

NEWSFLASH

Important information: Please read immediately



Date: 10/22/08

Topics in this newsflash include:

- **FHA – Converting Existing home to rental**
- **Agency Conforming – Continuity of Obligation**
- **MI changes**
- **Agency conforming price changes**

FHA –CONVERTING EXISTING HOME TO RENTAL

Effective with Mortgagee letter 2008-25 dated 9/19/08, FHA will no longer consider rental income from a principal residence being vacated to purchase a new principal residence (regardless of the type of mortgage on the vacating property). Exceptions to this policy may be considered if it's a relocation or there is at least 25% documented equity in the existing principal residence. Please contact your underwriter for specifics.

Agency Conforming – Continuity of Obligation

Fannie Mae & Freddie Mac have refined their guidelines on refinance transactions to include an eligibility requirement of continuity of obligation to address borrower's that are may be on the title and not obligated on the original note. An acceptable continuity of obligation exists when:

- There is at least one borrower obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The existing loan being refinanced and the title have been held in the name of a natural person or an LLC as long as the borrower was a member of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement
- The borrower has recently inherited or was legally awarded the property (divorce, separation).

If the borrower is currently on title but is unable to demonstrate an acceptable continuity of obligation, or there is no outstanding lien against the property, the loan is still eligible but with additional restrictions. The loans must be underwritten and priced as a cash-out refinance transaction with these additional limits:

- **No outstanding liens (e.g. purchased for cash or previous mortgage loans have been paid off)** If the property was purchased within the 6 to 12 month period prior to the application date for the new financing, the LTV ratios will be based on the lesser of the original sales price/acquisition cost (documented by the HUD-1 Settlement Statement) or the current appraised value. Standard *Selling Guide* or DU eligibility will apply, as applicable; or
- **Outstanding liens with no continuity of obligation** - If the borrower has been on title for at least 6 months but continuity of obligation does not exist, the maximum LTV ratios will be limited to 50 percent based on the current appraised value.

Please contact your underwriter if you have any questions.

MI Changes

Effective 11/1/08 investment properties are no longer eligible for mortgage insurance, therefore the maximum LTV for 1-2 Unit investment properties is limited to 80%. (3-4 Unit remains at Maximum LTV 75%).

Agency Conforming Price Changes

The following price changes are effective immediately:

Property Type	LTV	Old	New
2 Unit	All	.50 pt	1.00 pt

Occupancy Type	LTV	Old	New
NOO	<=75%	1.50 pt	1.75 pt
NOO	75.01-80%	2.00 pt	3.00 pt
NOO	80.01-90%**	2.50 pt	3.75 pt

**must have MI certificate prior to Nov 1
