

Wholesale Announcement

Date: 7/22/2008

Topics in this newsflash include:

- Conventional conforming cash out refinance seasoning requirements
 - Conventional conforming Maximum Number of Financed Properties
 - Conventional conforming conversion of principal residence
 - Conventional conforming bankruptcy & foreclosure guidelines
 - Reminders & Did you Know
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CASH-OUT REFINANCE SEASONING REQUIREMENTS

For all agency conventional conforming loans the following guidelines are effective with **new locks on or after 7/28/2008**:

- Six-month seasoning will be required for cash out refinances (note date to note date is used to calculate six months)
 - To be eligible for a rate/term refinance when the most recent transaction on the subject property was a cash-out refinance within the last six months, the new mortgage must be treated as a cash-out refinance (note date to note date is used to calculate six months)
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MAXIMUM NUMBER OF FINANCED PROPERTIES

For all agency conventional conforming loans the following guidelines are effective with new locks on or after 7/28/2008:

- **Second Homes & Investment Properties:** the maximum number of financed properties is limited to four (4) including the primary residence. There are no restrictions on the number of properties that the borrower owns free and clear. Commercial properties are not included. The loan program description has been updated and is available on the sales website.
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CONVERSION OF A PRINCIPAL RESIDENCE

Fannie Mae has implemented new guidelines for borrowers who currently own a primary residence and decide to convert it to a second home or investment property and purchase a new primary property. In



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order to ensure that borrowers have sufficient equity and/or reserves to support both the existing financing and the new mortgage being originated, Fannie Mae is updating the policies for qualifying borrowers purchasing a new principal residence and converting their existing principal residence to a second home or investment property.

For all agency conventional conforming loans the following guidelines are effective with **applications dated on or after 8/1/08:**

If the current principal residence is pending sale but the transaction will not be closed (with title transfer to a new owner) prior to the new transaction both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction.

If the current principal residence is a conversion to a Second Home:

- o Both the current and the proposed mortgage payments must be used to qualify the borrower for the new transaction; AND
- o 6 months of PITI for both properties is required to be in reserves. Lender may consider reduced reserves of no less than 2 months for both properties if there is documented equity of at least **30 percent** in the existing property (derived from an appraisal, automated valuation model (AVM), or Broker Price Opinion (BPO), minus outstanding liens)

If the current principal residence is a conversion to an Investment Property:

- o Fannie Mae will continue to permit up to 75 percent of the rental income to be used to offset the mortgage payment in qualifying if there is documented equity of at least **30 percent** in the existing property (derived from an appraisal, AVM, or BPO, minus outstanding liens).
- o The rental income must be documented with a copy of the fully executed lease agreement, the receipt of a security deposit from the tenant and proof the the security deposit has been deposited into the borrower's account.
- o If the 30 percent equity in the property cannot be documented, rental income may not be used to offset the mortgage payment.

These guidelines are applicable to manually underwritten loans and, except for the additional reserve requirements, must also be applied (on a manual basis) to loan casefiles underwritten with DU. DU will determine the level of reserves for each loan casefile.

BANKRUPTCY & FORECLOSURE UPDATES

For all agency conventional conforming loans the following guidelines are effective with **applications dated on or after 8/1/08:**

Bankruptcy (All except Chapter 13)	4 year time period from discharge or dismissal date
Chapter 13 Bankruptcy	2 years from discharge date, or 4 years from dismissal date
Exceptions for Extenuating Circumstances- all bankruptcy actions	2 year time period from discharge or dismissal date. No exceptions are permitted to the 2 year time period after a Chapter 13 discharge

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Multiple Bankruptcy filings	5 year time period from most recent discharge or dismissal for borrowers with more than one bankruptcy filing within the past 7 years
Exceptions for Extenuating Circumstances- Multiple Bankruptcy filings	3 year time period from most recent discharge or dismissal Note: the most recent bankruptcy filing must have been the result of extenuating circumstances.
Foreclosure	5 year time period from completion date Additional criteria apply after 5 years up to 7 years following the completion date: <ul style="list-style-type: none"> • Minimum 10% down payment • Minimum 680 FICO score • Owner Occupied Purchase or Rate/Term refinance only
Exceptions for extenuating circumstances- foreclosure	3 year time period from completion date. Additional criteria apply after 5 years up to 7 years following the completion date: <ul style="list-style-type: none"> • Minimum 10% down payment • Owner Occupied • Purchase or Rate/Term refinance only
Deed-in-Lieu of Foreclosure	4 year time period from completion date Additional criteria apply after 4 years up to 7 years following the completion date: <ul style="list-style-type: none"> • Minimum 10% down payment • Owner Occupied, Second Home or Investment (use the greater of 10% down payment or minimum required for specific program)
Exceptions for Extenuating circumstances- Deed-in-Lieu of foreclosure	2 year time period from completion date Additional criteria apply after 4 years up to 7 years following the completion date: <ul style="list-style-type: none"> • Minimum 10% down payment • Owner Occupied, Second Home or Investment (use the greater of 10% down payment or minimum required for specific program)
Short Sale	2 year time period from completion date. Note: no exceptions for extenuating circumstances per permitted.

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REMINDERS & DID YOU KNOW

- Reminder - As of 5/7/08 all loans require standard income documentation **REGARDLESS** OF DU/LP feedback. This includes paystubs, 2 years W2's, or tax returns if self employed/commissioned/family business.

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