's income must be verified directly with their employer since it may be more appropriate to use the spouse's current earnings in underwriting the mortgage. Any income that is based on current earnings or that will not be used for qualifying purposes should be deducted from the borrower's cash flow.

### Interest and Dividend Income

The taxable interest and dividend income that is reported on IRS Form 1040, Schedule B, may be counted as stable income only if it has been received for the past two years. However, the income cannot be counted if the borrower is using the interest-bearing or dividend-producing asset as the source of the down payment or closing costs.

- Any taxable interest or dividend income that is not recurring must be deducted from the borrower's cash flow; and
- Tax-exempt interest income may be counted as stable income only if it has been received for the past two years and is expected to continue. If so, this income can be added to the borrower's cash flow.

### **State and Local Tax Refunds**

Taxable state and local tax refunds, credits, or offsets of state and local income taxes should not be used as qualifying income since the income was accounted for in the previous year's tax returns. Therefore, the borrower's cash flow must be adjusted accordingly.

### **Alimony Received**

Alimony may be accepted as qualifying income if it meets the requirements described in [Alimony](#). Any reported alimony received that is determined to be nonrecurring must be deducted from the borrower's total income reported on IRS Form 1040.

### **IRA Distributions, Pensions and Annuities, and Social Security Benefits**

Income received from IRA distributions, pensions, annuities, and Social Security benefits may be accepted as qualifying income. See [Retirement, Government Annuity, and Pension Income](#) for specific requirements.

The nontaxable portion of such recurring income must be added to the borrower's cash flow. The tax-exempt portion of income from these sources may be increased to reflect the tax savings, as described in [Income Analysis](#). If the income from these sources is determined to be nonrecurring, the income must be deducted from the borrower's cash flow.

### **Unemployment Compensation**

Unemployment compensation may be considered as acceptable qualifying income if it meets the requirements described in [Unemployment Compensation](#). Any reported unemployment compensation that is determined to be non-recurring must be deducted from the borrower's cash flow.

### **Other Income (or Loss)**

If the borrower reported income from other sources, the PFI must verify that the income is an eligible source for qualifying purposes per the requirements described in [Other Types of Income](#) for the applicable income source. Income that is determined to be nonrecurring or ineligible for qualifying purposes must be deducted from the borrower's cash flow. If the borrower reported any nonrecurring losses, the borrower's cash flow should be increased by the amount of the losses.

## **B. Deductions Reported on IRS Form 2106**

### **Business Expenses**

When evaluating commission income that represents 25% or more of the borrower's total annual employment income, the PFI must consider certain tax deductions reported on IRS Form 2106 (Employee Business Expenses) when conducting the cash flow analysis:

- Out-of-pocket, unreimbursed business expenses — these expenses must be deducted from the borrower’s income; and
- Actual expenses for a leased automobile, rather than the standard mileage rate — The PFI must analyze the “Actual Expenses” section of IRS Form 2106 to determine the amount of the lease payments, and make sure the lease expense is counted only once in its cash flow analysis, either as an expense on IRS Form 2106 or as a monthly obligation.

### **Automobile Depreciation**

If a borrower claims a “standard mileage” deduction, the business miles driven should be multiplied by the depreciation factor for the appropriate year, and the calculated amount added to the borrower’s cash flow.

If a borrower claims an “actual depreciation expense” deduction, the amount the borrower claimed should be added to the borrower’s cash flow.

## **C. Income or Loss Reported on IRS Form 1040, Schedule C**

### **Income (or Loss) from a Sole Proprietorship**

The income (or loss) from a borrower’s sole proprietorship is calculated on IRS Form 1040, Schedule C, then transferred to IRS Form 1040.

The PFI may need to make certain adjustments to the net profit or loss shown on Schedule C to arrive at the borrower’s cash flow. For example, Schedule C may include income that was not obtained from the profits of the borrower’s business. If the PFI determines that such income is not recurring, it should adjust the borrower’s cash flow by deducting the nonrecurring income.

See [Business Structures](#) for more information on sole proprietorships.

### **Recurring vs. Non-recurring Income and Expenses**

The PFI must determine whether income is recurring or non-recurring. Non-recurring income must be deducted in the cash flow analysis, including any exclusion for meals and entertainment expenses reported by the borrower on Schedule C.

The following recurring items claimed by the borrower on Schedule C must be added back to the cash flow analysis:

- Depreciation;
- Depletion;
- Business use of a home;
- Amortization; and
- Casualty losses.

## **D. Income or Loss Reported on IRS Form 1040, Schedule D**

IRS Form 1040, Schedule D, is used to report capital gains and losses. Income received from a capital gain is generally a one-time transaction; therefore, it should not usually be considered part of the borrower’s stable monthly income.

### **Calculating Borrower Cash Flow from Schedule D and Required Documentation**

If the income calculated on the Schedule D shows that the borrower has realized capital gains for the last two years, as may be the case when the borrower’s business has a constant turnover of assets that produces regular gains, the recurring gains can be considered in determining the borrower’s stable monthly income.

In this case, the borrower must provide evidence of ownership of additional property or assets that can be sold if extra income is needed to make future mortgage payments.

The table below provides the requirements for calculating cash flow from Schedule D and the associated required documentation.

If ...	...Then
Recurring capital gains relate to the sale of business property,	PFI must obtain a copy of the applicable Sale of Business Property (IRS Form 4797) to support the recurring nature of the capital gains.
Schedule D includes principal payments on an installment sales contract,	PFI must obtain a copy of <ul style="list-style-type: none"> <li>• The Installment Sale Income (IRS Form 6252); and</li> <li>• The note or contract to verify that the borrower will continue to receive the payments for at least three years.</li> </ul>
The capital gain on the principal payment and interest income from an installment sales contract is determined to be nonrecurring,	The amount must be deducted from the borrower's cash flow.

**Note:** Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.

## E. Income or Loss Reported on IRS Form 1040, Schedule E

Income received from rents, royalties, and distributions from partnerships, corporations, estates, trusts, etc., is calculated on IRS Form 1040, Schedule E, and transferred to IRS Form 1040. Rather than using Schedule E for income related to distributions from partnerships, corporations, estates, and trusts, the PFI should rely on Schedule K-1 (see [Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1](#)).

### Royalty Income

Schedule E should be used to determine the supplemental income to use for royalties. The PFI must include the total amount of royalty payments received, and must document the borrower's receipt of royalty income for 12 months and the likelihood of continued receipt of such income for at least three years (see [Royalty Income](#))

### Rental Income

If rental income is reported on Schedule E, only the rental income that relates to properties shown on the Schedule of Real Estate Owned on the borrower's loan application should be included.

All regular and ongoing expenses for the properties, such as maintenance, advertising, management fees, utilities, homeowners' association dues, and supply costs, should be subtracted from the borrower's cash flow.

Depending on the approach used to calculate cash flow, adjustments will need to be made for depreciation and any one-time extraordinary expenses, such as the costs of repairing damage that resulted from a natural disaster.

In most situations, the full amount of the mortgage payment for a rental property will be factored into the net rental income calculation, but it may also be counted as part of the liabilities that are considered in the calculation of the borrower's total debt-to-income ratio. Therefore, the PFI must add back any portion of the mortgage payment, including interest, taxes, and insurance, necessary to avoid double counting of these expenses.

The PFI must pay particular attention to the effect of “passive loss” limitations or prior “carryovers” related to the borrower’s rental properties and, depending on the method it uses for the cash flow analysis, make any special adjustments necessary to account for them.

## F. Income or Loss Reported on IRS Form 1040, Schedule F

Income received from farming is calculated on IRS Form 1040, Schedule F, and transferred to IRS Form 1040. Other income on Schedule F may represent income that is not obtained from the borrower’s farming operations.

The PFI may need to make certain adjustments to the net income amount that was transferred to IRS Form 1040. For example, certain federal agricultural program payments, co-op distributions, and insurance or loan proceeds are not fully taxable, so they would not be reported on IRS Form 1040.

These income sources may or may not be stable or continuous and could be a one-time occurrence.

If the PFI verifies that the net income amounts that were transferred to IRS Form 1040 are stable, consistent, and continuing, the borrower’s cash flow must be adjusted by the nontaxable portion of any recurring income from these sources. Otherwise, the income must be deducted from the borrower’s cash flow.

The PFI can adjust the borrower’s cash flow by adding the amount of any deductions the borrower claimed on Schedule F for depreciation, amortization, casualty loss, depletion, or business use of their home.

## G. Income or Loss Reported on IRS Form 1065 or IRS Form 1120S, Schedule K-1

The version of Schedule K-1 that is utilized to report a borrower’s share of income (or loss) is based on how the business reports earnings for tax purposes:

- Partnership — reported on IRS Form 1065, Schedule K-1;
- S corporation — reported on IRS Form 1120S, Schedule K-1; and
- LLC — reported on either IRS Form 1065 or IRS Form 1120S, Schedule K-1, depending on how the federal income tax returns are filed for the LLC.

The PFI must use caution when including income that the borrower draws from the borrower’s partnership or S corporation as qualifying income. Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower’s cash flow provided the PFI can confirm that the business has adequate liquidity to support the withdrawal of earnings, as described below:

- If the borrower has a two-year history of receiving “guaranteed payments to the partner” from a partnership or an LLC, these payments can be added to the borrower’s cash flow; and
- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation of access to the income or adequate business liquidity is required. But if the Schedule K-1 does not reflect a documented, stable history, then the PFI must confirm adequate business liquidity, as discussed below.

If business tax returns are required, then the PFI must consider the type of business structure and analyze the business returns, according to the requirements described in [Self-Employment Income](#).

The PFI may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the PFI may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the PFI select a business liquidity formula based on how the business operates. For example:

### **Acid Test Ratio**

Also known as the “Quick Ratio”, this ratio is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

$$\text{Acid Test Ratio} = \frac{(\text{Current Assets} - \text{Inventory})}{\text{Current Liabilities}}$$

### **Working Capital Ratio**

Also known as the “Current Ratio”, this ratio is usually more appropriate for businesses not relying on inventory to generate income.

$$\text{Working Capital Ratio} = \frac{\text{Current Assets, including cash, accounts receivable, and inventory}}{\text{Current Liabilities, including accounts payable and borrowings}}$$

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

### **Documentation Requirements**

The following list describes the documentation that the borrower must provide. The second option only applies to certain DU®/LPA® scored loans where reduced documentation is specifically mentioned in findings:

- 1040 Returns
  - the most recent two years of signed individual federal income tax returns—IRS Form 1040; or
  - the most recent one year of signed individual federal income tax returns (AUS Scored loans if allowed by DU®/LPA®);
- K-1’s
  - the most recent two years of IRS Schedule K-1; or
  - the most recent year IRS Schedule K-1 (AUS Scored loans if allowed by DU®/LPA®);
- Business Returns
  - the most recent two years of business federal income tax returns (IRS Form 1065 or IRS Form 1120S), unless the requirements to waive business tax returns have been met; or
  - the most recent one year of business federal income tax returns (AUS Scored loans if allowed by DU®/LPA®).

## 14. Reviewing Tax Returns—Business Forms

### A. Analyzing Partnership Returns for a Partnership or LLC

Partnerships and some LLCs use IRS Form 1065 for filing informational federal income tax returns for the partnership or LLC. The partner's or member-owner's share of income (or loss) is carried over to IRS Form 1040, Schedule E. See [Business Structures](#) for more information on partnerships and LLCs.

A borrower with an ownership interest in a partnership or LLC may receive income in the form of wages or other compensation from the partnership or LLC in addition to the borrower's proportionate share of income (or loss) reported on the Schedule K-1.

#### Evaluating the Business Income

When the borrower has 25% or more ownership interest in the business and business tax returns are required, the PFI must perform a business cash flow analysis and evaluate the overall financial position of the borrower's business to determine whether:

- Income is stable and consistent, and
- Sales and earnings trends are positive.

If the business does not meet these standards, business income cannot be used to qualify the borrower.

#### Borrower's Proportionate Share of Income or Loss

The borrower's proportionate share of income or loss is based on the borrower's partnership percentage of Ending Capital in the business as shown on IRS Form 1065, Schedule K-1.

The PFI can only consider the borrower's proportionate share of the business income or loss after making the adjustments to the business cash flow analysis discussed below.

#### Adjustments to Business Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- Meals and entertainment exclusion,
- Other reported income that is not consistent and recurring, and
- The total amount of obligations on mortgages or notes that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

#### Income from Partnerships, LLCs, Estates, and Trusts

Income from partnerships, LLCs, estates, or trusts can only be considered if the PFI obtains documentation, such as the Schedule K-1, verifying that:

- The income was actually distributed to the borrower, or
- The business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The PFI may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the PFI may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the PFI select a business liquidity formula based on how the business operates. For example:

### **Acid Test Ratio**

Also known as the “Quick Ratio”, this ratio is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

$$\text{Acid Test Ratio} = \frac{(\text{Current Assets} - \text{Inventory})}{\text{Current Liabilities}}$$

### **Working Capital Ratio**

Also known as the “Current Ratio”, this ratio is usually more appropriate for businesses not relying on inventory to generate income.

$$\text{Working Capital Ratio} = \frac{\text{Current Assets, including cash, accounts receivable, and inventory}}{\text{Current Liabilities, including accounts payable and borrowings}}$$

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

## **B. Analyzing Returns for an S Corporation**

S corporations and some LLCs pass gains and losses on to their shareholders, who are then taxed at the tax rates for individuals. S corporations and some LLCs use IRS Form 1120S, Schedule K-1, for filing federal income tax returns for the corporation. The shareholder’s share of income or loss is carried over to IRS Form 1040, Schedule E. See [Business Structures](#) for more information on S corporations. A borrower with an ownership interest in an S corporation or LLC may receive income in the form of wages or dividends in addition to their proportionate share of business income (or loss) reported on Schedule K-1.

### **Evaluating the Business Income**

When the borrower has 25% or more ownership interest in the business, the PFI must perform a business cash flow analysis in order to evaluate the overall financial position of the business and confirm:

- The business income is stable and consistent; and
- The sales and earnings trends are positive.

If the business does not meet these standards, business income cannot be used to qualify the borrower.

### **Borrower’s Proportionate Share of Income or Loss**

The borrower’s proportionate share of income or loss is based on the borrower’s (shareholder) percentage of stock ownership in the business for the tax year as shown on IRS Form 1120S, Schedule K-1. The cash flow analysis should consider only the borrower’s proportionate share of the business income (or loss), taking into

account any adjustments to the business income that are discussed below. Business income may only be used to qualify the borrower if the PFI obtains documentation verifying that:

- The income was actually distributed to the borrower; or
- The business has adequate liquidity to support the withdrawal of earnings. If the Schedule K-1 provides this confirmation, no further documentation of business liquidity is required.

The PFI may use discretion in selecting the method to confirm that the business has adequate liquidity to support the withdrawal of earnings. When business tax returns are provided, for example, the PFI may calculate a ratio using a generally accepted formula that measures business liquidity by deriving the proportion of current assets available to meet current liabilities.

It is important that the PFI select a business liquidity formula based on how the business operates. For example:

### Acid Test Ratio

Also known as the “Quick Ratio”, this ratio is appropriate for businesses that rely heavily on inventory to generate income. This test excludes inventory from current assets in calculating the proportion of current assets available to meet current liabilities.

$$\text{Acid Test Ratio} = \frac{(\text{Current Assets} - \text{Inventory})}{\text{Current Liabilities}}$$

### Working Capital Ratio

Also known as the “Current Ratio”, this ratio is usually more appropriate for businesses not relying on inventory to generate income.

$$\text{Working Capital Ratio} = \frac{\text{Current Assets, including cash, accounts receivable, and inventory}}{\text{Current Liabilities, including accounts payable and borrowings}}$$

For either ratio, a result of one or greater is generally sufficient to confirm adequate business liquidity to support the withdrawal of earnings.

### Adjustments to Business Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, and other losses that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- Meals and entertainment exclusion;
- Other reported income that is not consistent and recurring; and
- The total amount of obligations on mortgages or notes that are payable in less than one year.

These adjustments are not required for lines of credit or if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

## C. Analyzing Returns for a Corporation

Corporations use IRS Form 1120 to report their taxes. See [Business Structures](#) for more information on corporations.

### Corporate Fiscal Year

When funds from a corporation that operates on a fiscal year that is different from the calendar year are used in qualifying a self-employed borrower, the PFI must make time adjustments to relate the corporate income to the borrower's individual tax return, which is on a calendar year basis.

### Determining the Corporation's Financial Position

After determining the income available to the borrower for qualifying purposes, the PFI must evaluate the overall financial position of the corporation. Ordinary income from the corporation can be used to qualify the borrower only if the following requirements are met:

- The business income must be stable and consistent;
- The sales and earnings trends must be positive; and
- The business must have adequate liquidity to support the borrower's withdrawals of cash without having severe negative effects.

### Borrower's Share of Income or Loss

The cash flow analysis can only consider the borrower's share of the business income or loss, taking into consideration adjustments to business income provided below. Earnings may not be used unless the borrower owns 100% of the business.

### Adjustments to Cash Flow

Items that can be added back to the business cash flow include depreciation, depletion, amortization, casualty losses, net operating losses, and other special deductions that are not consistent and recurring.

The following items should be subtracted from the business cash flow:

- Meals and entertainment exclusion;
- Tax liability and amount of any dividends; and
- The total amount of obligations on mortgages or notes that are payable in less than one year. These adjustments are not required if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them.

## **D. Analyzing Profit and Loss Statements**

The PFI may use a profit and loss statement—audited or unaudited—for a self-employed borrower's business to support its determination of the stability or continuance of the borrower's income. A typical profit and loss statement has a format similar to IRS Form 1040, Schedule C.

A year-to-date profit and loss statement is not required for most businesses, but if the borrower's loan application is dated more than 120 days after the end of the business's tax year, the PFI may choose to require this document if it believes that it is needed to support its determination of the stability or continuance of the borrower's income.

If the PFI did not count the borrower's year-to-date salary or draws in determining the borrower's qualifying income, it may add them to the net profit shown on the profit and loss statement as well as adding any of the allowable adjustments it used in analyzing the tax returns for the business, such as nonrecurring income and expenses, depreciation, and depletion.

However, only the borrower's proportionate share of these items may be considered in determining the amount of income from the business that the borrower can use for qualifying purposes.

## 15. Assets and Reserves

All down payment funds, cash to close, and reserves must be documented per the AUS findings or meet MAP Requirements. When assets are used for income and closings costs or reserves, the amount needed for closing costs and reserves must be subtracted before the remaining amount can be used toward income.

Asset documentation must be examined for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits against income levels and sources are necessary to validate the documents.

### A. Reserves

Reserves are an indication of the Borrower's capacity to demonstrate a savings pattern. Reserves are those liquid assets that are available to the Borrower after the Mortgage Loan closes. Liquid reserves include cash and other assets that are easily converted to cash. Reserves must come from the Borrower's own funds and must be documented and verified.

For second home occupancy types, a minimum of two **(2)** months PITIA cash reserves are required. The reserve requirements may not be waived.

Reserves are measured by the number of months of monthly housing expense that they represent, including:

- Principal and interest;
- Hazard, flood, and mortgage insurance premiums, if applicable;
- Real estate taxes;
- Ground rent;
- Special assessments;
- Homeowners association dues (excluding any utility charges that apply to the individual unit); and
- Subordinate financing payments on mortgages secured by the Mortgaged Property.

For Mortgage Loans underwritten using DU® or LPA®, the automated findings will determine the reserve requirements based on the overall risk assessment of the loan.

Reserves, in the form of cash, stock, bonds or other liquid financial assets, should be adequate to cover risk factors present in the Loan Application, such as, but not limited to, LTV, debt ratios, and income stability. Reserves used as a compensating factor or input to an AUS must be verified.

For cash reserves in the form of loans secured by financial assets (such as 401k loans, margin accounts, or CD loans) or non-cash reserves, see [Acceptable Sources of Assets](#).

For retirement accounts that prohibit withdrawals as of the closing date, none of the funds may be used as reserves. Examples of prohibited withdrawals include but are not limited to: restrictions due to Borrower not yet reaching retirement age, the retirement account is used as security for an outstanding loan or the account's trustee or management prohibits a withdrawal for any other reason.

For stock options or non-vested restricted stock, none of the funds may be used as reserves.

The documentation used to verify the value of all reserves must meet the documentation age requirements as stated in [Age of Documents](#).

## 1. Liquid Assets and Reserves

Liquid financial reserves are those liquid or near liquid assets that are available to a borrower after the mortgage closes. Liquid financial reserves include cash and other assets that are easily converted to cash by the borrower by:

- Drafting or withdrawing funds from an account;
- Selling an asset;
- Redeeming vested funds; or
- Obtaining a loan secured by assets from a fund administrator or an insurance company.

Reserves are measured by the number of months of the qualifying payment amount for the subject mortgage (based on PITIA) that a borrower could pay using their financial assets. For monthly housing expense and qualifying payment requirements, see [Housing Expense Ratios](#) and [Qualifying Payment](#).

The definition of reserves applies to both manually underwritten Mortgage Loans and loan case files underwritten through DU® and LPA®. Funds to close are subtracted from available assets when considering sufficient assets for reserves.

## 2. Acceptable Sources of Assets

Examples of liquid financial assets that can be (but not limited to) used for reserves include readily available funds in:

- Checking or savings accounts;
- Investments in stocks, bonds, mutual funds, certificates of deposit, money market funds, and trust accounts;
- The amount vested in a retirement savings account; and
- The cash value of a vested life insurance policy.

## 3. Unacceptable Sources of Assets

The following are examples of unacceptable sources of assets:

- Cash on hand;
- Donated funds in any form, such as cash or bonds, donated by the seller, builder, or selling agent outside of approved financing contributions in the seller concession;
- Proceeds of a personal or unsecured loan, or a gift that must be repaid in full or in part;
- A cash advance on a revolving charge account or unsecured line of credit;
- Cash proceeds from a cash-out refinance on the Mortgaged Property;
- Restricted retirement funds—those with prohibitive withdrawal penalties or that are not permitted to be withdrawn;
- Salary advances; and
- Funds in a Custodial or “In Trust For” Account.

## B. Contributions

Any portion of the fees and services, or any other item related to the transaction that would normally be paid by the Borrower but are paid by the Interested Party, are considered contributions.

Because excessive contributions can negatively impact the transaction, contributions are limited. A contribution amount that exceeds the limit is considered a sales concession.

### 1. Interested Party Contributions (IPCs)

IPCs are payments of costs that would normally be made by the Borrower but are being made by another party who has a financial interest in the transaction. Interested parties may be the seller, builder, real estate agent or broker or other affiliate who may benefit from the sale. IPCs may not be applied to the Borrower's down payment, to meet financial reserve requirements, or to meet minimum Borrower contribution requirements.

The maximum allowable IPCs are based on the lesser of the purchase price or appraised value, as follows:

Occupancy Type	LTV/TLTV	Max Contribution
Primary Residence or Second Home	> 90%	3%
	> 75 ≤ 90%	6%
	≤ 75%	9%

IPCs in excess of these limits must be considered as seller or sales concessions.

### 2. Prepaid Costs

Prepaid settlement costs that are normally paid by the Borrower are any of the following:

- Per diem interest charges from the date of disbursement through the end of the month;
- Real estate taxes covering any period after the date of settlement;
- Property insurance premiums and reserves toward future premiums; and/or
- Escrow accruals required for the renewal of the MI premium.

The property seller (or the Borrower's employer) may pay the following prepaids:

- Interest charges from date of disbursement through the end of the month;
- Real estate taxes covering any period after the date of settlement;
- Hazard insurance premiums and reserves toward future premiums; and/or
- The escrow accruals required for the renewal of the MI premiums.

The amount an Interested Party pays toward prepaid items must be included in total contribution limits. The amount that the Borrower's employer pays towards the prepaids is not included in total contribution limits.

### 3. Sales Concessions

Sales concessions must be deducted from the sales price to reflect the amount of contribution that exceeds the maximum allowable IPCs, and the maximum LTV/TLTV ratios must be recalculated using the reduced sales price or appraised value.

The following are examples of sales concessions:

- Non-real estate items such as moving expenses, furniture, and decorator allowances;
- Contributions that exceed the allowable limits for IPCs are also considered sales concessions; and
- Personal property or “giveaways” (such as furniture, decorator items, automobiles, club membership, etc.).

### 4. Payment Abatements

A payment abatement is where an Interested Party pays or reimburses the Borrower in whole or in part for one or more monthly mortgage payments. The monthly payments may include principal, interest, taxes, insurance, and assessments. Homeowners association fees paid for by an Interested Party in an amount equal to or greater than twelve (**12**) months are considered a payment abatement.

Homeowners’ association fees paid for by an Interested Party in an amount less than twelve (**12**) months are considered an IPC.

Any Mortgage Loan with payment abatements of any type is not eligible for delivery under MAP.

### 5. Minimum Borrower Contribution

In addition to their own funds, borrowers may utilize the following:

Primary Residence and Second Home

- [Gifts](#)

Primary residence only

- [Donations From Entities](#)
- [Employer assistance](#)

Provided the requirements for each are met and the following:

Property Type	LTV/TLTV Ratio	Minimum Borrower Contribution Requirements
One- to four-unit Primary Residence	80% or less	All funds needed to complete the transaction may come from a gift/grant/donation/employer assistance.
One-unit Second Home <b>Grant/donation/ employer assistance contributions prohibited.</b>		All funds needed to complete the transaction may come from a gift.  <b>(Personal Gifts only)</b>
One-unit Primary Residence	More than 80%	All funds needed to complete the transaction may come from a gift/grant/donation/employer assistance.
Two- to four-unit Primary Residence		The borrower must make a 5% minimum borrower contribution from their own funds. <sup>1</sup> After the minimum borrower contribution has been met, gift/grant/donation/employer assistance can be used to supplement the down payment, closing costs, and reserves (except unsecured loans from employers which may not be applied to reserves.)
Second Home <b>Grant/donation/ employer assistance contributions prohibited</b>		The borrower must make a 5% minimum borrower contribution from their own funds. <sup>2</sup> After the minimum borrower contribution has been met, a gift can be used to supplement the down payment, closing costs, and reserves (except unsecured loans from employers which may not be applied to reserves.).  <b>(Personal Gifts only)</b>

<sup>1</sup> If the Borrower receives a gift from a relative or domestic partner who has lived with the Borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the Borrower's own funds and may be used to satisfy the minimum Borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.

<sup>2</sup> If the Borrower receives a gift from a relative or domestic partner who has lived with the Borrower for the last 12 months, or from a fiancé or fiancée, the gift is considered the Borrower's own funds and may be used to satisfy the minimum Borrower contribution requirement as long as both individuals will use the home being purchased as their principal residence.

## C. Depository Accounts

### 1. Bank Statements

Funds on deposit in savings accounts, checking accounts, certificate of deposits, and money market accounts may be used for the down payment, closing costs, and reserves. Accounts which do not allow the Borrower to have immediate access to the funds for these purposes are not acceptable assets.

Two **(2)** most recent monthly bank statements with all pages or a Verification of Deposit and one month's bank statement is the minimum documentation required for the borrower's assets. An explanation and supporting documentation are required for any significant change in an account balance or for any account opened within the last two **(2)** months.

Bank statements must be dated within 120 days of closing. Bank statements must clearly identify:

- Name and address of the depository or investment institution;

- Name of account owners;
- Account number;
- Time period covered by the statement;
- All deposits and withdrawal transactions for depository account or all purchase and sale transactions for a financial portfolio account; and
- Ending account balance.

If a supplemental statement is necessary, any bank-generated form (such as deposit or withdrawal slips) that shows a machine-printed account number, balance, and date is acceptable.

Supplemental information must be on a bank form indicating the name of the PFI or on bank letterhead signed by a bank representative.

Bank statements may be online account or portfolio statements obtained by the Borrower, provided such are printed and the Internet Uniform Resource Locator (URL) address is included identifying the source of information as well as all of the other information listed above for standard bank statements.

## 2. Review of Bank Account Statements

Any indications of borrowed funds must be investigated. Indications of borrowed funds include the following:

- A recently opened account;
- A recently received large deposit (greater than 50% of the total monthly qualifying income for the loan); and/or
- An account balance that is considerably greater than the average balance over the previous few months.

When there is a recently opened account or a large increase in an existing account on a purchase transaction, the source of funds must be explained by the Borrower and verified.

If a large deposit is from another account that is verified in the Mortgage Loan File, that account must be verified after the withdrawal to assure that the assets are not counted twice. All large deposits must be sourced and verified. Unverified funds are not acceptable sources for the down payment, closing costs, and/or reserves.

Asset documentation must be examined for signs of fabrication or alteration. Analyzing the documentation to calculate interest and reviewing deposits against income levels and sources are necessary to validate the documents.

### i. Joint Accounts

Funds held in a joint checking or joint savings account are acceptable since the Borrower has access to all funds in the account at all times.

## 3. Use of Business Funds

Business funds can only be used for down payment and/or closing costs if the Borrower is self-employed. The Borrower's individual tax returns, and business returns if applicable, must be evaluated for that particular business. A business cash flow analysis must confirm that the withdrawal of funds for

this transaction will not have a negative impact on the business. The Borrower must be authorized to withdraw funds from the account and the account must be verified in accordance with the requirements for verifying individual bank accounts.

#### 4. Verification of Deposit

A Verification of Deposit (VOD) completed by the depository or investment institution should be obtained. Each VOD must provide the name and address of the depository or investment institution, as well as the following for each account listed:

- Names of account holders;
- Account number;
- Type of account;
- Opening date;
- Account balance as of the date of the VOD; and
- Average balance for the previous two months.

In cases where average balances are not available, the most recent two months' bank statements must be provided.

The VOD must be mailed or emailed directly to, and returned from, the institution. VODs should never be mailed to a particular person's attention. If the Borrower indicates this is necessary, the Mortgage Loan File must contain verification that an employee of the PFI independently contacted the depository and verified this requirement. The return address on the verification must be the PFI's address. The hand-carrying of verifications is strictly prohibited.

##### i. Direct Verification by a Third-Party Asset Verification Vendor

Direct verification by a third-party asset verification vendor is acceptable if the following requirements are met:

- The Borrower provided proper authorization for the use of this verification method;
- The verified information provided conforms with information that would be provided on a VOD or bank statement; and
- The date of the completed verification is no more than 120 days old at closing.

#### D. Pooled Funds

Funds for the down payment may come from pooled savings if the Borrower can document regular contributions to the savings fund. Acceptable documentation includes:

- Confirmation of the arrangement from the person managing the pooled savings; and
- Account information for the Borrower's contributions.

For purposes of calculating the total debt ratio, ongoing contributions by the Borrower to a pooled savings arrangement should be considered a debt.

## E. Non-Depository Accounts

### 1. Sale of Personal Property

The following documentation is required to evidence the sale of personal assets for funds to close: For personal property previously liquidated, a bill of sale is required, evidencing the following:

- The date of sale;
- The description of the asset sold;
- The sales price;
- The signatures of buyer and seller; and
- A copy of the check from the purchaser of the asset or the Borrower's bank statement verifying the deposit of proceeds from the sale.

For personal property to be liquidated, documentation is required evidencing the following:

- The existence of the asset and the Borrower's ownership of the asset (e.g., car title);
- The value of the asset through a third-party source (e.g., appraisal or blue book); and
- A letter of intent, contract, or other evidence that a buyer exists at the specified price.

Evidence of the actual sale, sufficient proceeds received from the sale, and proof that any outstanding liability owed against the asset was paid in full, is required to be obtained at closing.

### 2. Trust Accounts

Funds disbursed from a trust account where the Borrower is the beneficiary are acceptable if the Borrower has immediate access to them and if trust assets survive for a minimum of thirty-six **(36)** months after the Note date. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the Borrower has access to the funds. When using trust income for qualifying, the effect of the withdrawal must be documented.

### 3. Retirement Accounts

IRA, SEP IRA, 401(k), KEOGH, 403(b), and other IRS qualified retirement plans may be verified with a copy of the most recent monthly or quarterly statement evidencing the Borrower as the owner and the value of the account.

When funds from these sources are used for the down payment or closing costs, the funds must be withdrawn, and proof of withdrawal and receipt of funds must be provided.

When using retirement accounts as reserves, 100% of the vested value may be used.

For retirement accounts that prohibit withdrawals as of the closing date, none of the funds may be used as reserves. Examples of prohibited withdrawals include but are not limited to: restrictions due to Borrower not yet reaching retirement age, the retirement account is used as security for an outstanding loan or the account's trustee or management prohibits a withdrawal for any other reason.

#### 4. Stocks, Stock Options, Mutual Funds, and Government Bonds

The value of stocks, bonds, or mutual funds must be documented by a current statement, a photocopy of the stock certificate accompanied by a current newspaper, an internet stock list or Verification of Deposit.

100% of the value of the asset (as determined below) is permitted when determining available reserves, including mutual funds and retirement accounts. If these are used for down payment and closing costs, no documentation of liquidation is required if the value of the asset is at least 20% more than the total funds needed.

##### i. Stocks and Mutual Funds

The PFI must determine the value of the asset (net of any margin accounts) by obtaining either

- The most recent monthly or quarterly statement from the depository or investment firm; or A copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.

##### ii. Stock options

The value of vested stock options can be documented by:

- A statement that lists the number of options and the option price; and
- Using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock.

Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves.

##### iii. Government Bond

Government bonds should be valued at their purchase price unless redemption value can be determined and verified.

#### 5. Real Estate Proceeds

To use proceeds from the sale of a property for closing costs or cash reserves, the following requirements must be met:

- The closing of the real estate transaction must take place prior to or simultaneous with the closing; and the net proceeds to the Borrower must be verified with the executed Settlement Statement from the sale of the property, which should be retained in the Mortgage Loan File.

#### 6. Earnest Money

The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs.

If the deposit is being used as part of the borrower's minimum contribution requirement, the PFI must verify that the funds are from an acceptable source. See [Verification of Deposits and Assets](#).

A Request for Verification of Deposit (Fannie Mae Form 1006 or Form 1006(S)) must indicate that the average balance for the past two months was large enough to support the amount of the deposit. Bank statements must evidence that the average balance for the past two months was large enough to support the amount of the deposit. If a copy of the canceled deposit check is used to document the source of funds, the bank statements must cover the period up to (and including) the date the check cleared the bank account.

If the PFI is unable to determine that these funds were withdrawn from the borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the realtor, the escrow agent, or the settlement attorney should be provided. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

Receipt of the deposit must be verified by either a copy of the borrower's canceled check or a written statement from the holder of the deposit.

## 7. Sweat Equity

Sweat equity is credit given by the builder or seller for labor performed or material furnished by the Borrower on the Mortgaged Property. Sweat equity is not eligible for any MAP transaction.

## 8. Trade Equity

Trade equity is an acceptable source of funds to supplement the borrower's minimum borrower contribution provided the following requirements are met:

- The seller's equity contribution for the traded property must be a true-value consideration supported by a current appraisal; and
- The borrower must make the minimum required contribution from their own funds unless:
  - The LTV or CLTV ratio is less than or equal to 80%; or
  - The borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See [Personal Gifts, Donations From Entities, and Employer Assistance](#) for additional information.

These requirements apply to all transactions that involve property trades, including those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract.

### Calculating the Equity Contribution

The equity contribution is determined by subtracting the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of either the property's appraised value or the trade-in value agreed to by both parties.

### Documentation Requirements

For real property, the transfer deed must be recorded.

In addition, PFIs must obtain the following:

- A search of the land records to verify the ownership of the property and to determine whether there are any existing liens on the property; and
- Proof of title transfer and satisfaction of any existing mortgage liens for which the borrower was liable.

## 9. Lease/Rent with Option to Buy

Rent credit for option to purchase is an acceptable source of funds toward the down payment or minimum borrower contribution. Borrowers are not required to make a minimum borrower contribution from their own funds in order for the rental payments to be credited toward the down payment.

Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property.

### Documentation Requirements

The PFI must obtain the following documentation:

- A copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and specifying the terms of the lease;
- Copies of the borrower's canceled checks or money order receipts for the last 12 months evidencing the rental payments; and
- Market rent as determined by the subject property appraisal.

## 10. Borrowed Funds Secured by an Asset

Borrowed funds secured by an asset are an acceptable source of funds for the down payment, closing costs, and reserves, since borrowed funds secured by an asset represent a return of equity.

Assets that may be used to secure funds include automobiles, artwork, collectibles, real estate, or financial assets, such as savings accounts, certificates of deposit, stocks, bonds, and 401(k) accounts.

### Secured Loans as Debt

When qualifying the borrower, the PFI must consider monthly payments for secured loans as a debt.

If a secured loan does not require monthly payments, the PFI must calculate an equivalent amount and consider that amount as a recurring debt.

When loans are secured by the borrower's financial assets, monthly payments for the loan do not have to be considered as long-term debt.

### Documentation Requirements

The PFI must document the following:

- The terms of the secured loan;
- Evidence that the party providing the secured loan is not a party to the sale; and
- Evidence that the funds have been transferred to the borrower.

### Reducing the Asset by the Amount Borrowed

If the borrower uses the same financial asset as part of their financial reserves, the PFI must reduce the value of the asset by the amount of proceeds and related fees for the secured loan.

## 11. Bridge Loan Financing

A bridge (or swing) loan is short term financing secured by the Borrower's previous residence, which is usually for sale. No cross-collateralization between the Borrower's previous residence and the new Mortgaged Property may exist. By using funds from a bridge loan, the Borrower may close on a new home before selling the previous home.

The Borrower must be able to qualify carrying all debts involved, including the monthly and the [balloon payment](#) (if any) on the bridge loan and the payments on the new Mortgage Loan.

## 12. Cash on Hand

Cash-on-hand is not an acceptable source of funds for the down payment or closing costs.

## 13. Credit Card Financing

MAP permits certain costs that must be paid early in the application process, such as lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees, to be charged to the borrower's credit card because these fees do not represent extraordinary amounts and the credit card debt is considered in the borrower's total monthly debt-to-income ratio. Borrowers are not required to pay off these credit card charges before closing. Under no circumstances may credit card financing be used for the down payment.

PFI's may allow credit card financing for the payment of common and customary fees paid outside of closing up to 2% of the Mortgage amount<sup>1</sup> if the PFI:

- Confirms that the borrower has sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and the down payment that they will be paying); or
- Recalculates the credit card payment, per [Monthly Debt Obligations](#), to account for the new charges and includes the updated payment in the qualifying ratio calculation.

### i. For DU® scored loans

PFI's must apply this policy manually, by either including the fees charged to the borrower's credit card on line f. Estimated closing costs of the Details of Transaction, and removing any "Borrower Paid Fees" entered in the Other Credits section of the Details of Transaction for the fees paid outside of closing; or by increasing the monthly credit card payment in the liabilities section of the loan case file submitted to DU® to include the charges if not reflected in the credit report.

### ii. For LPA® scored loans

PFI's must populate "Total Liabilities Monthly Payment Amount" (Sort ID 290) with the monthly debt payment as defined in [Monthly Debt Obligations](#), including the amount charged or advanced when it is included in the Borrower's total outstanding debt. Round to the nearest dollar. Additionally, "Investor Feature identified" (Sort ID 368) must have the code 921.

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<sup>1</sup> LPA® scored loans may allow for more in findings but are not permitted for delivery to MAP.

## 14. Employer Assistance

The employer assistance may be in the form of:

- a grant;
- a direct, fully repayable second mortgage or unsecured loan;
- a forgivable second mortgage or unsecured loan; or
- a deferred-payment second mortgage or unsecured loan.

A Borrower of a Mortgage Loan secured by a principal residence may use funds provided by an employer to fund all or part of the down payment or closing costs subject to the minimum Borrower contribution requirements below. Employer assistance can also be used for financial reserves for all types of assistance with the exception of unsecured loans (which may only be used for the down payment and closing costs). Employer assistance funds are not allowed on a second home or an investment property. Funds must come directly from the employer, including through an employer-affiliated credit union.

When employer assistance is extended as a secured second mortgage, the transaction may be structured as a [Community Second](#) or it must satisfy MAP's eligibility criteria for mortgages that are subject to [Subordinate Financing](#). If the secured second mortgage or unsecured loan does not require regular payments of either principal and interest or interest only, the PFI does not need to calculate an equivalent payment for consideration as part of the borrower's monthly debt. If regular payments are required for the secured second mortgage, the payments must be included in the calculation of the debt-to-income ratio.

See [Minimum Borrower Contribution](#) requirements for more details.

## 15. Personal Unsecured Loans

Personal Unsecured Loans are an unacceptable source of funds

## 16. Lot Value

Either the acquisition cost or the current appraised value of the lot that a Borrower is building on may be applied toward down payment, depending upon the length of time the Borrower has owned the lot according to the construction-to-permanent guidelines.

## F. Gifts

The Borrower may use funds obtained as a gift from a relative, established nonprofit organization, municipality, or employer to satisfy part of the cash requirement for closing, provided the [Minimum Borrower Contribution](#) for the loan type is met and provided that no part of the gift must be repaid.

Verification is required to document that sufficient funds to cover the gift are in the donor's account or have been transferred to the Borrower's account.

## 1. Personal Gifts

The donor of the gift must be a relative, domestic partner, or fiancé/fiancée of the Borrower. Examples of a relative are a spouse, child or dependent, or any other person related to the Borrower genetically, through marriage, adoption, or legal guardianship. A gift letter is required listing the donor's name, address (city, state and zip), phone number, relationship to the Borrower, and the dollar amount of the gift. The gift letter must be signed by the donor.

If the gift is from a relative, fiancé/fiancée, or domestic partner who has resided with the Borrower for at least the last twelve (**12**) months and intends to continue to reside with the Borrower, then the gift may be considered the Borrower's own funds. The PFI must also verify that the occupancy requirements are met, which may include obtaining additional documentation or information.

When the gift funds are received prior to the initial verification of assets (i.e., bank statement balance includes gift funds), the Mortgage Loan File must contain the following documentation:

- Verification of funds in the Borrower's account; and
- Verification of the transfer of the gift funds from the donor to the borrower.

When the gift funds are received after the initial verification of assets, the Mortgage Loan File must contain the following documentation:

- Verification of the transfer of the gift funds from the donor to the Borrower; and
- A copy of the donor's withdrawal slip and Borrower's deposit slip, or by a copy of the donor's canceled check and evidence of deposit into Borrower's account.

When the gift funds are transferred at closing, the Mortgage Loan File must contain the following documentation:

- Verification of the transfer of the gift funds from the donor to the Borrower; and
- Transfer of funds verified by a copy of the donor's check with proof it came from the donor's account, or wire transfer reflecting the donor as the remitter and one line of the Closing Disclosure clearly indicating the exact amount of the gift funds received from the donor.

All gifts must comply with [Minimum Borrower Contribution](#) requirements.

## 2. Gift or Grant from a Municipality, Nonprofit Organization, or Employer

A gift or grant from a municipality, nonprofit religious organization, nonprofit community organization, or the Borrower's employer must be evidenced by a copy of:

- The award letter sent to the Borrower; or
- The legal agreement that specifies the terms and conditions of the gift or grant.

An employer may provide financing to a transferred employee or a newly hired employee who is purchasing a Primary Residence at a new job location. The definition of employee includes military personnel. Employer financing must be made pursuant to an established corporate employee relocation program that is administered by the employer or its agent. The employer financing may consist of any of the following:

- Funds to cover the down payment and/or closing costs;

- The funding of a below-market Note Rate or no-interest bridge loan; and/or
- Payment of the difference between the property tax and/or Note obligation for the employee's previous Primary Residence and the employee's new Primary Residence.

If the gift or grant is from the Borrower's employer, the employer's formal gift program must be verified. Examples of acceptable documentation include, but are not limited to the following:

- Copy of gift program guidelines from employee handbook; and
- Letter from employer's human resources department.

The Mortgage Loan File must contain the following evidence of the transfer of the funds:

- The award letter or the legal agreement verifying all of the following:
  - That repayment of the gift or grant is not required;
  - How the funds will be transferred (e.g., to Borrower, closing agent, PFI, etc.); and
  - The fact that there will be no lien placed against the property as a result of the gift or grant.

All gifts must comply with [Minimum Borrower Contribution](#) requirements.

### 3. Gift of Equity

Where all or part of the down payment was supplied by a gift from the property seller, the following conditions must be met:

- The property seller must be a relative of the Borrower;
- A gift letter must be obtained which is signed by the donor and which indicates **(1)** the dollar amount and date of the gift; **(2)** the donor's name, address, telephone number, and relationship to the Borrower; and **(3)** the donor's statement that no repayment is required; and
- The gift of equity must be reflected on the final Closing Disclosure.

## 16. Unique Eligibility and Underwriting Considerations

### A. Construction-to-Permanent Transactions

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a Borrower for the purpose of replacing construction (or interim) financing that the Borrower has obtained to fund construction of a new property. Construction-to-permanent loans are eligible under MAP, so long as the construction phase is completed, and permanent financing is in place prior to purchase by FHLBNY.

The payoff of a construction loan or conversion to permanent financing may be accomplished in two ways:

- A single Closing; or
- Dual Closings.

#### 1. General Requirements

All underwriting requirements in this Guide apply to construction-to-permanent loans to the extent that they do not conflict with the following requirements:

- The certificate of occupancy must have been issued; the Borrower must have accepted the Mortgaged Property as complete, and the loan must be amortizing with regularly scheduled Principal and Interest Payments. In a jurisdiction that does not issue certificates of occupancy or equivalent permission to occupy homes, the certification customary in that jurisdiction may be submitted;
- The Borrower must hold title to the lot, which was acquired previously or acquired as part of the transaction;
- The Property type is not a condo or manufactured home;
- The Mortgage Loan must be insured by a valid title insurance policy or title opinion with no encumbrances as of the date of the permanent Mortgage Loan;
- The minimum Borrower contribution must be met unless the Borrower acquired the lot or land a year or more prior to the Mortgage Loan Application and uses the lot or land as their minimum funds requirement;
- An Appraisal Update and/or Completion Report (Fannie Mae Form 1004D / Freddie Mac Form 442) completed by the appraiser is required for all Appraisals made subject to completion in accordance with plans and specifications;
- The Mortgage Loan must not be delivered as an expedited refinance;
- If loan delivery is via the MAP Website, the Loan Type / Loan Plan Code should be "Construction/ Permanent";
- If loan delivery is via batch processing and the loan is a purchase transaction, a Loan Plan Code of LT06 must be used to identify the loan as a construction-to-permanent loan; and
- The underwriting analysis must be based upon the terms of the permanent Mortgage Loan.

Where the Borrower is not the owner of record prior to the construction (or interim) financing, the transaction is subject to the following conditions (in addition to the general requirements listed above):

- The transaction must be delivered as a purchase transaction;
- The permanent Mortgage Loan File must contain evidence of the purchase price and/or acquisition cost of the improvements and the lot (if acquired separately); and
- The LTV / TLTV must be based upon the lower of the appraised value or the purchase price / acquisition cost

Where the Borrower is the owner of record prior to the construction (or interim) financing, the transaction is subject to the following conditions (in addition to the general requirements listed above):

- The transaction must be delivered as a refinance transaction;
- The date of acquisition of title to the lot must be documented; and
- The value used for LTV / TLTV calculation must be determined by using the current appraised value of the lot and improvements.

## 2. Single Close Transactions

A construction-to-permanent single close loan is a residential Mortgage Loan that allows disbursements for construction of the improvements on the property through the initial phase of the loan. Upon completion of the property improvements, the loan reverts to amortizing over the remainder of the term of the loan by a rider or modification. Monthly payments on the outstanding balance may be interest-only during the construction phase. There may be a maximum allowable term. When construction is complete, the loan is modified to a fully amortizing loan over the remaining term of the loan with annual interest rate and payment adjustments.

A single close may close as a purchase or limited cash-out refinance transaction. If closing as a purchase, the Borrower cannot own the lot prior to the loan application. If closing as a limited cash-out refinance, the Borrower must hold title before applying for the interim construction financing.

The Note automatically converts to permanent financing upon completion of construction. A construction rider must document the terms of the construction financing, including such items as adjustable rate terms. The Uniform Instruments must include a uniform fixed rate Note and the following provision:

*"If a Federal Home Loan Bank buys all or some the [the PFI's] rights under the Mortgage [deed of trust] and Note, the promises and agreements in this rider will no longer have any force or effect."*

The rider must be referenced in the instrument and be firmly attached to that instrument. If changes or additions are necessary to assure the first priority, a statement that they become void upon purchase by a Federal Home Loan Bank is not required. The statement is also not required if the changes or additions cease to be effective before the delivery date.

The Loan Modification Agreement (Fannie Mae Form 3179) should be used and recorded in addition to recording the original security instrument. The Note and Security Instrument of the permanent Mortgage Loan must reflect an accurate first payment due date and maturity date. The loan amount and Note Rate may be adjusted. If the permanent loan amount or the permanent Note Rate is greater than the construction loan amount and rate, the Borrower must be re-qualified under MAP underwriting guidelines in effect at the time of conversion.

### 3. Dual Close Transactions

A dual close construction loan is an interim loan made to finance the construction of a residential property. It allows for periodic disbursements during the construction period with interest-only payments on the disbursed amounts. The loan becomes due at the completion of construction. This loan cannot be modified into long-term financing and requires the outstanding balance become due upon completion of construction. A dual closing consists of one closing transaction for the construction phase and another closing for the permanent financing. The Mortgage Loan File should contain both sets of documents.

A dual close may be closed as a limited cash-out or cash-out transaction.

## B. Property Assessed Clean Energy (PACE) Loans

Mortgage Loans secured by a Mortgaged Property with an outstanding PACE or similar program loan, are not eligible for delivery under MAP.

## C. Affordable Housing Program (AHP) Funds (Updated 5/1/2023)

This section describes the requirements for affordable housing financing that is provided by a Federal Home Loan Bank (FHLB) or provided by another third party.

Mortgage Loans with AHP funds must be a purchase, rate and term, or limited cash-out refinance transaction.

The maximum LTV for Mortgage Loans with AHP funds is ninety-five percent (95%), with the exception of Conventional High-Balance Mortgage Loans, which are subject to a maximum LTV of ninety percent (90%). The maximum TLTV (first Mortgage Loan plus the grant and any subordinate financing, if applicable) for loans with AHP funds is one-hundred and five percent (105%).

The income limits established by the AHP funds provider must be followed.

### 1. FHLB Funds

The FHLB Affordable Housing Program provides subsidies (grants) to member institutions to assist in the creation and preservation of housing for lower income individuals and families.

Mortgage Loans with FHLB AHP funds may be delivered to FHLB NY. Homebuyer Dream Program®, Down Payment Plus/Plus Advantage Grants, Homeownership Opportunity or equivalent funds from an FHLB are eligible.

Prior to the delivery of Mortgage Loans with FHLB funds, FHLB NY's AHP must be approved for use under MAP. The PFI should contact FHLB NY for more information.

### 2. Non-FHLB Funds

Non-FHLB AHP funds may be provided by:

- A federal agency, municipality, state, or county;

- State or local housing finance agency; or
- A nonprofit organization.

Non-FHLB AHP funds must meet the following requirements:

- AHP funds may not be provided by the property seller or another Interested Party to the transaction;
- AHP funds are only permitted for Primary Residences; and
- AHP funds may be used toward the Borrower's down payment, closing costs, or property renovations.

The PFI must ensure all AHP second lien programs comply with the requirements in this Guide. The AHP Checklist (Exhibit G) may be used to assess whether a non-FHLB AHP program is acceptable.

### 3. Repayment Terms

The following repayment terms are acceptable for AHP funds:

- Fully amortizing, level monthly payments;
- Payments deferred for a period of time that are subsequently changed to fully amortizing, level monthly payments;
- Payments deferred for the entire loan term that only become due and payable if the Borrower pays off the mortgage or sells the Mortgaged Property prior to the maturity date of the AHP second; and
- A loan that is forgiven over time.

If the loan terms provide for payments that are deferred for five years or more, then the monthly payment of the AHP second is not required to be included in the debt-to-income ratio. If the payments are deferred for less than five (5) years, then the monthly payment of the AHP second must be included in the debt-to-income ratio.

## D. Modular, Prefabricated, Panelized, or Sectional Housing Eligibility (Updated 12/1/2020)

### Modular Homes

FHLBNY purchases loans secured by modular homes built in accordance with the Uniform Building Code administered by state agencies responsible for adopting and administering building code requirements for the state in which the modular home is installed. Loans secured by on-chassis modular construction are not eligible for sale to FHLBNY.

### Prefabricated, Panelized, and Sectional Homes

Loans secured by prefabricated, panelized, or sectional housing are eligible for purchase. These properties do not have to satisfy HUD's Federal Manufactured Home Construction and Safety Standards or the Uniform Building Codes that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be located.

### Modular, Prefabricated, Panelized, or Sectional Housing Requirements

Factory-built housing not built on a permanent chassis such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible under the guidelines for one-unit properties. These types of properties

- must assume the characteristics of site-built housing;
- must be legally classified as real property; and
- must conform to all local building codes in the jurisdiction in which they are permanently located.

The purchase, conveyance, and financing (or refinancing) must be evidenced by a valid and enforceable first-lien mortgage or deed of trust that is recorded in the land records, and must represent a single real estate transaction under applicable state law.

MAP affords modular, prefabricated, panelized, or sectional housing homes the same treatment as site-built housing. Therefore, MAP does not have minimum requirements for width, size, roof pitch, or any other specific construction details.

## 17. Appraisal Requirements

### A. Appraiser Independence

All Appraisals must comply with Uniform Standards of Professional Appraisal Practice (USPAP), and all applicable federal, state or local requirements. In addition, appraisers, third parties, or affiliate originators used in conjunction with delivery of an Appraisal under MAP shall adhere to the regulations and requirements established as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Home Valuation Code of Conduct, and Appraiser Independence Requirements. The PFI must have written policies and procedures with respect to the Appraiser Independence Requirements.

The appraiser must not have a direct or indirect interest, financial or otherwise, in the Mortgaged Property or in the transaction. The appraiser must be independent of the origination process. When the appraiser is employed by the PFI in any capacity, the appraiser's position or job duty cannot adversely affect the appraiser's ability to independently estimate the property's value, condition and characteristics. In addition, no employee, director, officer or agent of the PFI, or any other third party acting in any capacity shall influence or attempt to influence the appraiser and appraisal assignment through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or in any other manner. The appraiser cannot be employed by or affiliated with any Interested Party as defined in [Interested Party Contributions](#). Selection criteria should ensure that the appraiser is independent of the transaction and is capable of rendering an unbiased opinion.

An Appraisal prepared by an individual who was selected or engaged by a Borrower, property seller, real estate agent, or other Interested Party is not acceptable. Re-addressed Appraisals or Appraisal reports that are altered by the appraiser to replace any references to the original client with the PFI's name are not acceptable.

The individuals engaged in the selection process of appraisers for a panel of approved appraisers or substantive appraisal review must be appropriately trained and qualified in the area of real estate appraisals. The PFI's production staff, any person who is compensated on a commission basis upon successful completion of a Mortgage Loan, and any person whose immediate supervisor is not independent of the production staff and process is prohibited from selecting, retaining, recommending, or influencing the selection of an appraiser for an appraisal assignment or for inclusion on a list of appraisers approved or forbidden from performing appraisals for the PFI. These individuals shall not have any substantive communication on the valuation, ordering, or managing of an appraisal assignment with the appraiser or appraisal management company. If lines of independence cannot be achieved due to the PFI's small size and limited staff, the PFI must be able to clearly demonstrate that it has prudent safeguards to isolate its collateral evaluation process from influence or interference from its mortgage production staff.

Effective internal controls require that only qualified and adequately trained underwriters, who are not involved in the loan production process, review Appraisals. To maintain independence, the underwriter should not directly report to someone involved in loan production. The underwriting review should include confirming the independence of the appraiser in addition to a comprehensive technical review of the appraiser's analysis prior to making a final credit decision.

FHLBNY may refuse to accept an Appraisal prepared by a specific appraiser or may notify a PFI that it will no longer accept Appraisals prepared by a given appraiser.

## B. Property Flipping

“Property flipping” or a “flip” is generally defined as a purchase transaction for a property that has recently been acquired by the property seller and is being sold for a quick profit. Flip transactions are generally ineligible, but may be approved on a case-by-case basis. All cases must be discussed with FHLBNY for exception, and pricing will be adjusted as necessary.

The following red flags may indicate a property flip and should be further investigated:

- Subject property being re-sold with a large price increase after being recently renovated;
- Property seller is an LLC (Limited Liability Company);
- Inconsistencies exist between the owner as listed on the Appraisal, the vested owner as listed on the title commitment, and the seller as listed on the sales contract;
- Comparable sales in the Appraisal do not appear to be the best available comparable sales;
- Comparable sales have transferred multiple times within twelve (**12**) months, or the Appraisal reflects excessive adjustments;
- Title commitment reflects multiple deeds necessary to effect transfer of title;
- Title commitment, sales contract and/or the Appraisal report lists the owner only as “owner of record”;
- Seller holds second mortgage; or
- Title search reveals several changes in ownership over the course of a few months.

## C. Appraisal Standards (Updated 5/17/2021)

An Appraisal must be performed for each Mortgage Loan delivered under MAP.

The PFI is required to document that all appraisers are state-licensed or state-certified in accordance with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws and that the state license or certification is active on the effective date of the Appraisal. The appraiser who personally inspected the Mortgaged Property must legibly input their name, signature, the appraisal firm name, and the state license or certification number on the Appraisal.

When an appraiser trainee is used, the trainee must sign the left side of the appraiser certification section of the Appraisal. The supervising appraiser must sign the right side of the appraiser certification section of the Appraisal and ensure compliance with all Applicable Laws.

PFI's are required to utilize appraisers and/or appraisal management companies that use the Uniform Appraisal Dataset (UAD) appraisal report forms and to ensure that applicable appraisals conform with Appendix D (Field-Specific Standardization Requirements) of the Fannie Mae and Freddie Mac UAD Specifications.

The Appraisal must be computer-generated (Adobe Format, PDF) on the current form applicable to the product and property type, with no blanks, alterations, or omissions. It must include the appropriate attachments or addenda, and color pictures are required. The Appraisal must present a complete and accurate evaluation of the Mortgaged Property that supports the appraised value.

There are three methods for determining market value: the sales comparison analysis, cost approach, and the income approach. The appraiser must reconcile the valuation methods required on the Appraisal form, stating the approach relied upon most heavily and the rationale for the value conclusion.

## D. Documentation Standards

### 1. Appraisal Reports

This section addresses the Appraisal reports that are acceptable under MAP. The following elements are required with all Appraisals:

- A street MAP that shows the location of the subject property and all comparable sales the appraiser used;
- A sketch of the building improvements or condominium unit with dimensions and calculations used to estimate for gross building area;
- Clear, descriptive photos that show the front and rear of the subject, and a street scene;
- Clear, descriptive photos that show the front of each comparable sale;
- Photos should include any improvements, amenities, conditions, and external influences that materially impact market value or marketability;
- Any other data necessary to provide an adequately supported opinion of market value; and
- Interior Appraisals should also include clear, descriptive photos that show the following:
  - The kitchen, all bathrooms, and the main living area;
  - Examples of physical deterioration, if present; and
  - Examples of recent updates such as restoration, remodeling, and renovation, if present.

#### i. Fannie Mae 1004/Freddie Mac 70: Uniform Residential Appraisal Report (URAR)

Uniform Residential Appraisal Report (Fannie Mae 1004/Freddie Mac 70) is acceptable to use to appraise one- unit properties, including attached and detached units in PUD projects, and condominium projects that consist solely of detached dwellings.

When completing Form 1004, the appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect the neighborhood;
- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report their analysis, opinions, and conclusions.

#### ii. Fannie Mae 1073/Freddie Mac 465: Condominium Project

Individual Condominium Report (Fannie Mae 1073/Freddie Mac 465) is used to appraise an attached unit in a condominium project based on an interior and exterior inspection of the Mortgaged Property.

The appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect and analyze the condominium project;
- Inspect the neighborhood;
- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report their analysis, opinions, and conclusions.

### iii. Fannie Mae 1025/Freddie Mac 72: Small Res. Income Property Appraisal Report

Small Res. Income Property Appraisal Report (Fannie Mae 1025/Freddie Mac 72) is used for all 2–4-unit properties.

The appraiser must, at a minimum, do the following:

- Perform a visual inspection of the interior and exterior areas of the Mortgaged Property;
- Inspect the neighborhood;
- Inspect each of the comparable sales, at least from the street;
- Research, verify, and analyze data from reliable public and/or private sources; and
- Report their analysis, opinions, and conclusions.

### iv. Fannie Mae 1004D: Appraisal Update and/or Completion Report

Appraisal Update and/or Completion Report (Fannie Mae 1004D) is required for Appraisal updates and/or completion reports for all 1–4 unit Appraisal reports. At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the Mortgaged Property must be included.

### v. Fannie Mae 1004MC/Freddie Mac 71: Market Conditions Analysis

The Market Conditions Addendum (Fannie Mae 1004MC/Freddie Mac 71) is required for all Mortgage Loans and must accompany the Appraisal. The Market Conditions Addendum is intended to provide a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The form provides the appraiser with a structured format to report the data and more easily identify current market trends and conditions. The appraiser’s conclusions are to be reported in the “Neighborhood” section of the Appraisal report.

The total number of comparable active listings in the Market Conditions Addendum should be based on the effective date of the Appraisal. For example, the total number of active listings for the most recent 3-month period should reflect the number of listings as of the effective date of the Appraisal, not a cumulative number of listings for the entire 3-month period.

### vi. Fannie Mae 2000/Freddie Mac 1032: One-Unit Residential Appraisal Field Review Report

When a field review is required, the appraiser should use the Fannie Mae 2000/Freddie Mac 1032 (One-Unit Residential Appraisal Field Review Report).

## 2. Appraisal Age

The effective date of the Appraisal must be no more than 12 months prior to the Note date. If the Appraisal is more than 120 days old on the Note date, then an Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac 442) must be completed by the original appraiser or a qualified appraiser from the same firm approved by the PFI and must include an exterior inspection of the Mortgaged Property. If the appraiser indicates on the Appraisal Update and/or Completion Report that the Mortgaged Property has declined in value, then a new full Appraisal must be completed.

An Appraisal obtained during a previous mortgage transaction originated by the same PFI to the same Borrower may be used, provided the following requirements are met:

- The Appraisal age requirements above are met;

- The new transaction is a limited cash-out refinance; and
- The PFI ensures that the property has not undergone any significant remodeling, renovation, or deterioration that would materially affect the market value of the property.

### 3. Escrow for Completion/Postponed Improvements

Most improvements on the Mortgaged Property must be completed prior to closing. The improvements must be unimpaired by fire, windstorm or other perils. Certain exceptions are allowed and are detailed in this section.

#### i. Requirements for New or Proposed Constructions

Where the Mortgaged Property is newly constructed and improvements that do not affect the livability of the property or the Borrower's ability to obtain a certificate of occupancy (if common and customary to the area) from the applicable government authority cannot be completed for justifiable reasons, such as inclement weather or shortages of building materials, the Mortgage Loan may be delivered before those improvements are completed if:

- An adequate cash escrow for the postponed improvements is established;
- The terms of the postponed improvements must be included as part of the sales contract for the Mortgaged Property, and cannot be part of a third-party contract;
- The certificate of occupancy is verified in writing by the appraiser;
- The value of the incomplete improvements is less than or equal to ten percent (10%) of the value of the completed Mortgaged Property; and
- Mortgage and title insurance are not impaired or negatively impacted during the escrow period.

An executed escrow agreement, for 120% of the cost of improvements, must state how the escrow account will be managed and how funds from the escrow account will be disbursed. The escrow holdbacks may be held and managed by the title company. Release of the escrow holdbacks require evidence and a certificate of completion by the appraiser that is signed off by the PFI.

The improvements must be completed within 180 days of the Note date. Once the improvements are complete, the Mortgaged Property must be inspected by the original appraiser, if available, or another qualified appraiser. The appraiser must provide an Appraisal Update and/or Completion Report (Fannie Mae Form 1004D / Freddie Mac Form 442) accompanied by photographs of the completed improvements, which must be included in the Mortgage Loan File.

#### ii. Requirements for Existing Construction

Where the Mortgaged Property is existing, and not newly constructed, the PFI must review the Appraisal to ensure that there are no minor conditions and deferred maintenance projects that affect the safety, soundness, or structural integrity of the Mortgaged Property. If minor conditions are noted by the appraiser, but they do not affect the safety, soundness, or structural integrity of the property, then the Appraisal may be completed "as is". Such minor conditions must be represented in the appraiser's opinion of the property's value but do not need to be completed prior to delivering the Mortgage Loan.

An escrow account may be established for completion of the minor conditions. The Mortgage Loan may be delivered prior to disbursement of the escrow funds and prior to completion of the work,

provided that the PFI ensures the minor conditions do not compromise the safety, soundness, or structural integrity of the Mortgaged Property.

## E. Neighborhood Section of Appraisal

### 1. Neighborhood

The neighborhood of the property must be acceptable as collateral for a Mortgage Loan under MAP. The appraiser must take all data, influences and factors into consideration including regulations, laws and taxes that are imposed on properties. Factors that affect the marketability of the neighborhood (such as proximity to employment and amenities and appeal to market) should be described. Analysis should include economic trends, location influences and neighborhood amenities. Market conditions and trends should be supported by statistical information.

### 2. Marketability/Predominant Value

The Mortgaged Property must be located in a market area of similarly priced homes. The relationship between appraised value and predominant value should be reasonable. A Mortgaged Property with a value significantly in excess of the predominant value may be ineligible. Typically, the Mortgaged Property value should not exceed 50% of the market area's predominant value.

### 3. Race or Racial Distribution

Any mortgage supported by an Appraisal that discloses race or the racial distribution of a neighborhood is ineligible.

## F. Site Section

### 1. Zoning Compliance

The Mortgaged Property must be zoned as "residential". "Highest and best use as improved" must be the present use indicated on the Appraisal (any other indications of "highest and best use" are not acceptable) and the Mortgaged Property's use must be residential (Mixed use as defined in Section O below are permitted). In addition, the appraiser should provide a general statement with respect to what the zoning permits, regardless of zoning classification. The appraiser must explain any change in land use. Present improvements should conform to zoning regulations. If the zoning is not "residential" and the use a "legal conforming use", the PFI must further review the zoning compliance and determine eligibility as follows:

Scenario	Eligibility
Property is subject to certain land-use restrictions that create setback lines or other provisions that prevent the reconstruction if the improvements are damaged or destroyed	Property is ineligible
Property is zoned “legal, but “non-conforming” due to density restrictions but allows for re-construction to current density in the event the Property is partially or fully destroyed	Property is eligible provided the Loan File includes either a copy of the applicable zoning regulations or a letter from the local zoning authority that authorizes reconstruction to current density
Property is zoned “legal” but “non-conforming” due to neighboring land use	Property may be eligible provided the Appraisal analysis addresses the adverse effect that the non-conforming use has on the value and marketability of the Property
Property is zoned “legal”, but “non-conforming” and cannot be rebuilt in the event of partial or full destruction, or if the property is “illegal”	Property is ineligible
Property is not subject to zoning or is located in a rural area	Property is eligible if the surrounding property is compatible with residential usage

## 2. Lot Size (Acreage)

A Mortgaged Property should not contain excess acreage as compared to like properties within its market. The lot size described in the Appraisal should correspond to the legal description provided in the Security Instrument, the final title policy/attorney’s opinion, public records and, if provided, the survey. The underwriter should review the sales comparison analysis approach to determine if the comparables support the acreage and location of the Mortgaged Property.

The appraiser and the underwriter must address the acreage issue and the residential nature must be the highest and best use of the Mortgaged Property. If the land value is higher than the area norm, the appraiser must adequately explain the impact.

## 3. Drainage/Flood Hazard

Drainage problems or the existence of a flood hazard condition should be addressed by the appraiser. Such conditions or major problems may require physical correction or flood insurance.

## G. Improvements/Comments Section

In this section of the Appraisal, the PFI should look for those physical features most like other similarly sized dwellings in the market area. Construction components and special features should be similar to the other properties in the marketplace. Certain characteristics that are not similar, for example, a room list that is not typical or amenities that do not meet market expectations, may negatively affect market appeal. The appraiser must comment on the effects the nonconformity has on value and marketability.

Curable structural factors may be acceptable under certain conditions when properly justified.

**Condition of Improvements**

The property improvements should be at least in average condition and not negatively affect either the livability or marketability of the property. Minor cosmetic deficiencies are not a major concern.

The condition of the major components such as the roof, foundation, plumbing, electrical, and heating, may be an issue.

The comparables should support a market demand for similar properties by reasonable proximity to the subject rather than being located in a different section of the city or town.

**Additional Features (including Energy Efficiency Improvements)**

The appraiser should describe all additional features of a property. Over-improvements and limited market appeal features (e.g., gold fixtures and extensive sound systems) should be adjusted to reflect market demand rather than cost.

Additional builder options on newly constructed properties should be reviewed carefully. For example, if the subject has \$5,000 in options, such as upgraded wall coverings, carpeting and built-ins, the appraiser must be careful that the costs of these items are truly reflected in the resale market. Often the options do not recapture dollar-for-dollar cost in market value. At least one comparable sale should have options or extras similar to the subject's. Furniture, fixtures and other personal property cannot be included in the market value of a property and are considered sales concessions.

Homes with energy efficiency improvements are eligible under MAP when marketability can be justified through comparable sales and any additional cost is supported by the market. The PFI should underwrite these properties based on the evaluation of the individual loan and not require special documentation or ratio guidelines for energy-efficient properties.

**Off-site Improvements**

Private road maintenance should be identified. Further explanation may be necessary if the condition or adequacy of a private road is not typical.

**H. Property Condition Section**

The Condition rating selected for the property must reflect a holistic view of the condition of the property improvements. It would be inappropriate to select either a lower or higher overall rating on the basis of one or two minor inferior or superior areas of the property improvements. However, the **C6** rating is an exception because it indicates that the property is impacted by one or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. As a result, if any portion of the dwelling is rated a C6, the whole dwelling must be rated a C6.

Properties with a Condition Rating of C6 are eligible for sale under MAP provided any deficiencies that impact the safety, soundness, or structural integrity of the property are repaired prior to delivery of the loan. The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

## I. Changes in Value

If an increase in value is due to remodeling or renovation of the Mortgaged Property, the appraiser must provide acceptable photos of all improvements to support the increase.

Additional information may be required from the seller to document an increase in value. A desk review, field review, or second Appraisal may be requested if deemed necessary.

## J. Prior Sales Activity

The appraiser must provide and analyze prior sales activity or transfers for the last thirty-six (**36**) months or the minimum period required by Applicable Law, whichever is greater, for the Mortgaged Property and last twelve (**12**) for the comparables. The effect on the value of the Mortgaged Property and comparables of prior sales and transfers must be described. Adverse value trends need to be identified and explained. If the information and analysis was not provided, the appraiser must explain why it was not performed.

## K. Comparable Sales

### 1. General Requirements

Appraisals must include at least three (**3**) comparable sales that have closed within six (**6**) months prior to the effective date of the Appraisal. In some markets, compliance with this requirement may be difficult or not possible due to the lack of market data. In this case, a detailed explanation is required. The appraiser is expected to include two (**2**) sales that are as similar as possible to the Mortgaged Property, in order to show recent market activity, including the following:

- At least three (**3**) comparables must be closed sales and must be included on the Appraisal grid. Current listings or pending sales may be used in addition to the three (**3**) closed sales to support the Appraisal data and value of the property;
- At least two (**2**) comparable sales should be located within one (**1**) mile of the Mortgaged Property (an exception is made for rural properties where comparables may be farther away). Any comparables greater than one (**1**) mile from the Mortgaged Property must be explained by the appraiser;
- Appraiser must provide data on market trends in the subject area;
- Appraiser must address declining property values, any over-supply, or marketing times over six months;
- Appraiser must address the impact on marketability and value of both favorable and unfavorable factors;
- Appraiser must evaluate any sales concessions for their effect on the marketability of the property;
- Appraiser must avoid using subjective, racial or stereotypical terms, phrases, or comments within the Appraisal report;
- Days on the market must be reported for the Mortgaged Property and each comparable sale and must support the average marketing time listed on page one of the Appraisal report;
- The appraiser must provide and analyze prior sales activity or transfers for the last thirty-six (36) months or the minimum period required by Applicable Law, whichever is greater, for the Mortgaged Property and last twelve (12) months for the comparables. The effect on the value of the Mortgaged Property and comparables of prior sales and transfers must be described.

Adverse value trends need to be identified and explained. If the information and analysis was not provided, the appraiser must explain why it was not performed; and

- The final value of the Mortgaged Property must reflect the most reliable sales data, not an average of the three **(3)** comparables.

## 2. New Projects/New Subdivision Requirements

The following are required for new construction:

- One **(1)** closed comparable is required from inside the subject development/project;
- At least one **(1)** closed comparable is required from outside the development/project and/or from outside the influence of the developer;
- Additionally, if possible, a minimum of two **(2)** resale comparables should be provided to verify that current transactions have been exposed to the open market; and
- If resales cannot be obtained, the appraiser must address and adequately support the final valuation of the Mortgaged Property.

When there are no closed sales within a new project or subdivision, two pending sales from the project or subdivision may be used in place of one closed sale. In this instance, three closed comparables from outside the project or subdivision are also required.

An appraiser may need to rely on a builder in order to provide comparable sales data within the subject property's subdivision or project. In such a circumstance, the appraiser may rely on the builder's copy of the final settlement statement, signed by all parties, to verify the transaction of the comparable sale if the data is not yet available through typical data sources, such as public records or multiple listing services.

## 3. Rural Appraisal Requirements

Recent comps are required to establish marketability. There may be a shortage (or absence) of recent comparable sales in the immediate vicinity of a property that is in a rural location. The use of comps located more than one **(1)** mile from the Mortgaged Property is allowed to support the Mortgaged Property value, provided use of such comps is addressed by the appraiser.

Rural properties should not contain excess acreage as compared to like properties within that market. The appraiser must appraise and accurately describe the entire site and include all improvements contained on the Mortgage Property regardless of the total acreage the property contains. The site size described in the Appraisal should correspond to the legal description provided in the Security Instrument, the final title policy, public records and survey. The underwriter should review the sales comparison analysis approach to determine if the comparables support the acreage and rural location of the subject property.

Properties with outbuildings must be given special consideration in the underwriting and Appraisal review. Properties with minimal outbuildings that are of relatively insignificant value in relation to the total appraised value of the Mortgaged Property (such as a small barn or stable) are acceptable if the appraiser demonstrates through the use of comparable sales that the improvements represent typical residential improvements for the location and property type, for which an active, viable residential market exists.

Properties with significant outbuildings (such as a large barn, a storage area or facilities for farm-type animals, or a silo) may indicate that the Mortgaged Property is agricultural in nature. In such cases, the PFI must review the Appraisal to determine whether the improvements are residential or agricultural in nature, regardless of whether the appraiser assigns any value to the outbuildings.

## L. Adjustments

The size of the adjustments indicates the extent of differences between the comparables and the Mortgaged Property. Large adjustments must be fully explained by the appraiser. Large adjustments for site / view, design and appeal, quality of construction, age, or condition may be an indication that the comparables are not truly comparable.

Adjustments must be consistent for all comparables. Total gross adjustments for two **(2)** of the three comparables must not exceed twenty-five percent (25%) of the sales price. Individual line adjustments for two **(2)** of the three comparables must not exceed ten percent (10%) of the sales price.

One-directional adjustments need further explanation. Property value may be inflated when all of the comparables are significantly superior or inferior to the Mortgaged Property. When all of the adjustments are positive or all are negative, the valuation may be questionable.

## M. Cost and Income Approaches

### 1. Cost Approach

The cost approach method estimates value by determining the cost of reproducing the Mortgaged Property using current material prices, then subtracting estimated depreciation, and then adding the value of the site and site improvements.

The site value and the proportion of the value of the site to the value of the residence must be in line with other values in the neighborhood. The cost per square foot should also be in line with other properties in the area.

The appraiser must make adjustments for any physical, functional, and external depreciation.

### 2. Income Approach

The income approach bases the value on the amount of income the Mortgaged Property could generate from rent. This approach may be used for two- to four-unit properties. The income approach may not be the sole method used to determine the value of the Mortgaged Property. Comparable sales must be used to support the value determination.

## N. Reconciliation Section

In the reconciliation section of the Appraisal, the final value used for the "Certification of Appraisal and final value" must reflect the most reliable sales data, not an average of the three **(3)** comparables.

If the PFI considers an Appraisal report deficient, it should address the deficiencies as follows:

- Contact the appraiser to address deficiencies contained in the Appraisal report;
- Obtain a desk review or a field review of the original Appraisal report; or
- Obtain a new Appraisal report on the Mortgaged Property.

It is not acceptable for the PFI to arbitrarily change the opinion of market value from an Appraisal report, regardless of how the PFI arrives at such conclusions (such as averaging the two opinions of market value, etc.) in order to arrive at a final value.

The PFI may return the Appraisal report to the appraiser who completed the assignment, identifying the deficiencies found, and provide justification for the request that the appraiser address the deficiencies.

If the Appraiser fails to address the deficiencies, a desk or field review of the original Appraisal report may be requested or a new Appraisal may be completed. If a review Appraisal is requested, the appraiser completing the review must be licensed in the state in which the Mortgaged Property is located and possess the knowledge and experience to appraise the Mortgaged Property with respect to both the property type and geographical location. If a new Appraisal is completed, the new Appraisal must be based on the same level of inspection required for the original Appraisal report.

The property value indicated in the review or new Appraisal must be used. Use of the value from the original appraiser is not acceptable.

The Mortgage Loan File must be documented when addressing any Appraisal deficiency with the underwriter's actions and determination to accept final property value and eligibility. In the event a PFI has a reasonable basis to believe an appraiser or appraisal management company is violating Applicable Laws, or is otherwise engaging in unethical conduct, it shall promptly refer the matter to the applicable state appraiser certifying and licensing agency or other relevant regulatory body in accordance with the Applicable Laws or applicable regulatory agency requirements.

## 0. Special Appraisal and Other Valuation Considerations

### 1. Factory-Built Housing: Modular, Prefabricated, Panelized, or Sectional Housing

Modular homes must be built under the Uniform Building Code (UBC) that is administered by the state agency that is responsible for adopting and administering building code requirements for the state in which the modular home is installed. Prefabricated, panelized, or sectional housing does not have to satisfy either HUD's Federal Manufactured Home Construction and Safety Standards or the UBC that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be installed.

For modular, prefabricated, panelized, or sectional housing eligibility requirements, see [Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#).

#### **Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing**

MAP does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for modular homes, or any other types of factory-built homes. Because quality can account for large differences in the values of factory-built homes, it is important for the appraiser to become familiar with the features that affect the quality of a factory-built home so that the information can be included in the appraisal report if needed to support their opinion of value.

### **Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing**

The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. MAP requires the appraiser to address both the marketability and comparability of modular homes and other types of factory-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, it is not required that one or more of the comparable sales be the same type of factory-built housing, although using comparable sales of similar types of homes generally enhances the reliability of the appraiser's opinion of value. MAP requires the appraiser to include in the appraisal report the most appropriate comparable sales data to support their opinion of value for the subject property. See [Comparable Sales](#), for general requirements regarding comparable selection.

## **2. Leasehold Interests Appraisal Requirements**

A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met.

### **Appraisal Requirements for Leasehold Interests**

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report; and
- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

### **Comparable Selection Requirements for Leasehold Interests**

When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.

However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate, and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised. See [Comparable Sales](#), for general requirements regarding comparable selection.

## **3. Mixed-Use Property Appraisal Requirements**

MAP purchases Mortgage Loans secured by properties that have a business use in addition to their residential use provided that special eligibility criteria are met. These business uses can include, but are not limited to, properties with space set aside for day care facilities, beauty or barber shops, or doctor's offices. For eligibility criteria, see [Special Property Eligibility Considerations](#).

### **Appraisal Requirements for Mixed-Use Properties**

The appraisal requirements for mixed-use properties must

- Provide a detailed description of the mixed-use characteristics of the subject property;
- Indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;
- Report any adverse impact on marketability and market resistance to the commercial use of the property; and
- Report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

#### 4. Special Assessment or Community Facilities Districts Appraisal Requirements

##### Overview

Alternative methods for raising the capital necessary to satisfy utility and infrastructure requirements are sometimes used in the development of new residential communities. In some instances, this involves the creation of local districts called special assessment districts or community facilities districts that have the authority to assess homeowners for the cost of developing utility services and various infrastructure facilities, including, but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

##### PFI Responsibilities Related to Special Assessment or Community Facilities Districts

MAP expects the PFI to know if a property is located in one of these districts and to be aware of the effect that assessments levied by the district could have on property values and the marketability of the subject property. The PFI's appraiser, therefore, must give special consideration to the valuation of properties located in these districts.

##### Special Assessment Districts

Special assessment districts, also called special tax districts or municipal utility districts, provide a specific service to homeowners living in a designated area. They are most often established to provide water or other utilities in areas that are not served by existing city or municipal utility services. The need for these districts arises when an existing utility service does not have sufficient capacity, or may not find it economically feasible to provide services for newly created subdivisions that are located beyond its current operating area. State law governing the establishment of special assessment districts varies greatly, as does the financial strength of the individual districts. These districts are granted the authority to assess owners of properties within their boundaries for funds that will be used to cover their operating costs and debt service.

Special assessment districts that are established to serve newly developing subdivisions with utilities often base their financial plans and the amount of the assessment to be charged to each property owner on the expected number of properties in the area to be served. The district then depends on the continuation of development to maintain its budget expectations. If, for any reason, development stops short of the degree of development that the district anticipated in preparing its budget, the district can become financially distressed and may need to impose an additional assessment on the existing homeowners.

##### Appraisal Requirements for Properties Located in Special Assessment Districts

The appraisal requirements for properties located in special assessment districts must:

- Report any special assessments that affect the property; and

- Note in the appraisal report if the special assessment district is experiencing financial difficulty and that the difficulty has an effect on the value or marketability of the subject property.

To ensure that the reaction of the market to the potential liabilities that may arise within a financially troubled special assessment district is reflected in their analysis, the appraiser must consider current and expired listings or properties for sale within the district and any pending contract sales and recent closed sales within the district.

There may be some instances in which the financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because there is no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value. When this is the case, a mortgage secured by a property in that district will not be eligible for delivery to MAP until such time that an active market develops that will enable the appraiser to demonstrate the value and marketability of the subject property.

### **Community Facilities Districts**

Some jurisdictions have passed legislation that creates community facilities districts and permits them to levy a special tax to fund the capital costs of a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services. Proceeds from the special tax are used to support the sale of tax-exempt bonds for the various capital improvements that are allowed under the legislation, including but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

The assessment that will be used to repay the tax-exempt bonds becomes an ongoing responsibility of the property owner, similar to state and local property taxes. The assessment lien and the obligation to pay the assessment passes with the title to the property when ownership of the property is transferred.

Such legislation generally requires full disclosure of the special assessment to any purchaser of a property located in a community facilities district. Therefore, a PFI originating mortgages in community facilities districts should disclose to the appraiser any information that it becomes aware of regarding special assessments on a given property.

### **Appraisal Requirements for Properties Located in Community Facilities Districts**

Appraisers must be aware of whether the subject property and the comparables are located within or affected by a community facilities district because properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different assessment or no assessment at all. Appraisers must consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales in their analysis, and should note the effect of the assessment in the appraisal report.

## **5. Adverse Environmental Conditions**

Properties with material environmental hazards and properties located in neighborhoods where material environmental hazards exist are not eligible.

An exception to this requirement is permitted if the following requirements are met:

- The appraiser is informed of the condition of the Mortgaged Property when the Appraisal is ordered;

- The conditions were evaluated and determined to have no impact on the investment quality of the Mortgage Loan;
- The Mortgage Loan File must contain a description of the conditions and their location relative to the Mortgaged Property, along with the PFI's opinion on the investment quality of the Mortgage; and
- The Mortgage Loan File must contain evidence of the corrective action as required by an inspector or appraiser. Removal or remedy of such hazards, if required, must be completed prior to the Note date.

Environmental conditions that may have a negative effect on value and marketability — such as proximity to a hazardous waste site, contamination of the Mortgaged Property or a nearby site, the presence of radon gas, lead in paint or water, other contaminated water, or asbestos, etc. — must be disclosed to the Borrower and the appraiser.

The Appraisal must identify and fully explain the effect these conditions have on the value, marketability and safety of the Mortgaged Property. Comparables should have similar environmental conditions and fully support the value and marketability of the Mortgaged Property.

## P. Restrictions

Reasonable local, state, or federal restrictions on the maximum number of occupants permitted to occupy a dwelling unit are acceptable as long as such limitations are applied to all occupants and do not discriminate on the basis of sex, sexual orientation, race, age, color, religion, gender, national origin, disability, or familial status, or other basis prohibited under Applicable Law.

If any occupancy restrictions are noted in the purchase contract, Appraisal, title commitment, or in the project covenants/restrictions that appear not to apply to all occupants, careful analysis must be made to determine whether the loan is eligible.

## Q. Properties Located in Major Disaster Areas (Updated 11/1/2022)

A Major Disaster Area is defined as a county, municipality, parish, or other locality, which has been declared by the President of the United States to be a Major Disaster Area where federal aid in the form of individual assistance is being made available. The Federal Emergency Management Agency (FEMA) names these areas on its web site at [www.fema.gov](http://www.fema.gov). Where the Mortgage Loan is secured by a property located in a Major Disaster Area, the appraiser and underwriter must make additional considerations when completing or reviewing an appraisal report. Although the definition of a Major Disaster Area in this Guide does not include state or locally declared disasters, the PFI should use their knowledge of particular geographic areas to apply the requirements of this chapter when appropriate.

For Mortgage Loans affected by a Major Disaster but not yet sold into the MAP or delivered after a Major Disaster occurs, PFIs are responsible for ensuring that they are able to represent and warrant that, on the date the Mortgage Loan is delivered into the MAP, it meets all the MAP requirements, and that the Mortgaged Property and Borrowers meet all the MAP eligibility requirements. The PFIs must also ensure they are able to make all other delivery related representations and warranties.

### **Property Appraisals in Major Disaster Areas**

When appraising a property located in a Major Disaster Area, appraisers must continue to consider neighborhood characteristics when determining value and marketability. In accurately assessing value on a property in a Major Disaster Area, the appraiser must use post-Major Disaster Area comparable sales to support the value opinion. If there are limited post-Major Disaster Area comparable sales available, the appraiser may need to utilize pre-Major Disaster Area comparable sales to supplement the post-Major Disaster Area comparables provided. If the appraiser cannot arrive at an accurate assessment of market value as derived through analysis of both the property and neighborhood characteristics, the Mortgage Loan is not eligible for delivery under MAP.

### **'As-Is' Versus 'As-Repaired' Appraisals**

Properties located in Major Disaster Areas must be appraised based on exterior and interior inspections. If no conditions exist that affect the habitability or structural integrity of the property, the Appraisal can be based on the "as-is" condition of the property.

If conditions exist that the appraiser determines do affect the habitability or structural integrity of the property, the property must be appraised subject to completion of certain alterations or repairs (as repaired). The appraiser must clearly estimate the cost of repairs in the Appraisal report, and the PFI must obtain a completion report from the appraiser indicating that all repairs have been completed prior to the Mortgage Loan being delivered under MAP. In the event that such repairs cannot be completed prior to delivery of the Mortgage Loan, an escrow for completion can be established.

### **Environmental Hazards**

Appraisers are not required to be qualified in the field of assessing environmental hazards. However, the appraiser is expected to report any adverse conditions found during the Appraisal report process. Additionally, if the appraiser believes he / she has found any condition concerning the Mortgaged Property to be hazardous or believes it to be reasonably likely that a condition concerning the Mortgaged Property is hazardous, but is not qualified to make a determination of whether a condition concerning the Mortgaged Property is hazardous, the appraiser is required to appraise the property subject to an inspection by a qualified professional.

### **Appraisals with Supplemental Statements or Limiting Conditions**

If the appraiser cannot arrive at an accurate assessment of market value as derived from a thorough analysis of property and neighborhood characteristics, the Mortgage Loan is not eligible for delivery under MAP. MAP will not recognize limiting conditions beyond those that are standard to industry appraisal forms.

### **Flood Damage and Repairs**

Where the Mortgaged Property is located in a Major Disaster Area and the insurable improvements were damaged by floodwater, the Mortgage Loan is still eligible for delivery provided the property damage resulting from floodwater has been repaired.

## 18. Condominiums and PUDs

This chapter provides guidelines for evaluating condominium and planned unit development (PUD) project eligibility. The intent of the project review is to assess the marketability and long-term stability of the project. Current market conditions and comparable sales on the Appraisal provide information on the Mortgaged Property's marketability.

The project guidelines and documentation requirements in this chapter are applied to Mortgaged Properties that are part of condominiums or PUDs in addition to the standard property appraisal review guidelines.

### A. General Condominium Eligibility Requirements

The following guidelines apply to all condominium projects. Project information may be reported by the appraiser, disclosed by the homeowners association or developer, shown on the purchase contract, or obtained through a review of the homeowners' association certificate or other condominium documents. The homeowners' association assessment must be based upon either the size of the unit or the ratio to the total number of units in the project. The assessment cannot be based on the sales price of the unit. The charges for interior and exterior maintenance must be included in the assessment as the responsibility of the homeowners association.

#### 1. Condominium Project Classification Standards

- This section covers the requirements for established projects and new projects

#### 2. Established Condominium Projects

Established condominium projects must meet the following requirements:

- At least ninety percent (90%) of all units are sold and closed;
- If the Mortgaged Property is a second home, at least fifty percent (50%) of all units in the project must be conveyed to principal residence or second home purchasers;
- The homeowners association is under the control of the unit owners;
- Project is not subject to additional phasing or annexation;
- All units and amenities are completed; and
- All units that have been conveyed must be owned in fee simple, and all unit owners must have exclusive ownership in the rights to use the amenities and common elements. The amenities, common elements or facilities may not be subject to a lease between the unit owners or the homeowners association and another party.

#### 3. New Condominium Projects

A new condominium project or an existing building that was recently or is being converted to a condominium project is considered a new or newly converted condominium project if less than ninety percent (90%) of all units are sold and closed. New or newly converted condominium projects must meet the following requirements:

- Minimum presale requirements:
  - At least fifty percent (50%) of all units (or the Mortgaged Property’s legal phase—see below) must be conveyed to principal residence or second home purchasers;
  - For small condominium projects with 2-4 units, no more than one **(1)** unit in the project may be conveyed and occupied as an investment property;

### Legal Phase Considerations

To consider a Mortgaged Property’s legal phase in lieu of all units in the condominium project, the Mortgaged Property’s legal phase must be “substantially” completed. A legal phase is considered “substantially” complete when:

- A certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or Mortgaged Property’s legal phase; and
- All the units in the building that contains the Mortgaged Property are complete, subject to the installation of common and customary buyer selection items;

If the legal phase contains more than one building or structure:

- Each must be 100% complete. Note that for manually reviewed new condominium projects, a single building cannot contain more than one legal phase; and any additional phases or add-ons meet the following requirements:
  - The real property shall be described in the declaration of condominium;
  - A condominium unit owner’s undivided interest in the common elements must be stated in the declaration of condominium, master deed, or a similar instrument which will become subject to the condominium project if the alternative percentage becomes effective. The conditions whereby a change in that percentage may take place are fully described in the declaration provisions; and
  - No change in the percentage interests in the common elements may be effective pursuant to such phasing or add-on plan more than seven **(7)** years after the declaration of condominium becomes effective.

For two- to four-unit condo projects, all units and common elements must be 100% complete and may not be subject to additional phasing.

If the condominium unit owners are in control of the homeowners’ association, there must be a sufficient number of occupying unit owners to competently manage the homeowners association and support the budget required to fund the homeowners association budget; and

All units that have been conveyed must be owned in fee simple, and all unit owners must have exclusive ownership in the rights to use the amenities and common elements. The amenities, common elements or facilities may not be subject to a lease between the unit owners or the homeowners association and another party.

No more than 30% of the units in the project may be subject to rent regulations (i.e. regulations that protect the tenant from eviction).

### Two- to Four-Unit Projects

For new or newly converted condo projects consisting of two- to four-unit properties, the following restrictions apply:

- All units and common elements in the project must be 100% complete. The project may not be subject to any additional phasing; and
- All except one **(1)** unit in the project must be conveyed or under contract for sale to Primary Residence or second home buyers.

#### 4. Age of Project Eligibility Determination

The maximum age of the PFI's project eligibility determination as of the Funding Date is:

- One **(1)** year for existing condominium projects; or
- Six **(6)** months for a new condominium project.

## B. Ineligible Projects

All attached or detached Planned Unit Developments (PUDs) and condominiums must include a review of the project ineligibility characteristics for eligibility verification.

The following project types are ineligible:

- Timeshare, fragmented, or segmented ownership projects;
- New condominium projects where the seller is offering any of the following:
  - Contributions in excess of the maximum Interested Party contribution limits permitted in this Underwriting Guide;
  - Contributions or concessions that are not fully disclosed on the final Settlement Statement;
  - Payment abatements of any homeowners association dues; and
  - Concessions to financing terms, including but not limited to below market interest rates or payment abatements.
- Newly converted non-gut rehabilitation projects containing more than four attached units that have not been approved through Fannie Mae's Project Eligibility Review Service (PERS);
- Projects that split ownership of the property or restrict the owner's ability to occupy the unit;
- Projects with mandatory rental pooling agreements that require the unit owners to either rent their units or to give a management firm control over the occupancy of the units;
- Projects that include weekly and/or daily rentals or projects with units that are marketed for sale based on the availability of short-term rental rates;
- Student housing projects;
- Multi-dwelling unit condominiums;
- Projects that include manufactured housing units;
- Common interest apartment (also known as a community apartment or own-your-own);
- Projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity;
- Legal nonconforming projects where the appropriate local zoning and/or local statutes do not permit the reconstruction of the current property improvements and current density in the event of partial or full destruction;
- Projects with required membership fees for use of recreational spaces owned by a party other than the HOA or master association;
- Houseboat condominium projects (or any projects with property that is not real estate);
- Projects that are continuing care facilities;

- A project with non-incidentual business operations owned or operated by the homeowners association such as, but not limited to, a restaurant, spa, health club, golf club, etc.;
- Projects in which the condominium units are subject to ineligible Private Transfer Fee Covenants;
- Projects for which the project sponsor, homeowners association, or developer (if the project has not been turned over to the homeowners), is a party to current litigation, except for “minor” litigation that may have little or no impact on the safety, structural soundness, habitability, or functional use of the project. “Minor” litigation is defined as:
  - Non-monetary litigation involving neighbor disputes or rights of quiet enjoyment;
  - Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the homeowners association’s insurance; or
  - Actions in the normal course of business to collect HOA dues and assessments;
- Condominium hotels; and
- Projects that have been converted from a resort, hotel, motel, lodge (or any other property type that was used for temporary living arrangements), unless the project is an established project, meets all requirements for gut rehabilitation projects and all units are residential dwelling units.

The following are characteristics within resort destination areas should be utilized to identify projects that are ineligible:

- Voluntary or mandatory revenue sharing agreements;
- Mandatory rental pool agreements;
- Occupancy restrictions mandated by the zoning;
- Timeshare, live/work, or segmented ownership projects;
- Transactions under which the Borrower will own more than one unit in the project;
- The project name includes “hotel,” “motel,” “inn,” “resort,” or “lodge”;
- The project shares facilities with a hotel or motel;
- The project is in an area zoned primarily for transient accommodations;
- The unit is in a building that functions like a traditional condominium, yet the project contains additional resort type amenities or other buildings with resort type amenities;
- The unit is fully furnished;
- The unit does not have a full kitchen;
- The unit is less than four hundred (**400**) square feet; and/or
- The project provides any of the following services:
  - Management desk;
  - Bellman;
  - Daily maid service;
  - Food service;
  - Telephone service;
  - Centralized utilities (e.g., central telephone or cable); and
  - Centralized key system not in negotiated terms.

## 1. Unpaid HOA Assessments

In the event that the PFI or FHLBNY obtains title to a condominium unit, either through Foreclosure or pursuant to the remedies in the Security Instrument, FHLBNY will not be liable for more than six

**(6)** months of the unit's unpaid, regularly budgeted homeowners association assessments or charges accrued before the PFI's or FHLBNY's acquisition of the title. If the homeowners association has a priority lien for the costs of collecting unpaid assessments, the PFI will be responsible for those fees or costs related to that lien and for protecting the priority of the Mortgage lien.

## 2. Single Entity Ownership

The maximum allowable number of units that may be sold to or owned by a single entity are as follows:

- Projects with 2– 4 units: 1 unit allowed;
- Projects with 5–20 units: 2 units allowed; and
- Projects with 21 or more units: 20% of total units allowed.

## 3. Commercial Use

Commercial use within the project may not exceed 35% of the total square footage for the project and should be compatible with residential use.

## 4. Litigation

If the HOA is involved in any litigation, arbitration, mediation, or other dispute resolution process, additional details must be obtained from the HOA. This information should be verified with an attorney's letter, insurance information, structural report, and/or other documentation.

The following types of litigation generally pose little or no risk to the project and are acceptable:

- HOA is suing individual owners for unpaid dues or assessments;
- HOA is being sued for a "slip and fall" liability issue and the project has adequate liability insurance to cover the damages being sought by the plaintiff; and
- Other suits filed by the HOA that do not impact the value or livability of the project are generally acceptable.

The following types of litigation may impact the project's marketability and are generally not acceptable:

- HOA is suing the developer for structural defects or other property deficiencies that impact health and safety. However, the project may be acceptable if the defects have been corrected and the project is financially sound and marketable; and
- Suits filed against the HOA in which the damages exceed or are not covered by the HOA's insurance.

Projects involved in pending litigation (i.e., lawsuit has not yet been filed) may be approved when the risk to the project is assessed and it is determined that:

- HOA insurance will cover potential damages; or
- HOA is in a position to benefit from the lawsuit.

## 5. Taxes, Assessments and Charges

If Applicable Laws mandates that liens for taxes, assessments, and charges become priority liens over the Security Instrument, the liens must relate only to the individual condominium unit and not to the entire condominium project.

## 6. Agreement for Professional Management

Any agreement or contract for services of the builder, developer, sponsor, or a professional management firm or the condominium project must not exceed three **(3)** years. Any such agreement or contract must provide for termination by either party without cause and without payment of a termination fee on ninety **(90)** days or less written notice.

## C. Adverse Environmental Factors

Any adverse environmental factors affecting the condominium project must be addressed by the appraiser. Any factors affecting safety, habitability, or marketability of the unit or project will render the project ineligible.

## D. Project Eligibility

The PFI must use one of the methods in this section to determine if a condominium project is eligible. The PFI should use the Fannie Mae Condominium Project Questionnaire (Full Form – 1076 or Short Form – 1077) or an equivalent for assistance in determining project eligibility and should retain the questionnaire in the Mortgage Loan File.

A project review is not required for PUDs and site/detached condominiums that meet the PUD and site condominium policies in this Guide.

### 1. Limited Review (Updated 9/6/2023)

A limited review may be conducted for an attached or detached unit in an established project or a detached unit in a new project. Manually underwritten loans and loans underwritten through DU® and LPA® are eligible for a limited review.

To be eligible for a limited review, the following requirements must be met:

- The Appraisal complies with all standard appraisal requirements in this Underwriting Guide;
- The insurance in force complies with all applicable insurance requirements;
- If the subject unit is detached, it must be 100% complete;
- Attached units in established projects must meet the LTV/TLTV requirements below:

Limited Review of Attached Units in Established Projects Located Outside Florida	
Occupancy Status	Maximum LTV/TLTV
Primary Residence	90%
1 Unit Second Home	75%

Properties in Florida must comply with different LTV ratio requirements. [Location-Specific Condominium Project Requirements](#).

PFI's are encouraged to use the Condominium Project Questionnaire – Short Form (Fannie Mae Form 1077/Freddie Mac Form 477) to assist with determining condominium project eligibility. If this form is used, it must be retained in the Mortgage Loan File.

If a project is ineligible for a limited review, then another review method must be used.

## 2. Full Review

The full review may be conducted for attached units in new and established condominium projects, provided that the following requirements are met:

- The Appraisal complies with all applicable appraisal requirements in this Underwriting Guide;
- The insurance in force complies with all applicable insurance requirements in this Underwriting Guide;
- The HOA's budget must have sufficient funds to support the project, and at least ten percent (10%) of the HOA's total budget must be allocated toward a reserve fund for maintenance, repairs, and replacement of the common elements. (Projects with two- to four-units are exempt from this requirement);

The HOA budget requirement does not apply to two- to four-unit projects.

- The project must be on contiguous parcels of land. It is permissible for streets to divide the project;
- The unit owners must have exclusive ownership and use of the common elements and amenities;
- Parking spaces may be financed as part of the Mortgage Loan if the parking space and unit are on one deed as demonstrated by the legal description. The LTV and TLTV must reflect the value of the parking space and the unit; and
- If the project is a gut rehabilitation project (defined as a project where major components such as the roof, HVAC system, electrical, and plumbing were replaced) that was completed during the past three **(3)** years, then a licensed engineer's report must be obtained that indicates the structural integrity of the building and the condition of the major components are acceptable.

Newly converted non-gut rehabilitation projects with more than four **(4)** units must be reviewed using Fannie Mae's PERS process. Newly converted non-gut rehabilitation projects with less than four **(4)** units may be reviewed using the full review process.

PFI's are encouraged to use the Condominium Project Questionnaire – Full Form (Fannie Mae Form 1076/Freddie Mac Form 476) to assist with determining condominium project eligibility. If this form is used, it must be retained in the Mortgage Loan File.

## 3. Fannie Mae's Condo Project Manager (CPM)

The use of Fannie Mae's CPM is permitted, provided that the following requirements are met:

- The PFI delivering the Mortgage Loan requested and obtained the CPM project acceptance;
- The data entered into CPM is accurate and complete; and

- The Mortgage Loan File contains a copy of the unexpired CPM project acceptance certification that meets the following criteria:
  - For an established project, the certification date must be no more than **(1)** year old as of the Funding Date; and
  - For a new project, the certification date must be no more than six **(6)** months old as of the Funding Date.

#### 4. Two- to Four-Unit Condominium Projects

A 2-4 unit condominium project consists of from two to four 1-unit dwellings that are separately owned with separate legal descriptions. To be eligible, the PFI must determine that there is a demonstrated marketability for such condominium projects in the subject market area, and the project must have been approved using a permitted review method.

The project must meet the following requirements:

- The project, including all common areas and any amenities, is complete;
- Homeowners own the condominium units in fee simple or leasehold, and the homeowners are the sole owners of and have exclusive rights to the use of the project's common elements; and
- No more than one **(1)** unit in the project has been conveyed and is occupied as an investment property.

#### 5. Delinquent HOA Dues

For condominium projects with more than four **(4)** units, no more than 15% of the unit owners may be delinquent by more than sixty **(60)** days on their HOA dues.

For two- to four-unit projects, no unit owners may be sixty **(60)** days or more delinquent on HOA dues.

### E. Full Review: Additional Eligibility Requirements for Attached Units in New and Newly Converted Condo Projects

#### 1. Right of First Refusal

Any right of first refusal in the condominium project's constituent documents may not impair the rights of a first mortgagee to:

- Foreclose or take title to a condominium unit pursuant to the remedies contained within the security instrument;
- Accept a deed in lieu of foreclosure in the event of default by a mortgagor; or
- Sell or lease a unit acquired by the mortgagee.

#### 2. Mortgagee Rights

The condominium project's constituent documents must provide for a written notice to the mortgagee in the event of any of the following:

- Condemnation or casualty loss that affects a substantial part of the project or the unit secured by the mortgage;

- The owner of the unit securing the mortgage becomes sixty **(60)** days or more delinquent on HOA dues;
- There is a lapse, cancellation, or substantial change in the insurance coverage for the HOA; and
- There is any proposal made requiring agreement from a certain percentage of mortgagees.

### 3. Actions of Homeowners' Association

When condemnation or a major loss occurs to the units and/or common elements of a project, a written approval by two-thirds **(2/3)** majority of the individual unit owners or their first mortgagees shall be required for the homeowners association to take the following measures:

- Abandon or terminate the condominium project, intentionally or inadvertently;
- Partition or subdivide any condominium unit;
- Abandon, partition, subdivide, encumber, sell, or transfer the common elements by act or by omission. The granting of easements for public utilities or other public purposes consistent with the intended use of the common elements within the meaning of this provision;
- Use Insurance Proceeds for losses to any condominium property, whether individual units or common elements, for any purpose other than the repair, replacement, or reconstruction of the property; and/or
- Change the pro rata interest or obligations of any unit in order to levy assessments or charges, allocate distribution of Insurance Proceeds or condemnation awards, or to determine the pro rata share of ownership of each unit in the common elements.

### 4. Phasing or Add-Ons

Any proposal or plan subjecting the condominium project to phasing or add-ons must comply with the following limitations:

- The real property must be described in the declaration of condominium;
- A condominium unit owner's undivided interest in the common elements must be stated in the declaration of condominium, master deed, or a similar instrument which will become subject to the condominium project if the alternative percentage becomes effective. The conditions whereby a change in that percentage may take place are fully described in the declaration provisions; and
- No change in the percentage interests in the common elements may be effective pursuant to such phasing or add-on plan more than seven **(7)** years after the declaration of condominium becomes effective.

### 5. FHLBNY Rights Confirmed

No provision of the condominium document may give a condominium unit owner or any other party priority over any rights of the PFI, Servicer, or FHLBNY, pursuant to the Security Instrument in the event of payment to the unit owner of Insurance Proceeds or condemnation awards for major losses to the condominium unit and/or common elements.

## 6. Amenities

All amenities of the project, such as the parking areas, recreation areas, and service areas must be covered by the Security Instrument to at least the same extent as the common elements. If any amenities are not completed as of the Note date for a particular Mortgage Loan, the sales contract must provide for a completion date and the necessary recourse measures in lieu of default or delay by the seller.

## F. Location-Specific Condominium Project Requirements

This section covers specific requirements for projects located in Florida.

The following table is for manually underwritten loans only and indicates the maximum LTV ratios allowed for each project review type for condominiums in Florida. Loans underwritten using an AUS must follow the LTV ratio requirements of the applicable agency (Fannie Mae or Freddie Mac).

<b>Attached Units in New and Newly Converted Condo Projects in Florida Must be Approved through PERS Manual Underwriting</b>	
<b>Occupancy</b>	<b>Maximum LTV/TLTV</b>
Primary Residence	75%
1 Unit Second Home	70%

<b>Attached Units in Established Condo Projects in Florida Manual Underwriting</b>	
<b>Occupancy</b>	<b>Maximum LTV/TLTV</b>
Primary Residence	75%
1 Unit Second Home	70%

## G. Detached Condominiums

A detached condo is defined as any condo unit that is completely detached from other condo units in the project. The unit may share no adjoining walls, ceilings, floors, or other attached architectural elements (such as breezeways or garages) with any neighboring unit. A detached condo unit may be in a project consisting solely of detached units or in a development containing a mixture of attached and detached units. Site condos in which the unit owner owns the detached condo unit and the land upon which the unit is built are a type of detached condo.

Condominium projects composed of only detached one-unit dwellings (site condominiums) are eligible and do not require a project review if they meet the following requirements:

- The condominium project consists solely of detached one-unit dwellings where the unit owners own the land and improvements on the land;
- The project does not include manufactured housing units;

- The project has few or no common elements, such as project signs and minimal undeveloped green space;
- The project does not own any common amenities (e.g., pool, fitness or recreational center, playground, laundry facility, clubhouse, etc.);
- The project does not own nor has responsibility for maintaining infrastructure such as roads, street signs, electricity, water, sewage, snow removal, or garbage disposal;
- The project has little to no engagement with an HOA, such as minimal or no dues or special assessments and no common element maintenance.
- The subject unit maintains the required property insurance coverage per [Insurance Requirements](#) chapter; and
- The project complies with the requirements in this chapter regarding HOA assessment priority liens.

## H. Fannie Mae's Project Eligibility Review Service (PERS)

The following projects must be submitted to Fannie Mae's PERS for review:

- New and newly converted condo projects with attached units located in Florida; and
- Newly converted non-gut rehabilitation projects with more than four **(4)** units. Note: The PERS process is optional for any projects not indicated above.
- Projects that have been approved through PERS are eligible for delivery under MAP if the following requirements are met:
  - The project complies with MAP Requirements;
  - The conditions of the Fannie Mae Review approval have not expired, been cancelled, or modified as of the Funding Date; and
  - The Mortgage Loan File contains a copy of the Fannie Mae Review approval (Project Eligibility Review Service (PERS) or the Fannie Mae Form 1028) or a screen print from the Fannie Mae accepted condominium project list documenting the unexpired, unmodified Fannie Mae Review approval.

## I. Planned Unit Development(PUD)

A PUD is a parcel of land that contains common elements and improvements that are owned and maintained by a homeowners association, corporation or trust. The common elements are for the benefit and use of the individual homeowners within the PUD. The housing units may be attached or detached. The individual homeowners must own or have a leasehold interest in a parcel of land improved with a dwelling that is not shared in common with other unit owners.

The unit owners must have an automatic, non-severable interest in the homeowners association and pay mandatory assessments.

The pre-sale and owner occupancy requirements that apply to condominium projects do not apply to PUDs, provided that the appraiser does not indicate marketability problems. If the appraiser indicates marketability problems, a review of the project must be performed to determine whether there may be an adverse impact on the value or marketability of the Mortgaged Property.

Requirements for 1- to 4-unit properties apply to similar residential properties within a Planned Unit Development (PUD).

A PUD project is ineligible if:

- The project contains two- to four-unit properties;
- The project contains manufactured housing;
- The project contains space devoted to commercial use; or
- The project is a multi-dwelling unit PUD project that permits an owner to hold title to more than one dwelling unit with ownership of all his units evidenced by a single deed and mortgage are ineligible.

## 19. Government Mortgage Loan Eligibility and Underwriting Requirements (Updated 4/24/2023)

To be eligible under MAP, Government Mortgage Loans must:

- Comply with the applicable Government Agency's underwriting standards;
- Comply with all Applicable Laws; and
- Maintain the associated Government Agency guaranty and/or insurance at all times until payoff or liquidation of the loan.

Government Mortgage Loans eligible for delivery under MAP are one-to-four family fully amortizing fixed rate mortgages that are:

- FHA insured mortgages;
- HUD guaranteed Section 184 loans with an Indian Loan Guarantee Certificate
- VA guaranteed mortgages; or
- RHS Section 502 guaranteed mortgages.

The PFI should comply with all of the specific underwriting requirements of the applicable insuring or guaranty Government Agency as identified below:

- For FHA/HUD, visit <http://portal.hud.gov/hudportal/HUD>;
- For VA, visit <http://www.benefits.va.gov/homeloans/lenders.asp>; and
- For Rural Housing Service, visit <http://www.usdaloans.net/usda-home-loan-guidelines-2>

### A. Maximum Loan Limits for Government Mortgage Loans (Updated 5/1/2023)

The maximum FHA, VA, HUD 184, and RHS 502 loan amounts are those established by the FHA/HUD, VA and RHS, up to the current conventional loan limits. Government High-Balance loans are not permitted. The maximum LTV and TLTV limits for Government Mortgage Loans are those established by the applicable Government Agency.

### B. Eligible Borrowers for Government Mortgage Loans

Eligible Borrowers are those established by the applicable Government Agency.

### C. Eligible Property Types for Government Mortgage Loans

Eligible property types are those established by the applicable Government Agency, other than:

- Commercial property; and
- Manufactured homes.

### D. Government Mortgage Loan Streamline Refinances

FHA streamlined refinance loans, VA Interest Rate Reduction Refinance Loans (IRRRLs) and RHS streamlined refinance loans are eligible under MAP.

For all Government Mortgage Loan streamline refinances, Borrower and co-Borrower income must be collected and delivered for the purpose of Loan Presentment, regardless of the requirements of the Government Agency that insures or guarantees the loan. MAP does not require the income be used to qualify the Borrower(s) if the Government Agency does not require its use for qualification purposes.

### E. FHA-Approved Condo Review Eligibility

PFI's may search for FHA-approved condo projects by location, name, or project status online at HUD.gov or through CPM. PFI's must maintain printed copies of the FHA approval documentation in the loan file.

PFI's must ensure that:

- the FHA standard conditions have been met for presale, occupancy status, and completion;
- any additional conditions noted by FHA have been met;
- the project is not an ineligible project as defined in [Ineligible Projects](#);
- the project is covered by the required insurance as set forth in [Project Insurance](#); and
- the project is not comprised of manufactured homes.

### F. Government Mortgage Insurance

Government Mortgage Loans must maintain the insurance or guaranty from the applicable Government Agency. If any premium is not paid to the Government Agency when due, or if the insurance or guarantee is canceled by the Government Agency for any reason, FHLBNY may:

- Require repurchase of the Mortgage Loan; or
- Advance the premium on behalf of the PFI and debit the PFI's DDA for the amount of the advance.

### G. Government Mortgage Instruments and Notes

For Government Mortgage Loans, forms specified by the applicable Government Agency must be used. No modifications to any Security Instrument or Note are permitted other than as required by the applicable Government Agency or by Applicable Law.

## 20. Insurance Requirements

### A. Conventional Mortgage Insurance

This section addresses the mortgage insurance (MI) requirements for Conventional Loans, including acceptable insurers and coverage amounts.

#### 1. General Mortgage Insurance Requirements

MI is required for every Conventional Mortgage that has an LTV ratio greater than 80%. LTV / TLTV ratio must always be rounded up to the next whole percentage. (For example, 80.01 percent must be rounded up to 81 percent.)

The MI coverage must be under the mortgage insurance company's master policy, and its associated endorsements and forms, that were effective October 1, 2014, or the most current master policy, endorsements, and forms issued thereafter. Self-insurance is not acceptable.

MI must be in full force as of the Mortgage Loan disbursement date and must remain in full force until the Mortgage Loan meets the MI cancellation requirements in accordance with the Guide.

The LTV calculation for mortgage insurance for properties located in the state of New York is **based solely** on the appraised value of the Mortgage Property as of the closing date.

#### Mortgage Insurance Payment Structures

The following MI payment structures are acceptable:

- Borrower-paid MI with an upfront single premium;
- Borrower-paid MI with monthly premiums; and
- Borrower-paid MI with a split premium (i.e. combination of upfront single premium and monthly premium).

For Mortgage Loans secured by one-unit property types, the MI upfront single premium or the upfront portion of a split premium may be financed in the loan amount. Solely for the purpose of determining the required minimum MI coverage level, the financed upfront single premium may be excluded from the purchase or refinance transaction loan amount in calculating the LTV ratio.

However, for all other purposes, including Loan Presentment and loan eligibility determination, the financed upfront MI premium must be included in the loan amount for calculating LTV ratios. The LTV ratio, calculated using the purchase or refinance transaction loan amount plus the financed upfront MI premium, may not exceed 95% or a lesser LTV restriction published in the Guide.

The PFI must obtain a Financed MI Premium Endorsement to the mortgage insurance policy. This endorsement must indicate that the mortgage insurance will adjust its claim calculation, so that the claim amount will include one hundred percent (100%) of the unamortized portion of the financed mortgage insurance premium.

PFI-paid MI is only permitted for single premium, life of loan, non-cancelable coverage.

**i. LTV Ratio Determination in New York State for Mortgage Insurance**

Under a New York statute, a mortgage insurer must issue mortgage insurance based on a determination of the “fair market value” of the property. The term “fair market value” is not defined in the statute, but has been defined by the New York insurance regulator as being the “appraised value.”

As a result, the determination of value for properties in New York is different from the MAP standard definition of value that is used to calculate the LTV ratio. The following table identifies the value calculation that is to be used for Mortgage Loans secured by properties in New York for policies that are based on the LTV ratio.

LTV Ratio Calculation	Policy
LTV ratio based on the appraised value	PFI must base their determination of when mortgage insurance is required solely on the appraised value of the property. If the appraised value of the property exceeds the sales price, this determination may result in mortgage insurance not being placed on a Mortgage Loan as would otherwise be required using MAP's standard definition.
LTV ratio based on the lower of the sales price or appraised value (standard LTV ratio calculation) for all property types	<p>Irrespective of the use of appraised value or sales price for determining whether mortgage insurance is required, this standard LTV ratio calculation must be used to determine the level of mortgage insurance coverage that is required on the Mortgage Loan.</p> <p>The standard LTV ratio calculation must also be used to determine whether the loan satisfies any of MAP's other eligibility criteria that are based on the LTV ratio of the loan; to determine the Loss Coverage amount; and The standard LTV ratio must be delivered even if the appraised value or sales price is used to determine that mortgage insurance coverage is not required.</p>

**2. Approved Mortgage Insurers**

MI must be provided by one of the approved mortgage insurers listed in Exhibit H who has been approved by the FHLBNY. If the PFI delivers a Mortgage Loan that is not insured by an approved mortgage insurance company, the Mortgage Loan may be subject to repurchase.

When MAP removes a mortgage insurer from its approved list, the applicable insurance policy does not need to be replaced, provided that the amount and scope of coverage does not change, the insurer remains licensed in all pertinent jurisdictions, and the insurer meets the requirements for mortgage insurers in those jurisdictions. Coverage must run to FHLBNY and nothing must have been done or not done that would impair the rights of FHLBNY with respect to such coverage.

### 3. Mortgage Insurance Coverage

The following table indicates the minimum required MI coverage:

Standard Mortgage Insurance Coverage 1-4 Unit Primary Residences and 1 Unit Second Homes		
LTV	Term > 20 Years	Term ≤ 20 Years
90.01–95%	30% Coverage	25% Coverage
85.01–90%	25% Coverage	12% Coverage
80.01–85%	12% Coverage	6% Coverage

### 4. Special Mortgage Insurance Requirements (Updated 12/1/2020)

Mortgage Loans that qualify for reduced MI coverage must be underwritten with an AUS and meet the requirements of the applicable AUS. The “custom” MI coverage option from LPA® and “lower- cost” MI coverage option from DU® are not eligible.

## B. Title Insurance

Each Mortgage Loan must have a paid-up mortgage title insurance policy or an attorney’s title opinion or certificate prior to delivery under MAP. This section addresses the requirements for the policy or attorney’s title opinion and any permitted exceptions. For Government Loans, title insurance must comply with applicable Government Agency requirements.

### 1. General Title Insurance Requirements

The title insurance must list any additional liens on the Mortgaged Property and indicate that they are subordinate to the lien of the Mortgage. The title insurance must be enforceable and protect FHLBNY’s rights.

The title insurance coverage must run to the named Mortgagee or the mortgagee of record. The title insurance must protect the Mortgagee up to at least the original Principal Balance of the Mortgage Loan.

The effective date of the policy must be as of or later than the date of recording the Security Instrument. If the Security Instrument must be rerecorded, for any reason, an endorsement must be obtained showing the rerecording information, with the first lien position maintained.

Unless the final title policy is issued at settlement, the title insurance binder or commitment must be retained in the Mortgage Loan File until the final title policy is issued. Once the final title policy is issued, it must be retained in the Mortgage Loan File. The preliminary binder and the final title policy must be issued by the same company.

### 2. ALTA Policy Form

The title insurance should be written on one of the following forms with all required endorsements.

- The 2006 American Land Title Association (ALTA) Loan Policy form. In states where the 2006 Loan Policy is not available for use, the 1992 American Land Title Association (ALTA) Loan Policy form is acceptable;
- The October 21, 2000 ALTA Short Form Residential Loan Policy form or most current form of such policy issued thereafter; or
- A form policy which provides coverage that is at least as broad as that provided by the 2006 ALTA Loan Policy Form.

The Environmental Protection Lien Endorsement (ALTA Form 8.1) or equivalent coverage must be included with every title insurance policy and may make an exception only for specific state statutes that provide for possible subsequent “superliens”, e.g. PACE loans, that could take priority over the Mortgage Loan.

### 3. Title Insurer Rating

The title insurer must be legally authorized to write title insurance in the jurisdiction of the Mortgaged Property and must have an acceptable rating from at least one of the independent rating agencies listed below. A title insurer’s rating may be obtained from the insurer or directly from one of the rating agencies, but the rating must be independently verified with the applicable rating agency every six **(6)** months. Acceptable ratings include the following:

- A “Financial Stability Rating” of “S” or better or a “Statutory Accounting Rating” of “C” or better by Demotech, Inc.;
- A “BBB” or better rating from Duff and Phelps Credit Rating Company;
- A “C” or better rating from LACE Financial Corporation;
- A “Baa” or better rating from Moody’s Investor Services; and
- A “BBB” or better rating from S&P Global Ratings.

FHLBNY reserves the right to refuse to accept title insurance policies from any insurer by giving the PFI advance notice of the intent to do so. The PFI should contact FHLBNY in circumstances which would justify alternative requirements.

### 4. Title Endorsements

The following special endorsement(s), or the equivalent, must be attached to the ALTA policy form, when applicable

- ALTA Endorsement Form 7.1-06 (manufactured home) if available, otherwise Form 7-06, or for policies other than 2006 ALTA Loan Policy, Form 7.1 if available, otherwise Form 7;
- ALTA Endorsement Form 9.3-06 (Restrictions, Encroachments, Minerals) if available, otherwise Form 9-06, or for policies other than 2006 ALTA Loan Policy, Form 9.3 if available, otherwise Form 9;
- ALTA Endorsement Form 13.1-06 (leasehold estate) or for policies other than 2006 ALTA Loan Policy, Form 13.1;
- An ALTA Form 4-06 endorsement (condominium unit), or for policies other than the 2006 ALTA Loan Policy, Form 4; and/or
- An ALTA Form 5-06 endorsement (PUD), or for policies other than the 2006 ALTA Loan Policy, Form 5.

## 5. Master Title Insurance Policy

Evidence of title insurance under a master title insurance policy is acceptable, provided that that master policy complies with all MAP title insurance guidelines and the following additional requirements:

- The scope of coverage given by the master policy must be equal to or greater than that provided by the ALTA policy form and all other MAP title requirements must be met;
- The PFI must obtain from the title insurer a fully executed master title insurance policy issued in the PFI's name as the insured and must provide a copy of the policy to FHLBNY. The PFI agrees to assign its rights in this policy for the Mortgage Loans sold to FHLBNY;
- The master policy must be approved by the applicable state or local authority where such approval is required; and
- The insurer will replace the title insurance certificate with a full individual ALTA form or similar policy upon ten **(10)** days' notice

FHLBNY reserves the right to refuse to accept the master title insurance policy of any title insurer.

## 6. Ownership History/Chain of Title

There must be a clear chain of title on all Mortgaged Properties. All Mortgage Loan Files must contain a 24-month title history (chain of title) provided by the closing attorney/title company. As a best practice, the current owner should have held title (deed recorded) for at least ninety **(90)** days at the time of Borrower's application.

## 7. Survey Standards

A current and accurate survey of the Mortgaged Property must be obtained. Upon request, the PFI must submit the survey to the title insurer or the attorney rendering a title opinion.

The survey provided must conform to the standards of the title insurance company or attorney and any Applicable Standards.

If the title insurance policy takes exception to survey matters other than those permitted in this chapter, the PFI must provide whatever information is required by the insurer to either remove the exception or must obtain an endorsement providing the insurance required. If it is not customary in a particular area to supply either the survey or an endorsement, the title policy must not have a survey exception.

If the Title Company will not issue a policy without coverage over a survey exception, the Mortgage Loan is not eligible for delivery under MAP.

## 8. Opinion of Title

An attorney's opinion of title is acceptable in place of a title insurance policy, provided that all of the following conditions are met:

- The opinion must be addressed to the PFI and all successors in interest;
- The attorney must be licensed to practice law in the same jurisdiction as the Mortgaged Property;

- The attorney must be insured against malpractice in rendering opinions of title in an amount commonly prevailing in the jurisdiction, taking into account the volume of opinions rendered by the attorney;
- An attorney's opinion of title, including any supplemental provisions and exceptions, is commonly accepted in place of a title insurance policy by private institutional mortgage PFIs in the jurisdiction where the Mortgaged Property is located. If the attorney's opinion of title is commonly accepted in the Mortgaged Property's jurisdiction but does not meet the requirements of the Guide, the PFI is responsible for any losses arising from title or related matters that would have been covered if the attorney's opinion was compliant with the Guide;
- The Mortgage Loan must not be secured by a unit in a condominium or PUD, a dwelling on a leasehold estate, a manufactured home, properties subject to deed restrictions or restrictive agreements, or a Mortgage Loan executed using a Power of Attorney; and
- The opinion below must be included in lieu of an Environmental Protection Lien Endorsement (ALTA Form 8.1) with an exception for possible subsequent superliens that could take priority over the Mortgage only if the Mortgaged Property is located in a state whose Applicable Laws provide for such a superlien:

"There is (i) no environmental protection lien recorded in those records established under state statutes for the purpose of imparting constructive notice of matters relating to real property to purchasers for value and without knowledge, or filed in the records of the clerk of the United States district court for the district in which the land is located, nor (ii) are there any environmental protection liens provided for by any state statute in effect on the date of this opinion, which could achieve priority over the Mortgage except those listed below (any state statute that allows a lien for environmental protection that can attain priority over the lien of the insured Mortgage should be listed; if none, state 'none')."

The opinion must provide the exact statement, as follows: "We [I] agree to indemnify you and your successors in interest in the [Mortgage] [deed of trust] opined hereto, to the full extent of any loss attributable to a breach of our [my] duty to exercise reasonable care and skill in the examination of the title and the giving of this opinion."

The opinion must be retained in the Mortgage Loan File and must not be subject to any title exceptions other than those permitted under MAP Requirements. The opinion must not take exception to survey matters. The PFI must provide the necessary information as required by the attorney to remove the exception. Mortgage Loans with a survey title exception are not eligible for delivery.

## 9. Acceptable Title Exceptions

Exceptions to the title insurance policy or the attorney's opinion of title are acceptable so long as they do not substantially affect the marketability or use of the Mortgaged Property (including the areas outside the easement that are not occupied by improvements) and do not impair the exercise of rights of repair and maintenance. Examples of acceptable exceptions are:

- Easements for subsurface residential distribution including, but not limited to, lines and/or cables for gas, water, electric, telephone, and television;
- Easements for surface public utilities for local residential distribution so long as the location of the easements is fixed, ascertainable and the easement is accessible for repair;
- Encroachments on easements such as a garage, tool or garden shed, or some other structure which is not attached to the dwelling structure. Such encroachments require a title insurance

policy endorsement insuring against loss suffered from a court order or decree requiring the removal of the encroachment;

- Mutual easement agreements of record that establish a joint driveway or a party wall are acceptable. The agreement must allow all present and future owners and their heirs, successors and assigns unlimited use and enjoyment of the driveway or party wall without any restriction by reason of the mutual easement owners' rights in common and duties for joint maintenance;
- Fence encroachments on either side of the property line. The definition of fence does not include retaining walls or other permanent structures;
- Rights of tenants in possession, as tenants only, under prior unrecorded leases;
- Improvements on adjoining property which encroach upon the Mortgaged Property are acceptable provided that the encroachment does not touch any improvements of the Mortgaged Property or impair the usage of the Mortgaged Property;
- Liens for real estate or ad valorem taxes and assessments are acceptable which specifically state that such liens are not yet due and payable;
- Rights of tenants in possession, as tenants only, under prior unrecorded leases; and
- Oil, gas, water or mineral rights that are commonly accepted by private institutional mortgage investors in the area where the Mortgaged Property is located, provided that the exercise of such rights will not damage the Mortgaged Property. The rights must meet one of the following conditions (which must be documented in the Mortgage Loan File):
  - There is no right of surface or subsurface entry within two hundred (200) feet of the residential structure;
  - There is a comprehensive endorsement to the title insurance policy that insures FHLBNY against damage or loss due to the exercise of such rights;
  - The Mortgage Property is insured by a homeowners insurance policy that also insures FHLBNY against damage or loss due to the exercise of such rights; or
  - The PFI represents and warrants that it will either repurchase the Mortgage from FHLBNY or indemnify FHLBNY for any loss incurred by FHLBNY that can be attributed to the exercise of such rights if a comprehensive endorsement to the title insurance or homeowners insurance policy that affirmatively insures FHLBNY against damage or loss due to the exercise of such rights is not available, but Applicable Laws where the Mortgaged Property is located provide for the payment of Miscellaneous Proceeds as defined in the Uniform Security Instrument. The decision to require either a repurchase of the Mortgage or an indemnification is solely that of FHLBNY.

The following conditions must be met to permit exceptions for restrictive agreements or covenants of record related to cost, use, setback, minimum size and building materials, and architectural, aesthetic or similar matters (other than single-family-use restrictions on 2-4 unit properties):

- The restrictive agreements or covenants do not create or provide for any lien that would take precedence over FHLBNY's Mortgage or provide for the elimination of FHLBNY's Mortgage lien;
- The terms and provisions of the restrictive agreements or covenants are commonly acceptable to private institutional mortgage investors in the area where the Mortgaged Property is located; and
- An endorsement to the title insurance policy affirmatively insures that no violation of any such restrictive agreement or covenant exists and that any future violation shall not result in forfeiture or reversion of title.

The priority of FHLBNY's lien on the Mortgaged Property shall remain in effect for any sum repaid and subsequently re-advanced under the terms of the Mortgage Loan.

### i. Unexpired Redemption Periods

Many states give homeowners who have lost their homes due to foreclosure a “redemption period” that allows them to regain title if they meet financial obligations and other requirements within a certain period.

Title exceptions related to unexpired redemption periods are not permitted, unless all of the following requirements are met:

- The mortgagee title insurance policy contains a specific exception for the unexpired right of redemption and insures the mortgagee against all loss arising out of the exercise of any outstanding right of redemption;
- If any party exercises a right to redeem the Mortgaged Property, the Mortgage Loan must be paid off directly using the redemption proceeds with no requirement for any further action or claim for repayment;
- FHLBNY must not incur any loss due to the exercise by any party of a right to redeem the Mortgaged Property; and
- The Mortgaged Property must be located in a state where it is “common and customary” to sell a 1-4 unit property during a redemption period.

It is highly recommended that the PFI provide a written disclosure to the Borrowers prior to closing if the Mortgaged Property is subject to a redemption period.

## C. Additional Title Insurance Requirements for Condominiums and PUDs

In addition to all other MAP title insurance guidelines, condominiums and PUDs must meet the additional requirements in this section.

### Title Insurance Information

The title insurance policy must include the following information:

- The name of the project;
- The unit itself, as shown on a survey;
- The undivided interest in the common elements in a condominium project;
- The nonexclusive easement to use the common areas and facilities; and
- Any significant, limited, common elements or exclusive easements over the common areas.

If the unit owners hold title to the common areas of the development as tenants in common, the policy must reflect that ownership. The policy may describe limited common elements or exclusive easements specifically or by reference to the association documents.

### Title Insurance Coverage

The title insurance policy must insure the following:

- The Mortgage is superior to any lien for unpaid common expense assessments. In jurisdictions that give these assessments a limited priority over a first or second Mortgage lien, the policy must provide assurance that those assessments have been paid through the effective date of the policy;
- Against any impairment or loss of title on the Mortgaged Property caused by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the condominium project or PUD. It must specifically insure against any loss that results from a violation that existed as of the date of the policy;

- The Mortgage Loan is secured by a unit in a condominium project that has been created in compliance with the applicable enabling statutes;
- The owner of a PUD unit is a member of the homeowners association and that the membership is transferable;
- Assessments and liens for real estate taxes are only against an individual condominium unit and its undivided interest in the common elements, rather than against the project as a whole;
- The unit does not encroach on another unit or on any of the common elements, areas, or facilities. The policy must also insure that there is no encroachment on the unit by another unit or by any of the common elements, areas, or facilities.

If the HOA owns common elements, areas, or facilities separately (or holds them in a leasehold estate), a title policy is required for those areas. The title must be free and clear of any liens and encumbrances.

## D. Property Insurance

Conventional Mortgage Loans must be covered by property insurance that complies with the requirements in this chapter. Government Mortgage Loans must comply with the property insurance requirements of the applicable Government Agency.

### 1. Insurer Requirements

All insurers (and reinsurers, if applicable) must be licensed or authorized to do business in the jurisdiction where the Mortgaged Property is located and must meet one of the following requirements:

- The insurer meets any of the following ratings:
  - A.M. Best
    - Financial Performance Index of 6 or higher per Insurance Reports—Property/Casualty or Key Rating Guide—Property/Casualty;
    - Rating of B/III or higher per Insurance Reports—Property/Casualty or Key Rating Guide—
    - Property/Casualty; or
    - Rating of A/VIII or higher per Insurance Reports—International
  - Demotech, Inc.
    - Rating of a minimum of "A" per First Rate/P&C Financial Stability Ratings
  - S&P Global Ratings
    - Rating of BBBq per Insurer Solvency Review—Property/Casualty Edition;
    - Rating of BBB or higher per Insurer Solvency Review— Property/Casualty Edition; or
    - Rating of AAisi or higher per International Confidential Rating Service or International Solvency Report Service
- An insurer whose coverage is guaranteed by another company (reinsurer) that meets all of the following requirements:
  - The reinsurer has a minimum rating of:
    - A. M. Best — B/III or (for non-U.S. insurers) A/VIII, or
    - Standard & Poor's Global Ratings— BBB or AAisi
  - Both the insurer and the reinsurer execute an assumption of liability endorsement or equivalent endorsement that provides for:

- One hundred percent (100%) reinsurance of the primary insurer's liability for any covered loss payable but unpaid by the insurer for reasons of insolvency;
- The reinsurer to give ninety (**90**) days written notice to the policyholder and the PFI before canceling or terminating the guarantee; and
- The above endorsements are attached to each property insurance policy accepted by the PFI on account of the endorsements.
- The insurer is Lloyd's of London
- Insurance underwritten by any of the following is acceptable, provided it is the only insurance coverage available for the Mortgaged Property:
  - A state's Fair Access to Insurance Requirements (FAIR) plan; or
  - State insurance plans covering specific geographic areas.
- A non-admitted insurance company whose current rating is at least one of the following:
  - A. M. Best – A
  - Standard & Poor's Global Ratings– AA-
- A carrier whose coverage is guaranteed under the National Flood Insurance Program (NFIP).

## 2. Insurance Premiums

The initial property insurance premium for any policy the Borrower maintains must be paid in full by the Borrower at or prior to closing. Any subsequent premiums must be paid when due by the Borrower or by the Servicer if the premium is escrowed.

## 3. Property Insurance Coverage Requirements

An All Risk Coverage property insurance policy is required for any properties maintaining an individually held insurance policy. If any hazards normally covered under the All Risk Coverage policy are limited or excluded, then a supplemental insurance policy for the limited/excluded hazard is required. Property insurance policies that limit or exclude from coverage (in whole or in part) windstorm, hurricane, hail damages, or any other perils that are normally included under an extended coverage endorsement are not acceptable. MAP may require insurance covering losses from other hazards or risks as required.

The property insurance policy must meet the minimum amount required, which is the lower of the following:

- One hundred percent (100%) of the replacement cost of the insurable improvements; or
- The unpaid Principal Balance of the Mortgage Loan, provided that it is at least equal to 80% of the insurable value of the improvements or is the minimum amount required to compensate for damage or loss on a replacement cost basis.

Insurance contracts must state that no assessments may be assessed against the PFI or FHLBNY, and that any assessment made against others may not become a superior lien on the Mortgaged Property.

## 4. Deductibles

The maximum permitted deductible is five percent (**5%**) of the face amount of the insurance policy. This limit applies to each separate peril policy maintained and applies to any HO-6 policy. The deductible clause may apply to either fire, extended coverage or both.

This limit also applies to each blanket or master policy maintained by a PUD or condominium HOA and applies to each supplemental policy maintained. The HOA must have funds in its reserves specifically designated for the deductible.

## 5. Additional Insurance Requirements for Condos and PUDs (Updated 9/6/2023)

The HOA for all condominium and PUD projects must maintain a blanket or master policy that provides for All Risk Coverage to protect the buildings, general and limited common elements, fixtures, machinery, equipment and supplies used for the service of the project, and common personal property owned by the HOA. Blanket All Risk Coverage for all units in the PUD is acceptable if called for in the PUD's legal documents. Blanket coverage for all units in a condo or PUD project must include coverage for fixtures, improvements, alterations, and equipment within the units. Self-insurance or an insurance policy covering unaffiliated condominium associations or projects is not permitted.

If the PUD project's blanket or master policy does not provide coverage for each unit, then the Borrower must maintain an individual property insurance policy.

If the condominium blanket or master policy does not cover the individual condominium units (including interior improvements), then the Borrower must maintain an HO-6 policy. The amount of coverage must be an amount sufficient enough to repair the condo to its condition prior to the loss event, as determined by the insurer. The HO-6 policy must provide replacement of improvements coverage for the unit, including any subsequent improvements added by the Borrower.

The blanket or master policy maintained by the condo or PUD HOA must provide coverage at least equal to one hundred percent (**100%**) of the insurable value of the project improvements, including all individual units.

The HOA must be the named insured on the blanket or master policy. An exception is made for condominium projects where the legal documents allow the policy to designate an authorized representative of the HOA, including the insurance trustee, as the named insured.

The blanket or master policy must require that the insurer provide written notice to the HOA and each Mortgagee at least ten (**10**) days prior to cancelling or reducing the insurance coverage.

The HOA must also obtain any additional coverage commonly required by private mortgage investors for developments with similar construction, location, and use.

The following special endorsements also are required for the condominium project:

- Agreed amount;
- Cost of demolition;
- An Inflation Guard Endorsement, when it can be obtained;
- Building Ordinance or Law Endorsement;
- Steam Boiler and Machinery Coverage Endorsement, if the project has central heating or cooling. (This endorsement should provide for the insurer's minimum liability per accident at least equal to the lesser of two million dollars (**\$2,000,000**) or the insurable value of the building(s) housing the boiler or machinery.); and
- Special Condominium Endorsement, which must provide that any Insurance Trust Agreement will be recognized; the right of subrogation against unit owners will be waived; the insurance will

not be prejudiced by any acts or omissions of individual unit owners that are not under the control of the owners' association; and the policy will be primary, even if a unit owner has other insurance that covers the same loss.

## 6. Evidence of Insurance

Evidence of all required property insurance coverage must be maintained in the Mortgage Loan File.

Evidence of insurance coverage must be in one of the following forms:

- The original policy and applicable endorsements, including the PUD or condominium HOA's master or blanket policy; or
- A certificate of insurance or evidence or declarations of insurance that meets the following requirements:
  - Named insured and Mortgagee (for PUD or condominium units, the named insured association, unit owner and unit owner Mortgagee);
  - Address of the Mortgaged Property;
  - Type of coverage;
  - Amount of coverage;
  - Effective dates of coverage;
  - Deductible amount and coverage to which each deductible applies;
  - Any endorsement or optional coverage obtained and made part of the original policy;
  - Insurer's agreement to provide written notice to the Mortgagee and Borrower (or applicable unit owner Mortgagee if for a PUD or condominium unit) at least ten **(10)** days prior to any reduction in coverage or cancellation of the policy; and
  - Signature of an authorized representative of the insurer, if required by Applicable Law.

### Data Files

In lieu of an original policy, the insurer may provide a data file. These data files are acceptable, provided they meet the following requirements:

- The data file contains sufficient information about the insurance policy, the property, and the Borrower to allow the Servicer to monitor and maintain property insurance in accordance with MAP Requirements;
- The PFI's errors and omissions insurance policy must provide coverage for electronic data transfers and provide full protection for the PFI and FHLBNY against losses incurred as the result of erroneous data files or transfers;
- The insurance carrier must provide the PFI written confirmation that the data file is equivalent to a printed policy;
- The Servicer must have adequate procedures in place to mitigate risk exposure associated with not having an original hard copy of the policy. These procedures may include requiring the insurer to certify to the accuracy of the information; and
- The Servicer must be able to produce legible hard copies of the actual insurance policies and proof of premium payments if requested by FHLBNY or the MAP Designee.

## E. Flood Insurance

Flood insurance is required for the Mortgaged Property if a residential structure or any of the improvements are located in a Special Flood Hazard Area (SFHA) as determined by FEMA, or the Coastal Barrier Resources

System or Otherwise Protected Area. The flood insurance policy may be issued by the NFIP or a private insurer.

As required under Applicable Laws, premiums for flood insurance must be escrowed as part of the mortgage transaction. Borrowers may not elect to maintain and pay flood insurance premiums independent of the mortgage payment.

If flood insurance is required for the Mortgaged Property but the community does not participate in the NFIP, then the loan is ineligible.

Flood insurance is not required in the following circumstances:

- Non-residential detached structures on the Mortgaged Property are in the SFHA but the residential structure and improvements are not in the SFHA;
- A principal or residential detached structure securing the mortgage loan if the seller/servicer obtains a letter from FEMA stating that its maps have been amended and the structure is no longer in an SFHA.

The use of the Standard Flood Hazard Determination form endorsed by FEMA is required when determining whether a Mortgaged Property is located within an SFHA.

## 1. Coverage Requirements for One- to Four-Unit Properties

Flood insurance coverage must be at least equal to the lowest of:

- 100% of the replacement cost of the insurable improvements;
- The maximum insurance available under the National Flood Insurance Program; or
- The unpaid Principal Balance of the Mortgage Loan.

The minimum coverage requirements for one- to four-unit properties also apply to individual PUDs and detached condominium units.

Refer to the National Flood Insurance Program for current limits. [Flood Insurance Deductibles](#)

The deductible for coverage on a single family property must not exceed the minimum deductible amount permitted under the NFIP.

The deductible for master condo flood insurance or individual flood insurance policies must comply with NFIP requirements, unless Applicable Law mandates a higher maximum deductible. The maximum deductible applies to NFIP and private insurance policies. The HOA must have funds in its reserves specifically designated for the deductible.

## 2. Additional Flood Insurance Requirements for Condos

Flood insurance requirements for townhomes, row-houses, and detached-condominiums (site condominiums) are the same as for one- to four-unit residences.

The HOA must maintain flood insurance coverage for detached common elements and property equal to 100% of their insurable value.

Units in a high-rise or vertical condominium must have a master flood insurance policy in place that is maintained by the HOA. Individual flood insurance dwelling policies are not required for high-rise or vertical condominiums. The HOA's flood insurance policy must provide coverage for the individual units in the building, as well as the common elements, building machinery, and equipment. A separate HOA endorsement is required if not part of the policy.

The master flood insurance policy must meet the following requirements:

- Building coverage must equal at least 100% of the insurable value of the common elements and property, including any machinery and equipment that are part of the building; or
- Contents coverage must equal at least 100% of the insurable value of all contents, including machinery and equipment that are not part of the building but are owned in common by the HOA members.

If the minimum coverage requirements for the master policy are met, but the master policy does not meet the minimum coverage requirements for one- to four-unit residences, then the unit owner may obtain a flood insurance policy to cover the difference.

### 3. Coastal Barrier Resources System or Otherwise Protected Area

Properties located in the Coastal Barrier Resources System or an Otherwise Protected Area must maintain flood insurance. If the community does not participate in the Coastal Barrier Resources System or Otherwise Protected Area, the Mortgage Loan is only eligible if the Mortgaged Property is not located in an SFHA but still maintains flood insurance coverage in accordance with MAP Requirements. The flood insurance coverage may be a private policy or an NFIP policy.

### 4. Mortgagee Clause for Property and Flood Insurance

All insurance policies obtained must include the insurance industry's standard mortgagee clause and must name the Servicer as the Mortgagee. The Servicer's name should be followed by the phrase "its successors and assigns." This requirement does not apply to condominium and PUD master or blanket policies. The Mortgagee clause must provide that the insurer will notify the named Mortgagee at least ten (**10**) days prior to any reduction in coverage or cancellation of the policy.

The Named Insured clause for the condominium HOA's policy must contain language that is similar to the following:

*"Association of Owners of the... Condominium for the use and benefit of the individual owners (designated by name, if required by law or the legal documents)."*

In deed-of-trust jurisdictions, the Mortgagee should be designated as "(Name of Servicer), its successors and assigns, beneficiary."

When a mortgagee clause is not appropriate (e.g., in a separate comprehensive general liability policy), a certificate of insurance must be provided to the PFI. This certificate must contain the information required for certificates or other evidence of insurance as required with the PFI named as certificate holder.

## F. Project insurance

### 1. Liability Insurance

The HOA for a PUD or condominium project must maintain a comprehensive general liability insurance policy covering the entire project including all common areas, public ways, commercial space that is owned by the HOA, even if they are leased to others, and any other areas that are under the supervision or control of the HOA. The commercial general liability insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.

The amount of coverage should be at least one million dollars (**\$1,000,000**) for bodily injury and property damage for any single occurrence. FHLBNY may require more coverage if higher amounts are usually required by mortgage investors for similar projects in that area.

If the policy does not include "severability of interest" in its terms, a specific endorsement is required, precluding the insurer's denial of a unit owner's claim because of negligent acts of the homeowners association or of other unit owners.

The policy should provide for at least ten (**10**) days' written notice to the HOA before the insurer can cancel or substantially modify it.

The HOA must also carry any additional insurance commonly required by PFIs for similar developments in the area, where applicable and available. Examples of additional coverage include:

- Comprehensive automobile liability;
- Bailee's liability;
- Elevator collision liability;
- Garage keeper's liability;
- Host liquor liability;
- Worker's compensation and employer's liability; and/or
- Contractual liability.

### 2. Fidelity Insurance

All condominium projects and PUD projects consisting of more than twenty (**20**) units that contain only attached dwellings must have blanket fidelity insurance coverage for anyone who handles (or is responsible for) funds held or administered by the HOA, whether or not that individual receives compensation for services. The insurance policy should name the HOA as the insured and the premiums should be paid as a common expense by the HOA. The policy for a condominium project must include a provision that calls for ten (**10**) days' written notice to the HOA before the policy can be canceled or substantially modified for any reason.

A management agent that handles funds for the HOA should be covered by its own fidelity insurance policy, which must provide the same coverage required of the HOA. The management agent must furnish proof of such coverage to the HOA.

The fidelity insurance policy should cover the maximum funds that will be in the custody of the HOA or its management agent at any time while the policy is in force. Where the condominium or PUD project's

legal documents require that it or its management agent adhere to at least one of the following financial controls, the minimum amount of fidelity insurance coverage only needs to be equal to the sum of three **(3)** months of assessments on all units in the project:

- Separate depository accounts are maintained by the HOA or management agent for the association's working account and the reserve account(s), each with appropriate access controls, and the HOA receives copies of the monthly account statements directly from the institution where the accounts are maintained;
- The management agent maintains separate records and depository accounts for each HOA using its services, and does not have authority to draw checks on, or to transfer funds from, the reserve account(s) of the owners' association; or
- Two or more members of the Board of Directors are required to sign any checks written on the reserve account(s).

In a state that has statutory fidelity insurance requirements, FHLBNY will accept the state's requirements in place of the MAP's.

## 21. Closing and Security Instruments

### A. Security Instruments

#### 1. Master and Short Form Security Instruments

Certain states have statutes that allow PFIs to record a Master Form Security Instrument in a given county and then to record a Short Form Security Instrument for each subsequent Mortgage Loan originated and recorded in that county.

The state-specific Fannie Mae/Freddie Mac Uniform Master and Short Form Security Instruments are acceptable, provided that the Mortgaged Property is located in a state that permits the use of the Uniform Fannie Mae/Freddie Mac Master and Short Form Security Instruments and the most current state specific Fannie Mae/Freddie Mac Master and Short Form Security Instrument(s) are available for use.

#### 2. Security Instrument Preparation

The Security Instrument must be properly executed, acknowledged and recorded in all places required to perfect a first lien security interest in the Mortgaged Property in favor of the Mortgagee. These actions must be completed by the PFI at its own expense and include actions necessary to conform with the local practice and state law, or to fulfill a request from FHLBNY, MAP Designee or Custodian. The PFI must inform the Custodian of any material changes to these requirements as they occur.

### B. Legal Description

A legal description is a written and / or graphically depicted, geographical description of the Mortgaged Property, whereby the description is recognized by law as sufficient to locate and identify the property precisely without need of oral testimony. The legal description of a Mortgaged Property must be consistent on all documents relating to the Mortgage Loan including: Security Instrument, title policy, survey, mortgage insurance policy or property insurance policies.

The legal description of the Mortgaged Property must be stated in the Security Instrument and the title insurance policy or other evidence of title.

#### 1. Metes and Bounds

The method of metes and bounds is the descriptive form which identifies and defines the distances and directions of the boundaries of a land parcel, usually one which is irregular in shape. A metes and bounds legal description must comply with the following requirements:

- The beginning point should be established by a monument located at the beginning point or by reference to a nearby monument;
- The varying sides of the Mortgaged Property must be described by the distances and bearings of each. In place of bearings, the interior angle of adjoining sides is acceptable if the beginning

point is on a dedicated public street line or a fixed line on other property, or if the course of the first side can be otherwise properly fixed;

- The legal description should be a single perimeter description of the entire plot. Division into sub-parcels must be avoided unless the process would serve a beneficial purpose of the mortgage;
- Division is necessary. However, if the plot is located on two sides of a public way. It is also customary in many areas to describe an easement relevant to a fee parcel by using a separate parcel description;
- The distances, bearings and angles should be taken from a recent instrument survey or recently re-certified instrument survey by a licensed civil engineer or registered surveyor; and
- Curved courses should be described by data including the length of arc, the radius of circle for the arc, and the chord distance and bearing. When a survey course is part of a dedicated public street or road line, the course may be described by indicating the distance and direction the course takes along the street line from the end of the previous course, if commonly accepted by private institutional mortgage investors in the regional area where the Mortgaged Property is located.

## 2. Lot and Block

The form of lot and block uses a description composed of lots and/or blocks with a reference to a recorded map or plat that already shows the lots or blocks. This form is often used when describing a land parcel, or lot, within a subdivision.

When all of the lots or blocks in the description do not appear on the same recorded map or plat, a reference to the location of the apparently identical sides of lots or blocks in different recorded maps or plats, fixed in both maps or plats by the same monuments is acceptable.

## 3. Other Acceptable Legal Description Forms

A description of a land parcel which is bounded on all sides by dedicated streets or alleys and which refers just to the dedicated streets or alleys is acceptable.

A description of registered property is acceptable if in the form required by a local Torrens Act.

## C. Document Execution

### 1. Uniform Instruments and Notes

Instruments (1-4 Family) for the jurisdiction where the Mortgaged Properties are located must be used for execution of the Security Instrument, riders, and Note.

The following riders are required, if applicable:

- Condominium or PUD rider - For units in a condominium or PUD;
- 1-4 Family rider – For two- to four-unit properties; and
- Second home rider – For Mortgage Loans secured by a second home.

No changes are permitted to the Fannie Mae/Freddie Mac Uniform Instruments or to any Government Agency instruments, except in the following circumstances:

- Use of Fannie Mae/Freddie Mac Uniform Instrument Riders;
- Modifications permitted by Fannie Mae/Freddie Mac as authorized changes to Uniform Instruments, as required by the state where the Mortgaged Property is located; and
- Modifications permitted by the applicable Government Agency.

The PFI may reproduce and use the current Fannie Mae/Freddie Mac Uniform Instruments on its letterhead, by computer or as supplied by FHLBNY. However, any such reproductions must remain unchanged and show the identification notation that the instrument is a Fannie Mae/Freddie Mac Uniform Instrument.

The PFI must not take any action that violates the terms of any covenant in the Mortgage Loan documents. The PFI must enforce its rights under the Uniform Instruments based on instructions or guidance provided by FHLBNY.

#### i. Late Charges

The monthly payment due date, amount of the late charge, and the grace period must be appropriately indicated on the Note.

Monthly payments must be due on the first (**1<sup>st</sup>**) calendar day of the month. Unless otherwise stated by Applicable Law, a late charge may be collected if the monthly payment is received after the end of the fifteenth (**15<sup>th</sup>**) calendar day of the month. The late charge amount collected may not exceed 5% of the late Principal and Interest payment. If Applicable Law does not allow a late charge as high as 5%, the maximum allowed late charge should be used.

If the Note provides for a shorter grace period or a late charge that exceeds the limits above, the Mortgage Loan is still eligible; however, the Servicer cannot collect a late charge in excess of 5% or collect a late charge on a monthly payment received prior to the end of the fifteenth (**15<sup>th</sup>**) calendar day of the month while FHLBNY or any other investor under MAP holds the Mortgage Loan.

## D. Assignment of Mortgage Preparation

The Assignment of Mortgage must meet the following requirements:

- The Assignment of Mortgage must not contain any statement to the effect that the Assignment of Mortgage is “without recourse”. Any statement in the Assignment of Mortgage to the effect that the Assignment of Mortgage is made with recourse will in no way affect the PFI’s delivery or repurchase obligations under the PFI Agreement;
- Must not be dated prior to the Note;
- Must include the date of the Security Instrument;
- Must include the Mortgaged Property’s legal description or the property address; and
- The PFI must ensure the Assignments of Mortgage of the Security Instrument are prepared and completed for each applicable condition as follows:
  - **Recordable But Unrecorded Assignments of Mortgage** - The PFI must prepare and execute an Assignment of Mortgage of the Security Instrument "in blank" in recordable form. The PFI must not record this Assignment of Mortgage;
  - **Intervening Assignments of Mortgage** - If the PFI is not the original Mortgagee on the Security Instrument, the chain of Assignments of Mortgage must be complete and recorded from the original Mortgagee to the PFI. If the PFI concurrently or subsequently transfers the Servicing

Rights, an Assignment of Mortgage must be completed to the new Servicer, thus keeping the chain complete; and

- **States without Recorded Assignments of Mortgage** - If a state does not accept or require Assignments of Mortgage for recordation, the PFI must provide a copy of an attorney's opinion maintained with the unrecorded Assignment of Mortgage, stating that the law in the state does not permit or require recordation of Assignments of Mortgage of the Security Instrument.

FHLBNY reserves the right to require that the recordable Assignment of Mortgage be recorded at any time.

The PFI agrees to complete and record any Assignment of Mortgage necessary at its own expense to transfer the Security Instrument to FHLBNY or its assignee, designee or transferee.

## E. Note Preparation

The Note must be prepared in accordance with the following requirements:

- The Note must be signed by any individual whose income or financial strength is used in the underwriting process;
- The Note Rate must be indicated in one-thousandth percent (.001%) increments. Examples of eligible Note Rates are: 5.000%, 5.001%, 4.999%, or 5.125%

### Note Endorsement

The PFI must endorse the Note "in blank" as follows:

This endorsement "without recourse" will in no way affect the PFI's obligations under the PFI Agreement.

The original payee on the Note may not delegate to an attorney-in-fact its authority to execute a Note endorsement. An authorized signer that is an employee of the original payee must execute the Note endorsement.

If the PFI is not the original payee on the Note, then the chain of endorsements must be proper and complete from the original payee shown on the Note to the PFI.

### Use of an Allonge

An allonge to the Note may be used for the endorsement if the following requirements are met:

- If the allonge is dated, the endorsement must be dated on or after the Note date;
- The allonge must be permanently affixed to the Note;
- The allonge must identify the associated Note by referencing:
  - The Note date;
  - Borrower(s) name(s);
  - Note amount; and
  - Mortgaged Property Address.
- The form of the allonge, and its use, complies with all Applicable Laws; and
- The use of the allonge does not impair FHLBNY's or any other investors' rights or status as a "holder in due course".

## 1. Facsimile Signatures

If facsimile signatures are used to endorse the Note, the documentation described below must be provided as evidence that such endorsements are valid in relevant states, are authorized by appropriate corporate action, and are valid and enforceable. The following documentation is required:

- A copy, certified by the PFI's secretary or other authorized officer, of the resolution by the PFI's board of directors: (i) authorizing specific officers to use their facsimile signatures to endorse Notes; (ii) stating that such facsimile signatures by the authorized officer will be a valid and binding act by the PFI; and (iii) authorizing the PFI's secretary or other appropriate officer to certify the validity of the resolution, the names of the officers authorized to endorse Notes using their facsimile signatures and the authenticity of specimen forms of facsimile signatures;
- A notarized "certification of facsimile signature", which includes both the facsimile and the original signatures of the signing officer(s) and each officer's certification that the facsimile is a true and correct copy of their original signature; and
- Legal opinions from the PFI's counsel indicating that facsimile signatures are valid for each jurisdiction in which the PFI uses them.

Additionally, the PFI must indemnify and hold FHLBNY harmless against any claims, losses, judgments, costs and expenses, including reasonable attorneys' fees, arising from the invalidity of its use of facsimile signatures. The PFI must provide a copy of all documentation to FHLBNY and must retain a copy in its records.

## F. Power of Attorney

When the Borrower has designated an individual to act as attorney-in-fact by granting a Power of Attorney (POA), the POA must be notarized and dated on or before the Note date. The POA must specifically grant the attorney-in-fact the power to act in the transaction, either by specifically describing the applicable transaction or by generally describing the type of transaction. The original POA must be attached to and delivered with the Note, unless:

- It is recorded with the Security Instrument, in which case a certified copy of the POA must be attached to the Note; or
- The signatory used a general POA to sign the Note and the signatory needs the general POA for other legal documents, in which case a certified copy of the POA must be attached to the Note.

## G. MERS Registration (Updated 7/7/2023)

The PFI must comply with the requirements of the Mortgage Electronic Registration System (MERS) Membership Agreement if it is a MERS Member and delivers Mortgages registered in MERS to FHLBNY.

If any requirement of the MERS Membership Agreement is in conflict with the requirements of this Underwriting Guide, the PFI must comply with the requirements of this Underwriting Guide.

If a Mortgage Loan has been registered with MERS, no Assignment of Mortgage from the PFI is required. However, the PFI must immediately register with MERS that the investor for that Mortgage Loan is "Org ID 1017112".

If MERS is the original Mortgagee (a MOM loan), a certified copy of the Security Instrument showing MERS as the original Mortgagee must be delivered to the Custodian.

#### **Use of MERS Rider in Specified Geographic Areas**

In the states listed below, use of the MERS Rider (Fannie Mae/Freddie Mac Form 3158) is required when a newly originated Mortgage Loan will be registered with MERS. In addition, the instructions to the MERS Rider must be followed in order to make changes to the standard Security Instruments for the following states:

- Montana;
- Oregon; and
- Washington

As the MERS Rider must be used in these specified states, post-closing assignments into MERS are prohibited.

The new rider and instructions are available on the Single-Family Riders & Addenda page at <https://www.fanniemae.com/singlefamily/riders-addenda>. The instructions are under the “Summary” link for the Form 3158.

PFI that are delivering loans to MAP which are registered with MERS are responsible for ensuring that Security Instruments and Assignments, including intervening Assignments, are prepared, executed, and recorded as necessary. The PFI is also responsible for taking any steps necessary to ensure information pertaining to MERS is updated and accurate at all times.

## **H. New York Consolidation, Extension and Modification Agreements (CEMA)**

For Mortgaged Properties located in the state of New York that are being refinanced, the new Mortgage Loan may be documented with a CEMA (Fannie Mae / Freddie Mac Form 3172), which consolidates into one document the terms of prior notes and mortgages related to the Mortgaged Property, and if new funds are advanced, the terms of the new Note and Security Instrument.

For CEMA, specific instructions for delivering documents to the Custodian can be found in [New York Consolidation, Extension and Modification Agreement](#).

## 22. Compliance With Applicable Laws

### A. Introduction

#### 1. PFI's Compliance Obligations

PFI's are required to comply with Applicable Law as defined in the MAP Guide, whether they are originating or acquiring Mortgage Loans, selling Mortgage Loans to FHLBNY, or servicing Mortgage Loans.

PFI's must have policies and procedures to ensure compliance with all Applicable Laws. Such policies and procedures should include methods and processes for both training current and new employees, and for ensuring that compliance is re-evaluated periodically both to reflect changes in Applicable Law, and to optimize the PFI's practices. The policies and procedures should apply from pre-marketing and origination, through servicing and pay off or liquidation (including REO management). PFI's are encouraged to think holistically to ensure that their technology, organizational structure and business practices are oriented toward ensuring compliance with Applicable Laws. PFI's must also ensure that their vendors and service providers are in compliance with all Applicable Laws insofar as they relate to the work being performed for the PFI. The policies and procedures of PFI's, including those relating to vendor management, should be structured accordingly. All policies and procedures of PFI's are subject to audit by FHLBNY or its designee at any time

#### 2. Applicable Law (Updated 11/29/2024)

Without limitation of the MAP Guide's definition of "Applicable Law," PFI's are advised that FHLBNY takes the view that Applicable Law includes all applicable federal, state and local laws, ordinances, regulations, orders and regulator guidance with respect to each stage of a mortgage loan's existence and management, including, without limitation, each of the following:

- a) The Truth-in-Lending Act, as amended
- b) The Real Estate Settlement Procedures Act, as amended
- c) The Fair Debt Collections Practices Act, as amended
- d) The Fair Credit Reporting Act, as amended
- e) The Equal Credit Opportunity Act, as amended
- f) The Homeowners Protection Act, as amended
- g) Titles VI and VIII of the Civil Rights Act, as amended
- h) Section 527 of the National Housing Act, as amended
- i) The Gramm-Leach-Bliley Financial Modernization Act, as amended
- j) The U.S. Bankruptcy Code, as amended
- k) The Servicemembers Civil Relief Act, as amended
- l) The Dodd-Frank Wall Street Reform and Consumer Protection Act, as amended
- m) Section 5 of the Federal Trade Commission Act, as amended, and similar laws that prohibit unfair or deceptive acts or practices
- n) The foreign assets control regulations, 31 C.F.R. Chapter V, as amended
- o) The Bank Secrecy Act, the Money Laundering Control Act and Title III of the USA PATRIOT Act, as amended
- p) The Electronic Signatures in Global and National Commerce Act, as amended, and the state-implemented versions of the Uniform Electronic Transactions Act, as amended

q) The Fair Housing Act, as amended

The applicable regulations, regulator guidance and bulletins are to be incorporated into the foregoing, together with decisional case law applicable to these matters. PFIs must acquaint themselves with the Applicable Laws relating to their business, taking the same expansive view that FHLBNY takes in interpreting what is within the ambit of “Applicable Laws.” At the same time, PFIs must take a detailed approach to establish, and document in an auditable way, compliance with each requirement. PFIs may not assume that, because they are in compliance with explicit requirements published in the MAP Guide, they are therefore in compliance with all Applicable Laws.

PFIs are reminded that their contractual relationship with FHLBNY includes an indemnification by the PFI for all losses arising out of the PFI’s violation of any Applicable Law. Violations of Applicable Law may be grounds for FHLBNY to impose additional sanctions on PFIs, including possible suspension of its eligibility under MAP, withdrawal or transfer of servicing rights, or termination from participation in MAP

## B. Specific Requirements

### 1. Fair Lending, Fair Housing, Equal Opportunity and Diversity (Updated 11/29/2024)

FHLBNY requires strict adherence to all Applicable Laws relating to fair lending, fair housing, equal opportunity and diversity. Applicable Laws in these areas include both those that are consumer-facing, and those that are internal to the operations of the PFI.

With respect to consumer-facing laws, PFIs should evaluate the specific Applicable Laws in relation to their business and operations and ensure that procedures are established for employees, agents and contractors to interact with consumers and the public in a manner that is in compliance with Applicable Laws. Interactions may be covered by one or more of the specific laws enumerated in Section A.2 above.

With respect to internal operations of the PFI, Applicable Laws may include regulations adopted by the Federal Housing Finance Agency pursuant to the Housing and Economic Recovery Act of 2008, as amended (HERA). In accordance with those regulations, each PFI must:

1. Practice the principles of equal employment opportunity and non-discrimination in all its business activities
  - Contractually require each subcontractor that the PFI engages to provide services to FHLBNY in connection with MAP to practice the principles of equal employment opportunity and non-discrimination in all its business activities, and
  - Upon request, provide FHLBNY with information and appropriate certifications regarding:
    - The diversity status of the PFI
    - The diversity status of subcontractors the PFI engages to provide services to FHLBNY in connection with MAP
    - The amounts FHLBNY pays to the applicable Servicer for servicing under MAP
    - The amounts the applicable Servicer pays to subcontractors to provide services to FHLBNY in connection with MAP, and
    - Any other information FHLBNY requests to comply with HERA and applicable diversity and inclusion regulations

## 2. Predatory Lending

Applicable Laws relating to predatory lending may apply to both origination and servicing, and have been implemented by many states. FHLBNY regards predatory lending practices as entirely inconsistent with MAP and requires PFIs to be in compliance all anti-predatory lending Applicable Laws. PFIs should note that FHLBNY requires compliance with all state-based Applicable Laws relating to predatory lending without regard to possible federal preemption. PFIs that believe that compliance with Applicable Laws at both the state and federal level (or with pronouncements or requirements of the applicable regulator(s) for such PFI) should discuss their concerns with FHLBNY before originating or selling any Mortgage Loans under MAP. Any discussions with FHLBNY after the origination or sale of Mortgage Loans under MAP will be without prejudice to FHLBNY's rights under the MAP Guides and the PFI Seller Agreement.

PFI sourcing loans from correspondent lenders for sale under MAP are required to establish policies and procedures, including documented auditable evaluations, to ensure that Mortgage Loans originated by third parties are in compliance with all Applicable Laws, including without limitation, applicable anti-predatory lending laws.

## 3. OFAC Screening (Updated 5/17/2021)

PFIs must establish and maintain an effective, written OFAC compliance program that ensures compliance with OFAC regulations. OFAC regulations may apply during any stage of origination and servicing, through pay off or liquidation, including REO. PFIs must have adequate policies and procedures in place to ensure compliance with OFAC regulations and the USA PATRIOT Act, including without limitation documentation obtained to verify the Mortgagor's identity as required in the MAP Guides and by Applicable Law.

PFIs underwriting and selling Mortgage Loans to FHLBNY must screen each Mortgagor against OFAC's current list of Specially Designated Nationals and Blocked Persons (the "SDN List") prior to delivery to FHLBNY. If a Mortgagor is on the SDN List, the Mortgage Loan is ineligible for sale to FHLBNY. PFIs acting as Servicer must periodically screen the Mortgage Loans that it services for FHLBNY against the SDN List, with the frequency of such screening determined by the OFAC compliance program established by such PFI. Any PFI that identifies a valid Mortgagor match against the SDN List must notify FHLBNY via e-mail as soon as practicable and in any event within 24 hours of identifying such match. Such e-mail notification must include the Mortgagor's name, the MAP loan number, and the PFI's (and, if different, the Servicer's) contact information. PFIs must cooperate with FHLBNY as to any potential next steps, which may include, but are not limited to, the blocking and/or segregation of Mortgage-related funds and ceasing certain servicing-related activities.

Notifying FHLBNY of a confirmed match against the SDN List is an obligation under MAP, and does not relieve the PFI of any of its responsibilities under Applicable Law including OFAC regulations.

## 4. Fraud, Anti-Terrorism and Anti-Money Laundering (AML) Compliance

The USA PATRIOT Act applies to all PFIs. Accordingly, among other requirements, all PFIs must establish and maintain, and abide by, a Customer Identification Program (CIP) compliant with Applicable Law. PFIs subject to the AML provisions of the Bank Secrecy Act are expected to establish and maintain a

compliance program that ensures compliance with the applicable provisions of the Bank Secrecy Act and implementing federal regulations including, where applicable, those issued by the Financial Crimes Enforcement Network (FinCEN).

All PFIs, including those not subject to the AML provisions of the Bank Secrecy Act, must develop internal controls, policies and procedures designed to detect suspicious activity, and to report such suspicious activity to FHLBNY via e-mail as soon as practicable and in any event within 24 hours. Suspicious activity in connection with Mortgage Loans includes:

- Theft of custodial funds, lack of collateral, non-remittance of pay-off funds or multiple deliveries of the same Mortgage Loan
- Actual or possible terrorist financing or ongoing or possible money laundering schemes or activity

In addition, PFIs must report the following to FHLBNY as soon as practicable and in any event with five (5) business days:

- Non-compliance or compliance failures related to CIP, applicable AML and FinCEN or Bank Secrecy Act regulations
- The imposition or notice of the proposed imposition (including receipt of a “show cause” letter or similar communication) of sanctions on the PFI in connection with non-compliance or compliance failures related to CIP, applicable AML and FinCEN or Bank Secrecy Act regulations
- Notification by law enforcement of an investigation or prosecution for fraud relating to one or more Mortgage Loans sold to FHLBNY by the PFI (whether or not under MAP) or to another Federal Home Loan Bank, or relating to a board member, officer, employee or contractor of the PFI

PFIs must follow the confidentiality restrictions of applicable AML and FinCEN or Bank Secrecy Act regulations. The report to FHLBNY must not include sharing with FHLBNY any Suspicious Activity Report (SAR) or the existence of a SAR. Whether or not a SAR is required to be filed by a PFI is governed by Applicable Law, and not the MAP Guide.

## 5. Electronic Signatures

Mortgagors cannot be required to sign documents electronically.

PFIs proposing to use electronic signatures must familiarize themselves with Applicable Law relating to the use and enforceability of electronic signatures. Applicable Laws in this area include:

- The Electronic Signatures in Global and National Commerce Act (E-SIGN)
- The Uniform Electronic Transactions Act (UETA)
  - Including all non-uniform provisions where adopted by various states. For example, the California version of UETA contains non-uniform provisions
- State legislation not based on UETA, such as the New York Electronic Signatures and Records Act (ESRA)
- Electronic signatures are permitted to be used on documents delivered to or to be signed by Mortgagors in the origination and servicing of loans delivered under MAP, subject to the following:

Electronic signatures are not permitted on the Note, Security Instrument, Assignment, Note endorsement, or any document modifying or supplementing the Note or Security Instrument

- Electronic signatures are not permitted for any notice of default, acceleration, repossession, foreclosure, eviction, or the right to cure
- The guarantor, insurer or Government Agency (as applicable) for the related Mortgage Loan permits the use of electronic signatures, their requirements for the use of such electronic signatures are met, and the document is otherwise permitted to be electronically signed pursuant to these requirements
- The PFI (and Servicer, if different) and their processes, must be in full compliance with all Applicable Laws relating to the use of electronic signatures
- The documented process for use of electronic signature must result in a contract that is valid under Applicable Law and must, at a minimum:
  - address and establish the intent of the signer
  - address and establish the consent to conduct business electronically
  - provide association of the signature with the record
  - provide for retention of the record in a manner allowing for accurate reproduction of the record
- The Mortgage Loan File must contain appropriate evidence of:
  - the parties' agreement to the use of the electronic record and/or electronic signature in a way that creates a binding electronic record under E-SIGN, UETA, ESRA or other Applicable Law
  - the signer's execution of a particular electronic signature
  - attribution of the electronic signature to the signer
  - any required disclosures made before obtaining the signer's consent and the signer's consent to receiving subsequent disclosures electronically
  - the borrower's ability to receive the electronic disclosures for which consent was provided
- The PFI (and Servicer and Custodian, if different) and their processes are responsible for ensuring that any electronic record includes all of the information that would have been required had the record been in paper document form, including:
  - the name of the person and related entity, if applicable, who signed each document in the Mortgage Loan File
  - the signer's consent for the use of any electronic signature or disclosure
  - the method by which the document was signed
  - any associated information that can be used to verify the electronic signature
- The PFI's process and the Mortgage Loan File must contain sufficient evidence and attribution information to permit FHLBNY to conduct a thorough post-purchase quality control review of the Mortgage Loan, which, for example, means that the evidence of a Mortgagor's electronic signature for employment verification must permit the FHLBNY to reverify information from the employer
- The PFI (and Servicer, if different) must determine the most appropriate procedures and controls to use in connection with the use of electronic signatures and electronic records given the nature of their operations and their business, but at minimum, their processes must ensure the integrity of any electronic record is maintained, must permit reproduction of electronic records in paper or other format if requested and full compliance with E-SIGN, UETA, ESRA or other Applicable Law

Because the property sale contract in a purchase mortgage transaction is viewed as being signed outside of the loan transaction, a PFI acting as originator is not required to comply with the provisions of

this section as they relate to electronic signatures, but is required to retain a copy of the sales contract and take reasonable steps to determine that the sales contract is validly signed by the correct parties in all required places (i.e. the same steps the Originator would follow for a non-electronic sales contract). PFIs should also note that Applicable Law may impose requirements on PFIs as originators with respect to the use of electronic signatures and electronic records with respect to property sale contracts.

By delivering or servicing Mortgage Loans with electronically signed documents, the PFI (and Servicer, if different) will be deemed to have represented to FHLBNY that they understand and agree that FHLBNY will rely conclusively on the accuracy, authenticity, integrity, and validity of the electronic records (including any delivery instructions) and that FHLBNY is under no obligation to verify or authenticate inaccuracies or inconsistencies through any communication, review or authentication method.

All other documents must be 'wet ink' signed.

## 6. Vendors; Privacy Obligations

PFIs must make themselves familiar with privacy requirements set forth in state and federal law, including:

- the California Consumer Privacy Act of 2018, as amended, and its implementing regulations or guidance provided by the California Attorney General (collectively, the "CCPA")
- the Gramm-Leach-Bliley Act, 15 U.S.C. §§ 6801 *et seq.*, the Federal Trade Commission's Privacy Regulations, 16 CFR Part 313, and Standards for Safeguarding Customer Information, 16 CFR Part 314 (collectively, the "GLBA")

PFIs may from time to time utilize vendors to provide services (the "Services") to PFI in connection with MAP. In the course of providing the Services, such vendors may obtain Personal Information (as defined in CCPA) in the vendor's capacity as a service provider to the PFI. While FHLBNY takes the view that the Personal Information FHLBNY provides to PFIs is not subject to the GLBA's privacy provisions, or the CCPA, FHLBNY nevertheless wishes to provide consumers many of the protections the GLBA and CCPA would otherwise afford those consumers. Accordingly, in addition to abiding by Applicable Laws relating to privacy matters that apply to the PFI, each PFI must establish and maintain procedures and contractual restrictions with certain vendors, including audit rights, designed to ensure that vendors abide by the requirements set forth below. The vendors the subject of these requirements are those that are provided Personal Information by or at the direction of FHLBNY or its affiliates in connection with MAP, or which such vendor otherwise receives or collects in the course of such vendor's performance of the Services (collectively, "Applicable Personal Information"). The requirements are as follows:

- Each such vendor must comply with all Applicable Laws (including, without limitation, any state-specific privacy laws) in its collection, receipt, transmission, storage, disposal, use and disclosure of the consumer's Applicable Personal Information
- Each such vendor must that the terms and conditions herein shall apply with respect to its collection, receipt, transmission, storage, disposal, use and disclosure of any Applicable Personal Information
- Each such vendor must comply with any applicable requirements regarding consumer requests for information or deletion requests as communicated by FHLBNY or PFI on its behalf, subject to any exceptions set forth in the CCPA

- Each such vendor must:
  - Keep and maintain all Applicable Personal Information in strict confidence, using the degree of care appropriate to avoid unauthorized access, use or disclosure of Applicable Personal Information
  - Not sell Applicable Personal Information
  - Not access, use, disclose or share Applicable Personal Information in violation of any Applicable Laws
  - Not retain, use or disclose Applicable Personal Information for any purpose other than the specific and exclusive purpose of performing the Services, and for which the Applicable Personal Information, or access to it, is provided
  - Not retain, use, sell, rent, transfer, distribute, or otherwise disclose or make available Applicable Personal Information for its own purposes or for the benefit of anyone other than FHLBNY and its affiliates
  - Not, directly or indirectly, disclose Applicable Personal Information to any person other than:
    - Employees
    - Sub-contractors, vendors, agents, outsourcers and auditors whose use or engagement has been approved in writing by FHLBNY in advance, who have a need to know or otherwise access Applicable Personal Information to enable Vendor to perform the Services, and who are bound in writing by confidentiality and data security obligations sufficient to protect Applicable Personal Information in accordance with these requirements