



# Overlays

## Table of Contents

<b>FHA</b> .....	<b>1</b>
4506T .....	1
<b>Age of Documents</b> .....	<b>1</b>
Automated Underwriting System.....	2
<b>Borrower Eligibility</b> .....	<b>2</b>
<b>CAIVRS (Credit Alert Interactive Voice Response System) Number(s)</b> .....	<b>2</b>
<b>Case Warnings</b> .....	<b>2</b>
<b>Credit</b> .....	<b>2</b>
Payment History.....	<u>32</u>
Residual Income Requirement.....	<u>32</u>
<b>Departure Residence</b> .....	<b>3</b>
<b>Down Payment Assistance Programs (DPA)</b> .....	<b>3</b>
<b>Escrow Holdback/Repair Escrows</b> .....	<b>3</b>
<b>Gift Funds</b> .....	<b>4</b>
<b>Ineligible Income</b> .....	<b>4</b>
<b>Ineligible Programs</b> .....	<b>4</b>
<b>Ineligible Properties</b> .....	<u>54</u>
<b>Insurance</b> .....	<b>5</b>
<b>Manufactured Home</b> .....	<b>5</b>
<b>Property Taxes</b> .....	<b>6</b>
<b>Refinance</b> .....	<b>6</b>
Streamline Refinance.....	6
Cash Out Refinance.....	<u>76</u>
<b>Septic Inspections</b> .....	<b>7</b>
<b>VA</b> .....	<b>7</b>
4506T .....	7
<b>Age of Documents</b> .....	<b>8</b>
Automated Underwriting System.....	8
<b>Bank Statements</b> .....	<b>8</b>
<b>CAIVRS (Credit Alert Interactive Voice Response System) Number(s)</b> .....	<b>8</b>
<b>Credit</b> .....	<b>8</b>
<b>Debt to Income Ratio</b> .....	<b>8</b>
<b>Departure Residence</b> .....	<u>98</u>
<b>Escrow Holdback/Repair Escrows</b> .....	<u>98</u>
<b>Ineligible Income</b> .....	<u>109</u>
<b>Ineligible Programs</b> .....	<u>109</u>
<b>Ineligible Properties</b> .....	10
<b>Insurance</b> .....	10
<b>Manufactured Home</b> .....	<u>1140</u>
<b>Property Taxes</b> .....	11
<b>Refinance</b> .....	<u>1244</u>

Cash Out .....	<u>1244</u>
IRRRL (Interest Rate Reduction Refinance Loan) .....	<u>1244</u>
IRRRL - Recoupment Period .....	12
IRRRL – Seasoning Requirement.....	12
IRRRL - Value Verification .....	12
<b>Residual Income.....</b>	<b>12</b>
<b>Septic Inspections .....</b>	<b><u>1342</u></b>
<b>VA Guarantee .....</b>	<b><u>1342</u></b>
<b>USDA .....</b>	<b>13</b>
4506T .....	13
Age of Documents .....	<u>1443</u>
Automated Underwriting System .....	13
Bank Statements .....	14
Borrower Eligibility .....	14
CAIVRS (Credit Alert Interactive Voice Response System) Number(s) .....	14
Credit .....	14
Departure Residence .....	<u>1514</u>
Escrow Holdback/Repair Escrows .....	<u>1514</u>
Higher Priced Mortgage Loans (HPML/Section 35) .....	15
Ineligible Income .....	16
Ineligible Programs .....	16
Ineligible Property Types .....	<u>1746</u>
Insurance .....	<u>1746</u>
Manufactured Home.....	17
Property Taxes .....	<u>1847</u>
Septic Inspections .....	18
<b>CONVENTIONAL GENERAL .....</b>	<b>18</b>
4506T .....	18
Age of Documents .....	19
Automated Underwriting System .....	19
Bank Statements .....	<u>2049</u>
Borrower Eligibility .....	<u>2049</u>
Credit .....	<u>2049</u>
Departure Residence .....	<u>2049</u>
Escrow Holdback/Repair Escrows .....	<u>2049</u>
Escrow Waivers.....	<u>2120</u>
Ineligible Income .....	<u>2120</u>
Ineligible Programs .....	<u>2120</u>
Ineligible Properties.....	21
Insurance .....	21
Manufactured Home.....	<u>2224</u>
Private Mortgage Insurance .....	<u>2224</u>
Property Taxes .....	<u>2322</u>

Septic Inspections .....	<u>2423</u>
FNMA .....	<u>2423</u>
Underwriting Requirements .....	<u>2423</u>
FNMA HOMEReady .....	<u>2423</u>
FNMA DU REFI PLUS .....	24
Private Mortgage Insurance .....	24
FHLMC .....	<u>2524</u>
Underwriting Requirements .....	<u>2524</u>
FHLMC HOME POSSIBLE .....	<u>2524</u>
Underwriting Requirements .....	<u>2524</u>
FHLMC OPEN ACCESS .....	25
Private Mortgage Insurance .....	25
Underwriting Requirements .....	25
<b>CONVENTIONAL TEXAS 50(a)(6) .....</b>	<b><u>2625</u></b>
Texas Section 50(a)(6) Refinance Matrix .....	<u>2625</u>
General Description - Texas Section 50(a)(6) Loan .....	<u>2726</u>
FNMA B5-4.1-01 FREDDIE 4301.2; FREEDIE 4301.5; FREEDIE 4301.6; FREEDIE 4301.6; FREEDIE 4301.7 .....	<u>2726</u>
Automated Underwriting System .....	26
Borrower Eligibility .....	27
Collateral .....	<u>2827</u>
FNMA B5-4.1-02 and FNMA B5-4.1-03 and FNMA B5-4.1-01 FREDDIE 4301.7(c) .....	<u>2827</u>
Ineligible Programs FNMA B5-4.1-02 .....	<u>3029</u>
Program Details .....	<u>3029</u>
State Specific Requirements .....	<u>3130</u>
Title FNMA B5-4.1-05 and FNMA B8-5-03 .....	<u>3332</u>
Transaction Details .....	<u>3332</u>

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

# FHA

## 4506T

- A fully executed IRS Form 4506T must be included in all loan files except for non-credit qualifying streamline/IRRRL refinance transactions
- Transcripts are required to verify all W-2's, 1099's and/or tax returns submitted and/or used for qualifying per published guideline
  - If non-taxable income is a source of income, and cannot be validated through 4506T transcripts, then the following must be provided:
    - Tax transcript(s) showing “No Record of Return Filed”, and,
    - Alternative validation documentation such as, but not limited to, 1099 transcripts, award letters or bank statements
- If corporate or partnership business income is used for qualifying, a separate fully executed IRS Form 4506-T for that business must be included in all loan files except for non-credit qualifying streamline refinance transactions
  - Transcripts are required to verify all income submitted and/or used for qualifying per published guideline
  - Transcripts are required to verify business tax returns and subsequent amendments
- If transcripts reflect any tax amount due and owing, evidence paid in full or payment plan to include in debt ratios may be required at underwriter discretion
- If a loan is closed between January 1st and May 31st of the calendar year AND the most recent year tax return is being used to qualify BUT the tax transcripts are not yet available, the following must be provided:
  - Most recent year tax transcript showing “No Record of Return Filed” and,
  - Copy of the most recent year tax return, and,
  - Evidence of e-filing or stamped tax returns for most recent year, and,
  - Copy(s) of W-2's/1099's (as applicable), and,
  - Previous year(s) transcripts per published guidelines
    - NOTE: If a loan closes on or after June 1st of the calendar year, transcripts must be received by MSF
- If the borrower has filed an extension
  - If an extension has been filed for the current tax year and the loan is closing prior to the extension deadline (October 15th for most taxpayers), all of the following must be provided:
    - Evidence of filed extension (IRS Form 4868) & of tax payment made (if applicable),
    - Most recent year tax transcript showing “No Record of Return Filed” and,
    - One of the following:
      - Previous year(s) transcripts per published guidelines, or
      - Evidence of e-filing or stamped tax returns for most recent year
  - Loans with an extension filed that are closing after the extension deadline (October 15th for most taxpayers) for the current tax year, must provide evidence of filed tax returns
    - NOTE: If a loan closes after December 1st of the calendar year, transcripts are required for all loans
- If the borrower has filed their most recent year tax returns and the IRS flag for identity theft is returned, the following must be provided:
  - Request tax transcripts through normal means and acquire documentation showing the transcripts are not available due to the above IRS privacy/identity theft issues and,
  - Borrower orders the tax transcripts directly and provides them to MSF, and,
  - The file contains the most recent W-2(s), and,
  - A verbal verification of employment is performed to confirm the W-2 and income used for qualifying
- 4000.1 II. A. 4. c. and 4000.1 II. A. 5. b.

## Age of Documents

Type of Document	Length of Validity to Note Date
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**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

• Ownership & Encumbrances (O&E)	• 14 days
• Payoff Statement FHA Streamer	• 30 days
• Survey	• 180 days

- 4000.1 II A. 1. a. 1. A

### **Automated Underwriting System (AUS)**

- Loan Prospector (LP) – NO LP FINDINGS ALLOWED
- Desktop Underwriter (DU) – Broker to provide initial DU findings and MSF Underwriter to make all subsequent updates/corrections

### **Borrower Eligibility**

- Non-Permeant Resident Aliens must be in the United States legally and have permission to work legally for at least 3 years.
  - EAD Code C33 (DACA) and similar classifications with renewal periods shorter than 3 years are ineligible for financing due to the renewal period being less than 3 years.
- Non-Occupant Co-Borrowers
  - Maximum number of non-occupying co-borrower(s) is one; “one” being defined as a single household such as a mother and father living together
- Borrower(s) that have been incarcerated are ineligible. NBS excluded
- 4000.1 II A. 2. b ii (B)

### **CAIVRS (Credit Alert Interactive Voice Response System) Number(s)**

- Results must be obtained through [FHA Connection](#)
- All files must have clear CAIVRS prior to closing
- Not required on non-credit qualifying streamlines
- Defaulted CAIVRS Numbers
  - If the borrower is currently delinquent on any federal debt, VA mortgage, Title I Loan, Federal student loan, SBA loan, Federal taxes or has a lien against the property for debt owed to the United States, the borrower is ineligible until the delinquent account is brought current or satisfied
- 4000.1 II. A. 1. b. ii (10)

### **Case Warnings**

- Credit Alert Sanctions
  - Any case number with “Credit Alert Sanction Warning” must be cleared
- 4000.1 II. A. 1. a. iii. (B) (1)

### **Credit**

- Minimum FICO 620 for purchase transactions in the following areas:
  - El Paso County, Colorado
  - Pueblo County, Colorado
- Short Refinances
  - Short refinances/short payoffs for the subject property currently owned by borrower are ineligible
- 4000.1 II. A. 8. d. i. (B) (3)

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

### **Payment History**

All credit Qualifying FHA loans will require a 12 month rental or mortgage rating.

- More than one 30 day late requires a manual downgrade

### **Residual Income Requirement**

The VA Residual income standard must be met for all credit qualifying FHA loans, regardless of manual or AUS underwriting type, when any of the following risk factors are present.

- One or more housing related late payment(s) reported in the last 12 months
- Payment shock exceeds 130% (or the applicants do not have a current housing payment).

### **Departure Residence**

- Applies to properties vacated within 60 days of loan application
- 4000.1 II. A. 4. c. xii. (I) (3) and 4000.1 II. A. 5. b. xii. (I) (3)

### **Down Payment Assistance Programs (DPA)**

- Down Payment Assistance and/or Grants acceptable if [Homeownership Assistance Program](#) is FHA approved for the property state and if MSF is approved with the DPA provider (if required by provider)
  - Manufactured homes are ineligible
  - Manual underwrites are ineligible
- 4000.1 II. A. 4. d. iii. (I) & (J) and 4000.1 II. A. 5. c. iii. (I) & (J)

### **Escrow Holdback/Repair Escrows**

- All repairs must be completed prior to the loan being purchased.
- The property must be in average condition at the time of closing
- Payment to the contractors will be made by MSF after the following has occurred:
  - Invoices have been provided to and approved by MSF
  - An appraiser/inspector engaged by MSF has verified the completion of the repair work
- Fully executed escrow agreement required in closing package
- Required after repairs are completed
  - [Fannie Mae Form 1004D](#) with photos
- After all repairs have been completed and inspections performed any excess funds will be disbursed in the following manner
  - Financed escrow funds will be applied to the principal balance of the new loan
  - Non-financed escrow funds will be refunded to the original payor
- Underwriter to complete [HUD-92300](#) to indicate that the repair escrow has been established
- 4000.1 II. A. 6. a. viii (B)
- HUD REO Properties
  - Follow FHA guidelines
- 4000.1 II. A. 3. a. iii., 4000.1 II. D. 3. o., and 4000.1 II. A. 6. a. viii. (B)
- Non-HUD REO Properties
  - Repair escrows are allowed only for property repairs that cannot be completed due to inclement weather:
    - Underwriter approval required on a case-by-case basis

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Holdback is 150% amount of highest bid
  - Dwelling must be habitable, safe and essentially complete
  - The holdback cannot be for any MPR (minimum property requirement) issue
  - Not allowed for structural repairs and foundation work
  - New Construction Repair escrows permitted for exterior repairs that cannot be completed due to inclement weather – for new construction properties, items such as landscaping, pools, decks, sod, etc. may remain incomplete due to weather-related situations
  - Appraiser must indicate “subject to” on appraisal and list all required repairs
  - For Escrow Holdback amounts up to \$500, one bid for each repair required for existing construction from an appropriate licensed, bonded tradesperson or copies of paid receipts for material used
  - For Escrow Holdback amounts above \$500, two bids for each repair required for existing construction from an appropriate licensed, bonded tradesperson
- 4000.1 II. A. 3. a. iii., 4000.1 II. D. 3. o., and 4000.1 II. A. 6. a. viii. (B)

### **Gift Funds**

- Minimum FICO 640 when using gift funds
- 4000.1 II. A. 4. d. iii. (F), & 4000.1 II. A. 5. c. iii. (F), 4000.1 II. A. 4. d. iii. (I) & (J) also, 4000.1 II. A. 5. c. iii. (I) & (J)

### **Ineligible Income**

- Mortgage Credit Certificates (MCC)
- 4000.1 II. A. 4. c. xii. (D), and & 4000.1 II. A. 5. b. xii. (D)
- Projected/Expected Income
- 4000.1 II. A. 4. c. xii. (L), and & 4000.1 II. A. 5. b. xii. (L)

### **Ineligible Programs**

- Section 184 Indian Housing Guarantee Program
- 4000.1 V. A. 3. e. i.
- Home Equity Conversion Mortgage (HECM)
- 4000.1 I. A. 3. c. iv. (B) (3) (vii), and 4000.1 II. D. 3. c. i. (D) (2) (b)
- Standard and Streamline 203k programs on Wholesale
- 4000.1 II. A. 1. b. i. (B), 4000.1 II. A. 1. b. i. (C), and 4000.1 II. A. 8. a.
- Standard 203k program on Retail
- 4000.1 II. A. 1. b. i. (B), 4000.1 II. A. 1. b. i. (C), and 4000.1 II. A. 8. a.
- Streamline 203k on Retail is Temporary suspended (see announcement 29-17R)
- 4000.1 II. A. 1. b. i. (B), 4000.1 II. A. 1. b. i. (C), and 4000.1 II. A. 8. a.
- Condos that are not DELRAP or HRAP approved
- 4000.1 II. A. 1. b. iv. (B)
- FHA Refinance of Borrowers in Negative Equity Positions (aka short refinance)
- 4000.1 II. A. 1. b. i. (C)
- FHA HAWK (Homeowners Armed with Knowledge)
- Purchase of a second home
- 4000.1 II. A. 1. b. iii. (B)
- Sweat Equity as down payment
- 4000.1 II. A. 4. d. iii. (R) and 4000.1 II. A. 5. c. iii. (R)
- Disaster Victims 203(h)
- 4000.1 II. A. 1. b. i. (B) (2) and or 4000.1 II. A. 8. b.



**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Texas 50(a)(6)

### **Ineligible Properties**

- Manufactured housing in a flood zone
- 4000.1 II. A. 1. b. iv. (B) (5)
- Property that was previously a 'meth house', even if cleaned
- 4000.1 II. D. 3. n. ii.
- Working farms, ranches and orchards
- 4000.1 II. A. 1. b. iv. (B)
- Hero/Pace liens
- 4000.1 II. A. 1. b. iv. (A) (6)
- Cooperative projects

### **Insurance**

- All borrowers on loan and subject property address must be listed on proof of insurance form
- Term of coverage:
  - Purchase Loans: Policy must extend for minimum twelve months from the date of closing
  - Refinance Loans: Existing policy will be accepted provided:
    - Expiration date of the policy is clearly stated
    - Sufficient impounds are collected to renew coverage at the due date
    - Existing coverage extends a minimum of 45 days beyond the note date
      - If the policy will expire within 45 days, MSF requires evidence of renewal for one year
- Hazard Insurance
  - Dwelling coverage amount must be sufficient to cover loan amount, rebuild cost/cost-new per appraisal, or replacement cost per agent
    - Coverage on out buildings may not be included in determining/calculating sufficient coverage
    - Excluding land value from the appraised value is not permitted in determining/calculating sufficient coverage
  - Manufactured Homes:
    - The modified sub-total listed on the appraisal, less any outbuildings, may be used for determining sufficient coverage
    - A replacement cost endorsement is acceptable to compensate for the required amount of coverage
- Mortgagee Clause
  - Mortgage Solutions of Colorado LLC, ISAOA  
5455 North Union Blvd  
Colorado Springs, CO 80918  
Loan Number \_\_\_\_\_
    - Not applicable for Correspondent
- 4000.1 II. A. 6. a. viii. (A) and ~~or~~ 4000.1 III. A. 1. h. i.

### **Manufactured Home**

- No single-wides
- One unit only
- 4000.1 II. A. 1. b. iv. (B) (5) (b)
- At least 3 comparables must be manufactured and support value
- Comparable sales must have closed within the last six months
  - Sales may exceed six months, but never exceed twelve months
    - Appraiser must provide acceptable comment(s) for comparable(s) that exceed six months
- 4000.1 II. D. 5. k.
- Documentation Requirements
  - Appraiser to verify home is attached to permanent foundation

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Title policy to include manufactured housing endorsement
- Affixation affidavit signed by borrower at closing
- Purchase transaction title to be purged prior to closing
- All refinance transactions title must be purged prior to closing
- 4000.1 II. A. 1. b. iv. (B) (5) (b) & (c)

### **Property Taxes**

- New Construction
  - Property taxes for new construction properties must be calculated based on 0.75% of the fully assessed property value or sales price, whichever is greater
    - New construction properties in California calculate based on 1.25% of the sales price
      - In addition to any Mello-Roos taxes or other special assessments as applicable
    - New construction properties for attached townhomes in Colorado calculate based on 0.50% of the sales price
    - New construction properties in Texas calculate based on 2.25% of the sales price
    - New construction properties in Michigan calculate based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
      - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
      - Evidence of the actual SEV either from title or from the Michigan Tax assessor
  - Borrowers must sign new construction tax estimate disclosure at closing
  - In lieu of using the percentage calculation above, other acceptable documentation that may be used to calculate the property taxes are:
    - A statement of the estimated property taxes from the county assessor, or
    - A statement of the estimated property taxes from the title/escrow agent handling the transaction
- Existing Construction
  - Purchases in California are calculated based on 1.25% of the sales price
    - In addition to any Mello-Roos taxes or other special assessments as applicable
    - Other acceptable documentation that may be used to calculate the property taxes are:
      - A statement of the estimated property taxes from the county assessor, or
      - A statement of the estimated property taxes from the title/escrow agent handling the transaction
  - Purchases in Michigan are calculated based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
    - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
    - Evidence of the actual SEV either from title or from the Michigan Tax assessor
  - All other states would use the amount listed on the tax certificate or title commitment
- 4000.1 II. A. 6. a. viii. (A)

### **Refinance**

#### **Streamline Refinance**

- Seasoning Requirement – In addition to any FHA seasoning requirements, all Streamline Refinance loans must meet the following:
  - The borrower is required to have made at least six consecutive monthly payments on the loan being refinanced
  - The first payment due date on the (new) refinance loan occurs no earlier than 210 days after the first payment due date of the (old) loan being refinanced

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

### **Cash Out Refinance**

- Seasoning Requirement – In addition to any FHA seasoning requirements, all Cash Out Refinance loans must meet the following:
  - The borrower is required to have made at least six consecutive monthly payments on the loan being refinanced
  - The first payment due date on the (new) refinance loan occurs no earlier than 210 days after the first payment due date of the (old) loan being refinanced

### **Septic Inspections**

- For all properties, a septic test or inspection is required if any of the following apply:
  - Property has been vacant for over one year
    - Not required for HUD REO properties unless required by local jurisdiction
  - Evidence of system failure
  - Septic inspections are mandated by state or local jurisdiction
- 4000.1 II. D. 3. q. and ~~4000.1 II. A. 3. a. ii.~~ (Q)

## **VA**

### **4506T**

- A fully executed IRS Form 4506T must be included in all loan files except for non-credit qualifying streamline/IRRRL refinance transactions
- Transcripts are required to verify all W-2's, 1099's and/or tax returns submitted and/or used for qualifying per published guideline
  - If non-taxable income is a source of income, and cannot be validated through 4506T transcripts, then the following must be provided:
    - Tax transcript(s) showing “No Record of Return Filed”, and,
    - Alternative validation documentation such as, but not limited to, 1099 transcripts, award letters or bank statements
- If corporate or partnership business income is used for qualifying, a separate fully executed IRS Form 4506-T for that business must be included in all loan files except for non-credit qualifying streamline refinance transactions
  - Transcripts are required to verify all income submitted and/or used for qualifying per published guideline
  - Transcripts are required to verify business tax returns and subsequent amendments
- If transcripts reflect any tax amount due and owing, evidence paid in full or payment plan to include in debt ratios may be required at underwriter discretion
- If a loan is closed between January 1st and May 31st of the calendar year AND the most recent year tax return is being used to qualify BUT the tax transcripts are not yet available, the following must be provided:
  - Most recent year tax transcript showing “No Record of Return Filed” and,
  - Copy of the most recent year tax return, and,
  - Evidence of e-filing or stamped tax returns for most recent year, and,
  - Copy(s) of W-2's/1099's (as applicable), and,
  - Previous year(s) transcripts per published guidelines
    - NOTE: If a loan closes on or after June 1st of the calendar year, transcripts must be received by MSF
- If the borrower has filed an extension
  - If an extension has been filed for the current tax year and the loan is closing prior to the extension deadline (October 15th for most taxpayers), all of the following must be provided:
    - Evidence of filed extension (IRS Form 4868) & of tax payment made (if applicable),
    - Most recent year tax transcript showing “No Record of Return Filed” and,

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- One of the following:
  - Previous year(s) transcripts per published guidelines, or
  - Evidence of e-filing or stamped tax returns for most recent year
- Loans with an extension filed that are closing after the extension deadline (October 15th for most taxpayers) for the current tax year, must provide evidence of filed tax returns
  - NOTE: If a loan closes after December 1st of the calendar year, transcripts are required for all loans
- If the borrower has filed their most recent year tax returns and the IRS flag for identity theft is returned, the following must be provided:
  - Request tax transcripts through normal means and acquire documentation showing the transcripts are not available due to the above IRS privacy/identity theft issues and,
  - Borrower orders the tax transcripts directly and provides them to MSF, and,
  - The file contains the most recent W-2(s), and,
  - A verbal verification of employment is performed to confirm the W-2 and income used for qualifying
- Ch. 4, 8-d and Ch. 4, 8-e

#### **Age of Documents**

Type of Document	Length of Validity to Note Date
● Ownership & Encumbrances (O&E)	● 14 days
● Survey	● 180 days

#### **Automated Underwriting System (AUS)**

- Loan Prospector (LP) – NO LP FINDINGS ALLOWED
- Desktop Underwriter (DU) – Broker to provide initial DU findings and MSF Underwriter to make all subsequent updates/corrections

#### **Bank Statements**

- When one or more of the bank account owner(s) is not a borrower on the loan, a letter from the non-borrowing account owner(s) stating the borrower(s) have access to the funds will be required
- Ch. 4, 8-f

#### **CAIVRS (Credit Alert Interactive Voice Response System) Number(s)**

- Results must be obtained through [FHA Connection](#)
- All files must have clear CAIVRS prior to closing
- Defaulted CAIVRS Numbers
  - If the borrower is currently delinquent on any federal debt, VA mortgage, Title I Loan, Federal student loan, SBA loan, Federal taxes or has a lien against the property for debt owed to the United States, the borrower is ineligible until the delinquent account is brought current or satisfied
- Ch. 4, 1-d

#### **Credit**

- Minimum FICO 620 for purchase transactions in the following areas:
  - El Paso County, Colorado
  - Pueblo County, Colorado
- IRRRRL transactions may not have mortgage lates for the subject property in the last 12 months
- Short Refinances
  - Short refinances/short payoffs for the subject property currently owned by borrower are ineligible
- Ch. 6, 1-j, and Ch. 6, 3-a, and Ch. 6, 4-a

#### **Debt to Income Ratio**

- Max DTI of 65% even with AUS approval

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Strong compensating factors must be documented
- Ch. 4, 10-b

### **Departure Residence**

- Applies to properties vacated within 60 days of loan application
- Ch. 2, 2-o

### **Escrow Holdback/Repair Escrows**

- All repairs must be completed prior to the loan being purchased.
- The seller is expected to pay for these required repairs since they are included in the estimate of value
- It is not allowable to escrow funds from the veteran purchaser for use in making the required repairs
  - Repair escrows may not be financed into the loan amount
- Dwelling must be habitable, safe and essentially complete
  - The holdback cannot be for any MPR (minimum property requirement) issue and must be un-repairable due to inclement weather unless the property is a HUD REO
- The property must be in average condition at the time of closing
- For Escrow Holdback amounts up to \$500, one bid for each repair required for existing construction from an appropriate licensed, bonded tradesperson or copies of paid receipts for material used
- For Escrow Holdback amounts above \$500, two bids for each repair required for existing construction from an appropriate licensed, bonded tradesperson
- Fully executed escrow agreement required in closing package
- Required after repairs are completed
  - Appraiser's re-inspection verifying all repairs completed
- After all repairs have been completed and inspections performed any excess funds will be disbursed in the following manner
  - Financed escrow funds will be applied to the principal balance of the new loan
  - Non-financed escrow funds will be refunded to the original payor
- Holdback is 150% amount of highest bid, or 110% for HUD REO properties
- Not allowed for structural repairs and foundation work
- New Construction Repair escrows permitted for exterior repairs that cannot be completed due to inclement weather
  - For new construction properties, items such as landscaping, pools, decks, sod, etc., may remain incomplete due to weather-related situations
- Appraiser must indicate "subject to" on appraisal and list all required repairs
- Escrow holdback is allowed up to a maximum of \$5,000
- For HUD REO properties repair escrow amount is stated on purchase agreement, addendum may be required once escrow amount calculated if higher than what was in original contract
  - The Escrow Agreement must itemize the work to be completed, the amount of the funds to be held back in escrow, the party designated to hold and administer the funds, how to disburse the funds when the work is completed, what to do if the work is not completed as agreed and what to do if there are excess funds remaining after all work is completed and paid for
- To protect both the veteran's and VA's interests, lenders selling a "Real Estate Owned" property may not process this case under our Lender Appraisal Processing Program; these cases must be ordered as an "IND" appraisal, and not as a LAPP
- Ch. 7, 4. a., (Ch. 7, 4. b.), Ch. 7, 5. e., ~~or~~ chapter 11, and Ch. 9, 9. c.

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

### **Ineligible Income**

- Mortgage Credit Certificates (MCC)
- Ch. 4, 3-b
- Projected/Expected Income
- Ch. 4, 2-b

### **Ineligible Programs**

- Loans for 'Alteration and Repair' are ineligible
- Ch. 7, 4. a
- VA 'Joint Loans' are ineligible (exclude IRRRLs)
- Ch. 7, 1. a
- Texas 50(a)(6)
- Ch. 6, 3-a

### **Ineligible Properties**

- Manufactured housing in a flood zone
- Manufactured Homes built before 2000 are ineligible for IRRRL transactions
- Ch. 7, 11. b. and Ch. 9, 10. b.
- Property that was previously a 'meth house', even if cleaned
- Ch. 12.06
- Working farms, ranches and orchards
- Ch. 7, 10. a.
- Hero/Pace liens
- Cooperative projects

### **Insurance**

- All borrowers on loan and subject property address must be listed on proof of insurance form
- Term of coverage:
  - Purchase Loans: Policy must extend for minimum twelve months from the date of closing
  - Refinance Loans: Existing policy will be accepted provided:
    - Expiration date of the policy is clearly stated
    - Sufficient impounds are collected to renew coverage at the due date
    - Existing coverage extends a minimum of 45 days beyond the note date
      - If the policy will expire within 45 days, MSF requires evidence of renewal for one year
- Hazard Insurance
  - Dwelling coverage amount must be sufficient to cover loan amount, rebuild cost/cost-new per appraisal, or replacement cost per agent
    - Coverage on out buildings may not be included in determining/calculating sufficient coverage
    - Excluding land value from the appraised value is not permitted in determining/calculating sufficient coverage
  - Manufactured Homes:
    - The modified sub-total listed on the appraisal, less any outbuildings, may be used for determining sufficient coverage
    - A replacement cost endorsement is acceptable to compensate for the required amount of coverage
- Mortgagee Clause
  - Mortgage Solutions of Colorado LLC, ISAOA  
5455 North Union Blvd  
Colorado Springs, CO 80918  
Loan Number \_\_\_\_\_
    - Not applicable to Correspondent
- Ch. 9, 10. a.

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

### **Manufactured Home**

- No single-wides
- One unit only
- At least 3 comparables must be manufactured and support value
- Comparable sales must have closed within the last six months
  - Sales may exceed six months, but never exceed twelve months
    - Appraiser must provide acceptable comment(s) for comparable(s) that exceed six months
- Documentation Requirements
  - Appraiser to verify home is attached to permanent foundation
  - Title policy to include manufactured housing endorsement
  - Affixation affidavit signed by borrower at closing
  - Purchase transaction title to be purged prior to closing
  - All refinance transactions title must be purged prior to closing
- Ch. 10.05<sub>7</sub> and Ch. 10.10

### **Property Taxes**

- New Construction
  - Property taxes for new construction properties must be calculated based on 0.75% of the fully assessed property value or sales price, whichever is greater
    - New construction properties in California calculate based on 1.25% of the sales price
      - In addition to any Mello-Roos taxes or other special assessments as applicable
    - New construction properties for attached townhomes in Colorado calculate based on 0.50% of the sales price
    - New construction properties in Texas calculate based on 2.25% of the sales price
    - New construction properties in Michigan calculate based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
      - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
      - Evidence of the actual SEV either from title or from the Michigan Tax assessor
  - Borrowers must sign new construction tax estimate disclosure at closing
  - In lieu of using the percentage calculation above, other acceptable documentation that may be used to calculate the property taxes are:
    - A statement of the estimated property taxes from the county assessor, or
    - A statement of the estimated property taxes from the title/escrow agent handling the transaction
- Existing Construction
  - Purchases in California are calculated based on 1.25% of the sales price
    - In addition to any Mello-Roos taxes or other special assessments as applicable
    - Other acceptable documentation that may be used to calculate the property taxes are:
      - A statement of the estimated property taxes from the county assessor, or
      - A statement of the estimated property taxes from the title/escrow agent handling the transaction
  - Purchases in Michigan are calculated based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
    - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
    - Evidence of the actual SEV either from title or from the Michigan Tax assessor
  - All other states would use the amount listed on the tax certificate or title commitment
- Ch. 9, 11. a.

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

### **Refinance**

The note date of the refinance must be on or after the later of:

- ~~– The date that is 210 days after the first payment due date of the mortgage being refinanced, and~~
- ~~– the date that is 210 days after the date on which the first monthly payment was made on the mortgage being refinanced, and~~
- the date on which 6 full monthly payments have been made on the mortgage being refinanced

### **Cash Out**

Maximum LTV 90%

### **IRRRL (Interest Rate Reduction Refinance Loan)**

- If there has been a modification on the loan being refinanced, the new interest rate and payment must be lower than the original insured note rate & payment, not the current modified rate & payment
- The borrower may not receive a Net Tangible Benefit solely from a reduction in term
- Payment History
  - Loans not serviced by MSF - No mortgage lates for the subject property in the last 12 months
  - Loans serviced by MSF – must be current
- Manufactured Homes built before 2000 are ineligible
- Ch 6, 1-b and Ch 6, 1-c
- Cash back at closing may not exceed \$500
- Ch. 3, 2-c and or Ch. 7, 3. i.

### **IRRRL - Recoupment Period**

- The borrower must recoup the incurred costs of the transaction as referenced in [VA Circular 26-18-1](#) within 36 months. except when. Costs include: closing costs, discount points, and funding fee
- Ch. 6, 1-b, Ch. 6, 1-c, and Ch. 6, 1-d

### **IRRRL – Seasoning Requirement**

- 6 months mortgage payments are required to be verified
- Borrowers cannot prepay the loan to meet the six months requirement
- Ch. 2, 1. c., Ch. 6, 1-a, and Ch. 6, 1-j

### **IRRRL - Value Verification**

- If the loan being paid off as part of our transaction was originated before January 1, 2010 the value must be verified with one of the following:
  - Full Appraisal – Actual Value Listed will be used
  - 2055 Drive-By Appraisal – Actual Value Listed will be used
  - Tax Assessed Value – Value listed will be used with up to a 10% variance of the disclosed value
  - Automated Valuation Model (AVM) – Estimated value listed will be used with up to a 10% variance of the disclosed value
- Effective date of the valuation tool must be within 120 days of the note date
- Ch. 3, 1-a and Ch. 6, 1-a
- Max LTV is 100%
- Ch. 4, 11-a, Ch. 6, 3-b, and Ch. 6, 1-g

### **Residual Income**

- Manual Underwriting:



**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- If total debt ratio exceeds 41%, borrower must have 120% of required residual guideline and strong compensating factors must be documented in the file
- Ch. 4, 9-e, Ch. 4, 10-a, and Ch. 4, 10-b

### **Septic Inspections**

- For all properties, a septic test or inspection is required if any of the following apply:
  - Property has been vacant for over one year
    - Not required for HUD REO properties unless required by local jurisdiction
  - Evidence of system failure
  - Septic inspections are mandated by state or local jurisdiction
- Ch. 12.08

### **VA Guarantee**

- VA guaranty plus cash/equity must be equal to at least 25% of the purchase price or Notice of Value (NOV), whichever is less, on purchase and non-IRRRL refinance transactions
- Ch. 3, 4-a and Ch. 6, 1-h

## **USDA**

### **4506T**

- A fully executed IRS Form 4506T must be included in all loan files except for non-credit qualifying streamline/IRRRL refinance transactions
- Transcripts are required to verify all W-2's, 1099's and/or tax returns submitted and/or used for qualifying per published guideline
  - If non-taxable income is a source of income, and cannot be validated through 4506T transcripts, then the following must be provided:
    - Tax transcript(s) showing “No Record of Return Filed”, and,
    - Alternative validation documentation such as, but not limited to, 1099 transcripts, award letters or bank statements
- If corporate or partnership business income is used for qualifying, a separate fully executed IRS Form 4506-T for that business must be included in all loan files except for non-credit qualifying streamline refinance transactions
  - Transcripts are required to verify all income submitted and/or used for qualifying per published guideline
  - Transcripts are required to verify business tax returns and subsequent amendments
- If transcripts reflect any tax amount due and owing, evidence paid in full or payment plan to include in debt ratios may be required at underwriter discretion
- If a loan is closed between January 1st and May 31st of the calendar year AND the most recent year tax return is being used to qualify BUT the tax transcripts are not yet available, the following must be provided:
  - Most recent year tax transcript showing “No Record of Return Filed” and,
  - Copy of the most recent year tax return, and,
  - Evidence of e-filing or stamped tax returns for most recent year, and,
  - Copy(s) of W-2's/1099's (as applicable), and,
  - Previous year(s) transcripts per published guidelines
    - NOTE: If a loan closes on or after June 1st of the calendar year, transcripts must be received by MSF
- If the borrower has filed an extension
  - If an extension has been filed for the current tax year and the loan is closing prior to the extension deadline (October 15th for most taxpayers), all of the following must be provided:
    - Evidence of filed extension (IRS Form 4868) & of tax payment made (if applicable),
    - Most recent year tax transcript showing “No Record of Return Filed” and,

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- One of the following:
  - Previous year(s) transcripts per published guidelines, or
  - Evidence of e-filing or stamped tax returns for most recent year
- Loans with an extension filed that are closing after the extension deadline (October 15th for most taxpayers) for the current tax year, must provide evidence of filed tax returns
  - NOTE: If a loan closes after December 1st of the calendar year, transcripts are required for all loans
- If the borrower has filed their most recent year tax returns and the IRS flag for identity theft is returned, the following must be provided:
  - Request tax transcripts through normal means and acquire documentation showing the transcripts are not available due to the above IRS privacy/identity theft issues and,
  - Borrower orders the tax transcripts directly and provides them to MSF, and,
  - The file contains the most recent W-2(s), and,
  - A verbal verification of employment is performed to confirm the W-2 and income used for qualifying
- HB-1-3555 Chapter 9: Section 1: 9.3 E. and HB-1-3555 Chapter 9: Section 2: 9.10

#### **Age of Documents**

Type of Document	Length of Validity to Note Date
● Ownership & Encumbrances (O&E)	● 14 days
● Survey	● 180 days

- HB-1-3555 Chapter 9: Section 1:9.3 E. 4.

#### **Automated Underwriting System (AUS)**

- Loan Prospector (LP) – **NO LP FINDINGS ALLOWED**
- Desktop Underwriter (DU) – **Broker to provide initial DU findings and MSF Underwriter to make all subsequent updates/corrections**

#### **Bank Statements**

- When one or more of the bank account owner(s) is not a borrower on the loan, a letter from the non-borrowing account owner(s) stating the borrower(s) have access to the funds will be required
- HB-1-3555 Chapter 5: 5.3 E. and HB-1-3555 Chapter 9: section 1: 9.4

#### **Borrower Eligibility**

- Non-Permeant Resident Aliens must be in the United States legally and have permission to work legally for at least 3 years.
  - EAD Code C33 (DACA) and similar classifications with renewal periods shorter than 3 years are ineligible for financing due to the renewal period being less than 3 years.
- Borrower(s) that have been incarcerated are ineligible. NBS excluded

#### **CAIVRS (Credit Alert Interactive Voice Response System) Number(s)**

- Results must be obtained through [FHA Connection](#)
  - CAIVRS on GUS findings are acceptable
- All files must have clear CAIVRS prior to closing
- Defaulted CAIVRS Numbers
  - If the borrower is currently delinquent on any federal debt, VA mortgage, Title I Loan, Federal student loan, SBA loan, Federal taxes or has a lien against the property for debt owed to the United States, the borrower is ineligible until the delinquent account is brought current or satisfied
- HB-1-3555 Chapter 10: 10.2 plus Attachment 10-B

#### **Credit**

- Minimum FICO 620 for purchase transactions in the following areas:

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- El Paso County, Colorado
- Pueblo County, Colorado
- Short Refinances
  - Short refinances/short payoffs for the subject property currently owned by borrower are ineligible
- HB-1-3555 Chapter 6: 6.2 D.

### **Departure Residence**

- Applies to properties vacated within 60 days of loan application
- HB-1-3555 Chapter 8: 8.2 and Chapter 9: Section 2: 9.10 A. 12.

### **Escrow Holdback/Repair Escrows**

- All repairs must be completed prior to the loan being purchased.
- The property must be in average condition at the time of closing
- Repair escrows are allowed only for property repairs that cannot be completed due to inclement weather
- Underwriter approval required on a case-by-case basis
- Dwelling must be habitable, safe and essentially complete
- Not allowed for structural repairs and foundation work
- For Escrow Holdback amounts up to \$500, one bid for each repair required for existing construction from an appropriate licensed, bonded tradesperson or copies of paid receipts for material used
- For Escrow Holdback amounts above \$500, two bids for each repair required for existing construction from an appropriate licensed, bonded tradesperson
- Holdback is 150% amount of highest bid
- New Construction Repair escrows permitted for exterior repairs that cannot be completed due to inclement weather – for new construction properties, items such as landscaping, pools, decks, sod, etc. may remain incomplete due to weather-related situations
- Appraiser must indicate “subject to” on appraisal and list all required repairs
- Fully executed escrow agreement required in closing package
- Required after repairs are completed
  - [Fannie Mae Form 1004D](#) with photos
- One draw permitted
- After all repairs have been completed and inspections performed any excess funds will be applied to the principal balance of the new loan
- For HUD REO properties repair escrow amount is stated on purchase agreement, addendum may be required once escrow amount calculated if higher than what was in original contract
- The Escrow Agreement must itemize the work to be completed, the amount of the funds to be held back in escrow, the party designated to hold and administer the funds, how to disburse the funds when the work is completed, what to do if the work is not completed as agreed and what to do if there are excess funds remaining after all work is completed and paid for
- HB-1-3555 Chapter 12: Section 3: 12.9 C.

### **Higher Priced Mortgage Loans (HPML/Section 35)**

- Any additional agency guidelines must be followed accordingly
- HPML (section 35) applies only to transactions on a primary residence
- Higher priced mortgage loans under 12 C.F.R. Section 1026.35 are subject to the following:
  - An escrow account for taxes and insurance must be established for a five (5) year minimum
    - For projects such as condominiums and PUD’s where the property insurance is collected as part of the borrowers homeowners association fee and remitted by the homeowners association to the insurance provider, the escrow account must be established for taxes and if applicable any mortgage insurance and any individual homeowners insurance policy
  - A second appraisal is required in the following instances

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Seller acquired property 91-180 days prior to the date of the new purchase contract and new sales price exceeds the previous sale price by more than 20%
  - If the seller acquired property 90 days or less prior to the date of the new purchase contract and new sales price exceeds the previous sale price by more than 10%, the loan is ineligible for HPML
  - The second appraisal cannot be charged to the borrower
- Transaction is exempt from the second appraisal requirement if borrower is purchasing the property from any of the following:
  - A local, state, or federal government agency
  - A person who acquired title on the property via foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedure through that person's exercise of rights as the holder of a defaulted loan
  - A nonprofit entity as part of a local, state, or federal government program that lets nonprofits acquire title to single-family properties for resale from a seller who itself acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or nonjudicial procedure
  - A person who inherited the property or acquired it through a court-ordered dissolution of marriage, civil union, or domestic partnership, or through the partition of the seller's joint or marital assets
  - An employer or relocation agency in connection with an employee relocation
  - A service member, as defined in 50 U.S.C. appendix 511(1), who received a deployment or permanent change of station order after purchasing the property
- The second appraisal requirement may also be waived if the property is located in any of the following:
  - A federal disaster area if and for as long as the requirements of title XI of FIRREA have been waived by the federal financial institutions regulatory agencies
  - A rural county, as published by the CFPB
- The following requirements apply to a loan subject to the HPML Appraisal Rule:
  - A disclosure is required within three business days of receiving an application that the borrower is entitled to a free copy of any appraisal the creditor orders and can also hire their own appraiser at their own expense for their own use
  - A written appraisal must be performed by a certified or licensed appraiser in conformity with USPAP and Title XI of FIRREA and its implementing regulations (see Appendix N Safe Harbor)
  - An interior inspection of the property must be performed by the appraiser
  - Copies of appraisals must be delivered to the borrowers no later than three business days before closing
    - Business Day defined - Business day for purposes of this Final Rule is defined as when "the creditor's offices are open to the public for carrying on substantially all of its business functions."
- Points and fees may be reduced to a level so the loan is no longer a HPML

### **Ineligible Income**

- Mortgage Credit Certificates (MCC)
- HB-1-355 Chapter 9: Section 2: 9.10 A. 16 and Chapter 9: Section 2: 9.11 A.
- Projected/Expected Income
- HB-1-355 Chapter 9: Section 2: 9.10 A. 15

### **Ineligible Programs**

- BIP Satellite Program
- Multi-Family Housing
- Business Programs
- Water & Environmental

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Construction Financing
- Site without a Dwelling
- Texas 50(a)(6)
- HB-1-3555 Chapter 6: 6.3

### **Ineligible Property Types**

- Condos
- HB-1-3555 Chapter 12 Section : 12.11
- Property that was previously a 'meth house', even if cleaned
- Working farms, ranches and orchards
- Hero/Pace liens
- HB-1-3555 Chapter 6: 6.3
- Cooperative projects

### **Insurance**

- All borrowers on loan and subject property address must be listed on proof of insurance form
- Term of coverage:
  - Purchase Loans: Policy must extend for minimum twelve months from the date of closing
  - Refinance Loans: Existing policy will be accepted provided:
    - Expiration date of the policy is clearly stated
    - Sufficient impounds are collected to renew coverage at the due date
    - Existing coverage extends a minimum of 45 days beyond the note date
      - If the policy will expire within 45 days, MSF requires evidence of renewal for one year
- Hazard Insurance
  - Dwelling coverage amount must be sufficient to cover loan amount, rebuild cost/cost-new per appraisal, or replacement cost per agent
    - Coverage on out buildings may not be included in determining/calculating sufficient coverage
    - Excluding land value from the appraised value is not permitted in determining/calculating sufficient coverage
- Mortgagee Clause
  - Mortgage Solutions of Colorado LLC, ISAOA  
5455 North Union Blvd  
Colorado Springs, CO 80918  
Loan Number \_\_\_\_\_
    - Not applicable to Correspondent
- HB-1-3555 Chapter 16: 16.11

### **Manufactured Home**

- No single-wides
- One unit only
- At least 3 comparables must be manufactured and support value
- Comparable sales must have closed within the last six months
  - Sales may exceed six months, but never exceed twelve months
    - Appraiser must provide acceptable comment(s) for comparable(s) that exceed six months
- Documentation Requirements
  - Appraiser to verify home is attached to permanent foundation
  - Title policy to include manufactured housing endorsement
  - Affixation affidavit signed by borrower at closing
  - Purchase transaction title to be purged prior to closing
  - All refinance transactions title must be purged prior to closing
- HB-1-3555 Chapter 6: 6.3 and HB-1-3555 Chapter 13: Section 2: 13.6

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

### **Property Taxes**

- New Construction
  - Property taxes for new construction properties must be calculated based on 0.75% of the fully assessed property value or sales price, whichever is greater
    - New construction properties in California calculate based on 1.25% of the sales price
      - In addition to any Mello-Roos taxes or other special assessments as applicable
    - New construction properties for attached townhomes in Colorado calculate based on 0.50% of the sales price
    - New construction properties in Texas calculate based on 2.25% of the sales price
    - New construction properties in Michigan calculate based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
      - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
      - Evidence of the actual SEV either from title or from the Michigan Tax assessor
  - Borrowers must sign new construction tax estimate disclosure at closing
  - In lieu of using the percentage calculation above, other acceptable documentation that may be used to calculate the property taxes are:
    - A statement of the estimated property taxes from the county assessor, or
    - A statement of the estimated property taxes from the title/escrow agent handling the transaction
- Existing Construction
  - Purchases in California are calculated based on 1.25% of the sales price
    - In addition to any Mello-Roos taxes or other special assessments as applicable
    - Other acceptable documentation that may be used to calculate the property taxes are:
      - A statement of the estimated property taxes from the county assessor, or
      - A statement of the estimated property taxes from the title/escrow agent handling the transaction
  - Purchases in Michigan are calculated based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
    - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
    - Evidence of the actual SEV either from title or from the Michigan Tax assessor
  - All other states would use the amount listed on the tax certificate or title commitment

### **Septic Inspections**

- For all properties, a septic test or inspection is required if any of the following apply:
  - Property has been vacant for over one year
    - Not required for HUD REO properties unless required by local jurisdiction
  - Evidence of system failure
  - Septic inspections are mandated by state or local jurisdiction

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## **CONVENTIONAL GENERAL**

- Applies to all loan types, unless specified otherwise

### **4506T**

- A fully executed IRS Form 4506T must be included in all loan files except for non-credit qualifying streamline/IRRRL refinance transactions

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Transcripts are required to verify all W-2's, 1099's and/or tax returns submitted and/or used for qualifying per published guideline
  - If non-taxable income is a source of income, and cannot be validated through 4506T transcripts, then the following must be provided:
    - Tax transcript(s) showing “No Record of Return Filed”, and,
    - Alternative validation documentation such as, but not limited to, 1099 transcripts, award letters or bank statements
- If corporate or partnership business income is used for qualifying, a separate fully executed IRS Form 4506-T for that business must be included in all loan files except for non-credit qualifying streamline refinance transactions
  - Transcripts are required to verify all income submitted and/or used for qualifying per published guideline
  - Transcripts are required to verify business tax returns and subsequent amendments
- If transcripts reflect any tax amount due and owing, evidence paid in full or payment plan to include in debt ratios may be required at underwriter discretion
- If a loan is closed between January 1st and May 31st of the calendar year AND the most recent year tax return is being used to qualify BUT the tax transcripts are not yet available, the following must be provided:
  - Most recent year tax transcript showing “No Record of Return Filed” and,
  - Copy of the most recent year tax return, and,
  - Evidence of e-filing or stamped tax returns for most recent year, and,
  - Copy(s) of W-2's/1099's (as applicable), and,
  - Previous year(s) transcripts per published guidelines
    - NOTE: If a loan closes on or after June 1st of the calendar year, transcripts must be received by MSF
- If the borrower has filed an extension
  - If an extension has been filed for the current tax year and the loan is closing prior to the extension deadline (October 15th for most taxpayers), all of the following must be provided:
    - Evidence of filed extension (IRS Form 4868) & of tax payment made (if applicable),
    - Most recent year tax transcript showing “No Record of Return Filed” and,
    - One of the following:
      - Previous year(s) transcripts per published guidelines, or
      - Evidence of e-filing or stamped tax returns for most recent year
  - Loans with an extension filed that are closing after the extension deadline (October 15th for most taxpayers) for the current tax year, must provide evidence of filed tax returns
    - NOTE: If a loan closes after December 1st of the calendar year, transcripts are required for all loans
- If the borrower has filed their most recent year tax returns and the IRS flag for identity theft is returned, the following must be provided:
  - Request tax transcripts through normal means and acquire documentation showing the transcripts are not available due to the above IRS privacy/identity theft issues and,
  - Borrower orders the tax transcripts directly and provides them to MSF, and,
  - The file contains the most recent W-2(s), and,
  - A verbal verification of employment is performed to confirm the W-2 and income used for qualifying

FREDDIE 5302.5

FNMA B3-3.1-06

**Age of Documents**

Type of Document	Length of Validity to Note Date
• Ownership & Encumbrances (O&E)	• 14 days
• Survey	• 180 days

FREDDIE 5102.4

FNMA B7-2

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

### **Automated Underwriting System (AUS)**

- Loan Prospector (LP) – NO LP FINDINGS ALLOWED
- Desktop Underwriter (DU) – Broker to provide initial DU findings and MSF Underwriter to make all subsequent updates/corrections

### **Bank Statements**

- When one or more of the bank account owner(s) is not a borrower on the loan, a letter from the non-borrowing account owner(s) stating the borrower(s) have access to the funds will be required  
FREDDIE 5501.3 FNMA B3-4.2-01

### **Borrower Eligibility**

- Non-Permanent Resident Aliens must be in the United States legally and have permission to work legally for at least 3 years.
  - EAD Code C33 (DACA) and similar classifications with renewal periods shorter than 3 years are ineligible for financing due to the renewal period being less than 3 years.
- Non-Occupant Co-Borrowers
  - Maximum number of non-occupying co-borrower(s) is one; “one” being defined as a single household such as a mother and father living together
- Borrower(s) that have been incarcerated are ineligible. NBS excluded
  - FREDDIE 5103.1 FNMA B2-2-04, B3-3.1-09, B3-4.4-01, and B3-5.4-01

### **Credit**

- Short Refinances
  - Short refinances/short payoffs for the subject property currently owned by borrower are ineligible  
FREDDIE 4301.1 AND 4301.2 FNMA B3-5.4-01

### **Departure Residence**

- Applies to properties vacated within 60 days of loan application  
FREDDIE 5306.1 FREDDIE 5401.2 (7) FREDDIE 5501.2 FNMA B3-3.1-08

### **Escrow Holdback/Repair Escrows**

- All repairs must be completed prior to the loan being purchased.
- The property must be in average condition at the time of closing
- Repair escrows are allowed only for property repairs that cannot be completed due to inclement weather
- Dwelling must be habitable, safe and essentially complete
- Not allowed for structural repairs and foundation work
- For Escrow Holdback amounts up to \$500, one bid for each repair required for existing construction from an appropriate licensed, bonded tradesperson or copies of paid receipts for material used
- For Escrow Holdback amounts above \$500, two bids for each repair required for existing construction from an appropriate licensed, bonded tradesperson
- Holdback is 150% amount of highest bid
- New Construction Repair escrows permitted for exterior repairs that cannot be completed due to inclement weather
  - For new construction properties, items such as landscaping, pools, decks, sod, etc., may remain incomplete due to weather-related situations
- Appraiser must indicate “subject to” on appraisal and list all required repairs
- Fully executed escrow agreement required in closing package
- Required after repairs are completed
  - [Fannie Mae Form 1004D](#) with photos



**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- After all repairs have been completed and inspections performed any excess funds will be applied to the principal balance of the new loan
- For HUD REO properties repair escrow amount is stated on purchase agreement, addendum may be required once escrow amount calculated if higher than what was in original contract
- The Escrow Agreement must itemize the work to be completed, the amount of the funds to be held back in escrow, the party designated to hold and administer the funds, how to disburse the funds when the work is completed, what to do if the work is not completed as agreed and what to do if there are excess funds remaining after all work is completed and paid for
- FNMA B2-1.1-01, B-2-3-02, B4-1.2-03, and B4-1.3-06 FREDDIE 5601.5, 5601.11, 5601.12, and 5703.2

### **Escrow Waivers**

- Escrow waivers allowed for property taxes and property insurance(s) when the LTV/CLTV/HCLTV is less than or equal to 80%
  - Exception: California escrow waivers are allowed with less than 90% LTV/CLTV/HCLTV
- Escrow account for Private Mortgage Insurance may never be waived  
FREDDIE 8201.1                      FNMA B2-1.4-04

### **Ineligible Income**

- Mortgage Credit Certificates (MCC)
- FREDDIE 5305.2 FNMA B3-3.1-09
- Projected/Expected Income  
FREDDIE 5303.2 FNMA B3-3.1-09

### **Ineligible Programs**

- Homestyle Mortgages
- Property Assessed Clean Energy Loans (PACE) (Freddie 4301.4, 4301.8, 4303.4)
- Native American Conventional Lending Initiative (NACLI)
- Disaster-Related Limited Cash-Out Refinance Flexibilities (Freddie 4302.2 and 4303.3)
- Homepath
- Community Seconds
- Community Land Trusts
- Refi Plus Mortgage Loans  
FREDDIE 4201 and FNMA B2-1.3, FNMA B5-1, B5-2, B5-3, B5-4, B5-5 B5-6

### **Ineligible Properties**

- Manufactured housing in a flood zone
- Property that was previously a 'meth house', even if cleaned
- Working farms, ranches and orchards
- Properties requiring PERS, MSF Full Approval or FNMA prior approval are ineligible
- Hero/Pace liens
- Cooperative projects  
FREDDIE 5601.1, 5601.2, and 5701.2                      FNMA B2-3-01, B2-3-02, B2-3-03, B2-3-04 B2-3-05

### **Insurance**

- All borrowers on loan and subject property address must be listed on proof of insurance form
- Term of coverage:
  - Purchase Loans: Policy must extend for minimum twelve months from the date of closing
  - Refinance Loans: Existing policy will be accepted provided:
    - Expiration date of the policy is clearly stated
    - Sufficient impounds are collected to renew coverage at the due date
    - Existing coverage extends a minimum of 45 days beyond the note date
      - If the policy will expire within 45 days, MSF requires evidence of renewal for one year

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Hazard Insurance
  - Follow agency guidelines accordingly
- Mortgagee Clause
  - Mortgage Solutions of Colorado LLC, ISAOA  
5455 North Union Blvd  
Colorado Springs, CO 80918  
Loan Number \_\_\_\_\_
  - Not applicable to Correspondent

FREDDIE 8202.1, 8202.2, and 8202.10 FNMA B7-3-01, B7-3-02, B7-3-03, B7-3-04, B7-3-05, B7-3-06, B7-3-07 B7-3-08

**Manufactured Home**

- No single-wides
  - One unit only
  - At least 3 comparables must be manufactured and support value
  - Comparable sales must have closed within the last six months
    - Sales may exceed six months, but never exceed twelve months
      - Appraiser must provide acceptable comment(s) for comparable(s) that exceed six months
  - Documentation Requirements
    - Appraiser to verify home is attached to permanent foundation
    - Title policy to include manufactured housing endorsement
    - Affixation affidavit signed by borrower at closing
    - Purchase transaction title to be purged prior to closing
    - All refinance transactions title must be purged prior to closing
- FREDDIE 5703.1, 5703.2, 5703.3, 5703.4, 5703.5, 5703.6, 5703.7, 5703.8, and 5703.9  
FNMA B2-3-02 and B4-1.4-01

**Private Mortgage Insurance**

- Subject to all PMI company guidelines and overlays
- Acceptable PMI Companies:
  - Mortgage Guaranty Insurance Corporation ([MGIC](#))
  - National Mortgage Insurance Corporation ([NationalMI](#))
  - Genworth Mortgage Insurance Corporation ([Genworth](#))
  - United Guaranty Residential Insurance Company ([UGI](#))
  - Radian Guaranty Inc. ([Radian](#))
- Amount of Coverage:
  - MSF requires the standard private mortgage insurance coverage on all PMI policies, regardless of AUS findings and/or type of payment, as indicated in the table below:

<b>STANDARD PRIVATE MORTGAGE INSURANCE GUIDELINES</b>		
<b>LTV</b>	<b>25 &amp; 30 year</b>	<b>10, 15 &amp; 20 year</b>
95.01-97%	35%	35%
90.01-95%	30%	25%
85.01-90%	25%	12%
80.01-85%	12%	6%

<b>HOMEREDY PRIVATE MORTGAGE INSURANCE GUIDELINES</b>		
<b>LTV</b>	<b>25 &amp; 30 year</b>	<b>10, 15 &amp; 20 year</b>
95.01-97%	25%	25%
90.01-95%	25%	25%
85.01-90%	25%	12%
80.01-85%	12%	6%

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Lender Paid Single Premium Mortgage Insurance (LPMI) is eligible
  - Acceptable PMI Companies for LPMI:
    - National Mortgage Insurance Corporation ([NationalMI](#))
    - Genworth Mortgage Insurance Corporation ([Genworth](#))
    - Radian Guaranty Inc. ([Radian](#))
  - Available on 15 year & 30 year term fixed product
  - Must reflect on CD as being paid to the PMI company by Mortgage Solutions
- Split PMI is ineligible
  - With National Mortgage Insurance Corporation
- Borrower Paid Single Premium Mortgage Insurance (BPMI) is eligible
  - Acceptable PMI Companies for BPMI:
    - Mortgage Guaranty Insurance Corporation (MGIC)
    - National Mortgage Insurance Corporation (NationalMI)
    - Genworth Mortgage Insurance Corporation (Genworth)
    - Radian Guaranty Inc. (Radian)
    - United Guaranty Residential Insurance Company ([UGI](#))
- Loan file must be submitted to PMI company for underwriting
  - If using United Guaranty Residential Insurance Company

FREDDIE 4701.1 and 4701.2      FNMA B7-1-01, B7-1-02, B7-1-03 B7-1-04 and B2-1.1-01

### **Property Taxes**

- New Construction
  - Property taxes for new construction properties must be calculated based on 0.75% of the fully assessed property value or sales price, whichever is greater
    - New construction properties in California calculate based on 1.25% of the sales price
      - In addition to any Mello-Roos taxes or other special assessments as applicable
    - New construction properties for attached townhomes in Colorado calculate based on 0.50% of the sales price
    - New construction properties in Texas calculate based on 2.25% of the sales price
    - New construction properties in Michigan calculate based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
      - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
      - Evidence of the actual SEV either from title or from the Michigan Tax assessor
  - Borrowers must sign new construction tax estimate disclosure at closing
  - In lieu of using the percentage calculation above, other acceptable documentation that may be used to calculate the property taxes are:
    - A statement of the estimated property taxes from the county assessor, or
    - A statement of the estimated property taxes from the title/escrow agent handling the transaction
- Existing Construction
  - Purchases in California are calculated based on 1.25% of the sales price
    - In addition to any Mello-Roos taxes or other special assessments as applicable
    - Other acceptable documentation that may be used to calculate the property taxes are:
      - A statement of the estimated property taxes from the county assessor, or
      - A statement of the estimated property taxes from the title/escrow agent handling the transaction
  - Purchases in Michigan are calculated based on using Michigan property tax estimator: <https://treas-secure.state.mi.us/ptestimator/PTEstimator.asp>
    - 50% of the purchase price will be used for the state equalized value (SEV) at time of initial underwrite and
    - Evidence of the actual SEV either from title or from the Michigan Tax assessor
  - All other states would use the amount listed on the tax certificate or title commitment

FREDDIE 5401.1, 5401.2, and 8201.1      FNMA B1-01, B2-1.2-01, B2-1.2-02, and ~~TO~~ B2-1.2-03

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

### **Septic Inspections**

- For all properties, a septic test or inspection is required if any of the following apply:
    - Property has been vacant for over one year
      - Not required for HUD REO properties unless required by local jurisdiction
    - Evidence of system failure
    - Septic inspections are mandated by state or local jurisdiction
- FREDDIE 5601.2, 5601.12 and 5703 FNMA B4-1.3-04 and B4-1.4-08

### **FNMA**

- **FOR ANY GUIDELINES NOT SPECIFICALLY ADDRESSED, PLEASE REFER TO FNMA SELLING GUIDE & ELIGIBILITY MATRIX**
  - [All Regs Version](#) or [PDF Version](#)
  - [FNMA Eligibility Matrix](#)

### **Underwriting Requirements**

- **DU Approve/Eligible**
    - Refer findings are ineligible
    - Manual underwriting is ineligible
    - LP is ineligible
- FNMA B3-1-01 FNMA B3-2-05 FNMA B3-2-07

### **FNMA HOMEReady**

- **FOR ANY GUIDELINES NOT SPECIFICALLY ADDRESSED, PLEASE REFER TO FNMA SELLING GUIDE & ELIGIBILITY MATRIX**
  - [All Regs Version](#) or [PDF Version](#)
  - [FNMA Eligibility Matrix](#)

### **Underwriting Requirements**

- **DU Approve/Eligible**
    - Refer findings are ineligible
    - Manual underwriting is ineligible
    - LP is ineligible
- FNMA B5-6-03, B3-1-01, B3-2-05, and B3-2-07

### **FNMA DU REFI PLUS**

- **FOR ANY GUIDELINES NOT SPECIFICALLY ADDRESSED, PLEASE REFER TO FNMA SELLING GUIDE & ELIGIBILITY MATRIX**
  - [All Regs Version](#) or [PDF Version](#)
  - [FNMA Eligibility Matrix](#)

### **Private Mortgage Insurance**

- Lender Paid MI is ineligible
- FNMA B7-1-02 and B7-1-03

### **Underwriting Requirement**

- **DU Approve/Eligible**

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Refer findings are ineligible
- Manual underwriting is ineligible
- LP is ineligible

FNMA B5-6-03, B3-1-01, B3-2-05, and B3-2-07

## **FHLMC**

- **FOR ANY GUIDELINES NOT SPECIFICALLY ADDRESSED, PLEASE REFER TO FHLMC SELLING GUIDE**
  - [All Regs Version](#)

### **Underwriting Requirements**

- LP Accept/Eligible
    - Caution/Refer findings are ineligible
    - Manual underwriting is ineligible
    - DU is ineligible
- FREDDIE 5101.3

## **FHLMC HOME POSSIBLE**

- **FOR ANY GUIDELINES NOT SPECIFICALLY ADDRESSED, PLEASE REFER TO FHLMC SELLING GUIDE**
  - [All Regs Version](#)

### **Underwriting Requirements**

- LP Accept/Eligible
    - Caution/Refer findings are ineligible
    - Manual underwriting is ineligible
    - DU is ineligible
- FREDDIE 4501.6(a)(i)(ii)

## **FHLMC OPEN ACCESS**

- **FOR ANY GUIDELINES NOT SPECIFICALLY ADDRESSED, PLEASE REFER TO FHLMC SELLING GUIDE**
  - [All Regs Version](#)

### **Private Mortgage Insurance**

- Lender Paid MI is ineligible
- FREDDIE 4303.3(h) and FREDDIE 4303.4

### **Underwriting Requirements**

- LP Accept/Eligible
  - Caution/Refer findings are ineligible
  - Manual underwriting is ineligible
  - DU is ineligible

FREDDIE 4303.3(d)(i)(ii) and 4303.2

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# CONVENTIONAL TEXAS 50(a)(6)

## Texas Section 50(a)(6) Refinance Matrix

If the following conditions exist:						Then the new loan is considered:		
Current Liens(s)	Is Current 1 <sup>st</sup> a 50(a)(6)	Is Current 2 <sup>nd</sup> a 50(a)(6)	Is 2 <sup>nd</sup> to be Paid Off	Is 2 <sup>nd</sup> to be Subordinated	Any Cash to Borrower	Limited Cash-Out (Rate & Term Refi)	Cash-Out Refinance	Subject to 50(a)(6)
1 <sup>st</sup> Mortgage Only <sup>1</sup> No 2 <sup>nd</sup> Mortgage	No				No	X		No*
	No				Yes		X	Yes
	Yes				No	X		Yes
	Yes				Yes		X	Yes
1 <sup>st</sup> Mortgage & 2 <sup>nd</sup> Mortgage equal Purchase Money (Except HELOC)	No	No	No	Yes	No	X		No*
	No	No	No	Yes	Yes		X	Yes
	No	No	Yes		No	X		No*
	No	No	Yes		Yes		X	
	Yes	No	No	Yes	No	X		Yes
	Yes	No	No	Yes	Yes		X	Yes
	Yes	No	Yes		No	X		Yes
Yes	No	Yes	Yes		Yes		X	Yes
1 <sup>st</sup> Mortgage & 2 <sup>nd</sup> Mortgage equal Qualified Home Improvement Loan (Except HELOC)	No	No	No	Yes	No	X		No*
	No	No	No	Yes	Yes		X	Yes
	No	No	Yes		No			No*
	No	No	Yes		Yes		X	
	Yes	No	No	Yes	No	X		Yes
	Yes	No	No	Yes	Yes		X	Yes
	Yes	No	Yes		No	X		Yes
Yes	No	Yes	Yes		Yes		X	Yes
1 <sup>st</sup> Mortgage & 2 <sup>nd</sup> Mortgage equal HELOC	No	Yes	No	Yes <sup>Error!</sup> Bookmark not defined.	Not Permitted	X		Not Permitted Error! Bookmark not defined.
	No	Yes	Yes <sup>Error!</sup> Bookmark not defined.		No	2 <sup>nd</sup> used entirely for Purchase Money: Eligible	2 <sup>nd</sup> NOT used entirely for Purchase Money: Eligible	Yes <sup>Error!</sup> Bookmark not defined.
	No	Yes	Yes <sup>Error!</sup> Bookmark not defined.		Yes	2 <sup>nd</sup> NOT used entirely for Purchase Money: Ineligible		NOT PERMITTED
1 <sup>st</sup> Mortgage & 2 <sup>nd</sup> Mortgage equal NOT a HELOC; NOT Purchase Money or	No	Yes	No	Yes	Not Permitted	X		Not Permitted Error! Bookmark not defined.
	No	Yes	Yes		No		X	Yes
	No	Yes	Yes		Yes		X	Yes

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

Home Improvement								
<sup>1</sup> Also applies to buy out spouse pursuant to divorce settlement <sup>2</sup> Second mortgage that is subject to 50(a)(6) may not be re-subordinated if the new first mortgage will be subject to Section 50(a)(6); it must be closed *If no then MSF conventional guidelines would be followed								

**General Description - Texas Section 50(a)(6) Loan**

FNMA B5-4.1-01 FREDDIE 4301.2; FREEDIE 4301.5; FREEDIE 4301.6; FREEDIE 4301.6; FREEDIE 4301.7

- General Description
  - Article XVI, Section 50(a)(6) of the Texas Constitution allows first or second mortgages secured by a homestead property for the purpose of taking out equity
  - A mortgage originated under this Section is referred to as a 'Texas Equity Loan,' or 'Texas Section 50(a)(6) Loan'
  - MSF will accept Texas Section 50(a)(6) FIRST Mortgage Loans
  - There are two scenarios that legally classify a mortgage as a Texas Section 50(a)(6) Loan:
    1. a new loan is originated for the purpose of taking equity out (cash-out refinance), or
    2. an existing Texas Section 50(a)(6) first or second mortgage is paid off by a new first mortgage
      - Even if no cash is taken from the transaction, a refinance of an 50(a)(6) must be identified as a 50(a)(6) limited cash-out
  - Once the borrower has executed a home equity/cash-out refinance on an owner occupied, homestead property under Section 50(a)(6), Article XVI of the Texas Constitution, all subsequent transactions are considered home equity cash-out refinances until title is transferred, regardless of whether the borrower receives any cash at closing
    - o In other words, once a cash-out, always a cash-out
- Restrictions - Are subject to the following restrictions:
  - There can be only one outstanding 50(a)(6) loan on a property at any given time
    - o If the borrower has an existing 50(a)(6) second lien and is getting cash-out from the first mortgage, that lien must be paid off
  - The 50(a)(6) loan may not be used to acquire the property or to finance construction
- Summary
  - The following are considered Texas Section 50(a)(6) loans:
    - o Loans using proceeds to pay off an existing 50(a)(6) loan
    - o Loans using proceeds to pay off federal tax debt liens
    - o Loans using proceeds to pay property tax liens on the property securing the new loan
    - o Loans with any cash back to the borrowers
  - The following are NOT considered Texas Section 50(a)(6) loans:
    - o Loans using proceeds to pay current taxes due on the property securing the loan
    - o Loans using proceeds to buy out equity pursuant to a court order or agreement of the parties (usually applies to a divorce settlement)
    - o Loan proceeds used to pay a prepayment penalty assessed on an existing non-50(a)(6) loan, and the prepayment is included in the payoff amount. The new loan must have a new title policy issued without exception to the financing of the prepayment fee
      - If the title company requires them to be paid, loans that include the payment of HOA dues

**Automated Underwriting System (AUS)**

- Loan Prospector (LP) – NO LP FINDINGS ALLOWED
- Desktop Underwriter (DU) – Broker to provide initial DU findings and MSF Underwriter to make all subsequent updates/corrections

**Borrower Eligibility**

- Co-Borrowers/Co-Mortgagors/Co-Signers/Guarantors

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- All co-borrowers must occupy the property
- If the borrower(s) does not qualify for the loan, the addition of a co-signer or a non-occupant co-borrower for purposes of qualifying for the loan is ineligible
- Non-Borrowing Spouse
  - A married borrower may not create a lien against the property unless his/her spouse consents to the lien by signing the following:
    - o Texas Home Equity Notice
    - o Security Instrument
    - o Federal Truth-in-Lending (TIL) Disclosure Statement
    - o Right of Rescission Notice
    - o Discount Point Disclosure
    - o Acknowledgment of Fair Market Value
    - o Premium Pricing Disclosure
    - o All owners must sign the application and the Notice Concerning Equity Loan Extension of Credit (English or Spanish) document
      - The signing of both of these documents starts the 12 day '[Cooling Off Period](#)'
- Borrower(s) that have been incarcerated are ineligible. NBS excluded
- Occupancy
  - Owner occupied by all borrowers
    - o Borrower(s) must currently occupy the property as their primary residence and be in title to the property
- Power of Attorney
  - Ineligible

**Collateral**

FNMA B5-4.1-02 and FNMA B5-4.1-03 and FNMA B5-4.1-01 FREDDIE 4301.7(c)

- Acreage
  - Urban properties cannot exceed 10 acres (no exceptions)
    - o See chart below for property determination
  - Rural properties may exceed 10 acres but may never exceed 20 acres
    - o See chart below for property determination
  - The property should conform to and be acceptable in the market area
  - The appraisal must include the actual size of the site and not a portion of the site

	<b>Urban Homestead Definition</b>	<b>Rural Homestead Definition</b>
<ul style="list-style-type: none"> <li>• <b>Acreage</b></li> </ul>	<ul style="list-style-type: none"> <li>• The acreage securing the loan may not exceed 10 acres</li> </ul>	<ul style="list-style-type: none"> <li>• The acreage may exceed 10 acres               <ul style="list-style-type: none"> <li>- However, the lot size must be typical and common with highest and best use as residential</li> <li>- In no case may the lot size exceed 20 acres</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Property Location and Services</b></li> </ul>	<ul style="list-style-type: none"> <li>• The property <b>must</b> be located:               <ul style="list-style-type: none"> <li>- Within municipal boundaries, or</li> <li>- Its extraterritorial jurisdiction, or</li> <li>- A platted subdivision And be served by police protection, paid or volunteer fire protection and at least three (3) of the following services</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The property is <b>not</b> located within municipal boundaries or its extraterritorial jurisdiction, or if the property is located in one of those types of areas:               <ul style="list-style-type: none"> <li>- It is not served by police protection or paid or volunteer fire protection provided by the municipality or under contract to a municipality, and</li> </ul> </li> </ul>



**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

	<p>provided by a municipality or under contract to a municipality:</p> <ul style="list-style-type: none"> <li>○ Electric</li> <li>○ Natural gas</li> <li>○ Sewer</li> <li>○ Storm sewer; and</li> <li>○ Water</li> </ul>	<ul style="list-style-type: none"> <li>– The municipality provides directly or under contract less than three (3) of the following services: <ul style="list-style-type: none"> <li>○ Electric</li> <li>○ Natural gas</li> <li>○ Sewer</li> <li>○ Storm sewer; and</li> <li>○ Water</li> </ul> </li> </ul>
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- Eligible Property Requirements FREDDIE 4301.7(b)
  - 1-Unit Single family attached and detached (including eligible condos, PUDs and off-frame modular homes)
- Ineligible Properties FNMA B5-4.1-02
  - > 1-Unit property;
  - Agricultural Property (may not have a property tax exemption for agricultural use as of the date of closing)
    - If the property was previously designated with an agricultural exemption, the exemption must have been removed a minimum of 12 months prior to the application date;
  - Community Land Trusts;
  - Community Living Group Homes, Long Term Care Facilities etc.;
  - CondoTels;
  - Condos (non-warrantable);
  - Cooperatives;
  - Geodesic Dome Homes;
  - Geothermal Homes;
  - Illegal use of the property;
  - Investment Properties;
  - Leasehold properties;
  - Manufactured Home;
  - Mixed Use;
  - Not suitable for year round use or no year round access;
  - Properties with
    - 2 kitchens;
    - any health /safety issues or repairs needed;
    - less than average condition;
    - no permanent heat source;
    - no stove/oven;
    - resale restrictions;
    - utilities turned off;
    - with previous Sink Hole (as noted on contract, prelim (recorded permit and/or remediation), sellers disclosures etc.;
    - working farms, ranches, orchards
    - survey exceptions;
  - Properties subject to private transfer fee covenants;
  - Property located in an area that is deemed an environmental risk;
  - Rural Non-Homestead Property;
  - Second Homes;
  - Timber use properties;
  - Timeshare, houseboat, segmented ownership project;
  - Unapproved non-conforming use property (does not include grand fathered use); or
  - Unique property in which the marketability cannot be established (e.g., dome, geothermal)
- Property/Appraisal
  - A new full appraisal with an interior and exterior inspection is required, regardless of the appraisal format recommended by DU, LP or the program type
    - Property inspections and/or waivers are not permitted

**Note:** At underwriter discretion, situations not specifically addressed in this guide may be subject to additional requirements. In addition to MSF published guidelines, all AUS requirements & Agency requirements must also be met.

- Tax assessed values and exterior-only appraisals are not permitted
- All separate structures must be included in the homestead exemption
- Only the parcel designated as the homestead parcel may secure the loan
  - The property may have to be surveyed out prior to the appraisal being ordered
- The homestead parcel, as identified on the county appraisal district records, must include ingress/egress to a properly identified public road
- The new lien may only be secured by the homestead parcel and the market value for LTV calculation can only be assessed on that parcel
- The property must be complete
  - Work completion escrows are not permitted

#### **Ineligible Programs** FNMA B5-4.1-02

- A loan with a balloon feature
- Agency Jumbo documentation
- Any mortgage with an assumability or convertibility feature
- Community Lending programs, including the CRA Portfolio Sub-Allocation
- Construction to permanent loan modification transactions
- Contract for Deed
- DU Refi Plus
- Fannie Mae Flexible Mortgage Program loans
- Freddie Mac Alt 97
- Freddie Mac Open Access refinance transactions
- Freddie Mac Relief Refi programs
- Government Loans
- HomeReady
- Interest Only Fixed Rate
- Lease/Rent with Option to Buy
- LIBOR (including an Interest Only ARM)

#### **Program Details**

- AUS Decisions FNMA B5-4.1-03
  - Desktop Underwriter (DU) findings must receive an 'Approve/Eligible' recommendation
    - An 'Expanded Approval/Eligible' or 'Ineligible' loan, is ineligible
  - An Loan Prospector (LP) loan must receive an 'Accept' recommendation and be eligible for sale to Freddie Mac
  - Even if no cash is taken from the transaction, a refinance of an 50(a)(6) must be identified as a limited cash-out FNMA B5-4.1-04
  - Special Feature Code 304 is always applied to identify TX 50(a)(6) loans FNMA B5-4.1-04
    - Special Feature Code 007 should also be used if the borrower is NOT receiving any cash back from the transaction
    - Special Feature Code 003 should be also used if the transaction results in actual 'cash-out' to borrower
- Available Market
  - Texas
- Standard Balance Fully Amortizing Fixed Rate
  - 10, 15, 20, 25 and 30 year
- Escrow Waivers
  - Eligible
    - If the borrower chooses to escrow, the escrows cannot be cancelled under any circumstances after the loan has closed
- Buydowns ineligible
- Other Ineligible Loan Characteristics
  - A loan with a prepayment penalty
  - Loans closing in a trust

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- Title held as Tenants In Common
- Title held as Tenants by the entirety by unmarried borrowers
- Loans pursuant to Texas House Bill 637, which authorize loans to natural or adoptive parents, conservators, or guardians of a minor or ward on homestead property where the minor or ward has an ownership interest
  - o These transactions require court approval and extensive court oversight and are therefore ineligible
- Any additional real or personal property included as collateral for the loan
- Survey Requirements
  - A new survey is required on all loans
    - o A new survey/ILR/ILC is not required on a transaction if a previous copy is provided by title and the borrower signs a T-47 Residential Real Property Affidavit verifying the use of the existing survey
    - o 'Survey Deletion Endorsement' (also known as 'area and boundaries coverage') must be added, which will cover title defects due to:
      - Surveyor errors in locating boundary lines or improvements
      - Fences or other improvements not located on the boundary line
      - Improvements encroaching onto an easement or protrude over a building setback line
      - Improvements owned by an adjoining landowner that encroach onto the insured property
  - The survey must:
    - o Provide a legal description of the property to be covered by the mortgage; and
    - o Exclude any rental use improvements or any other non-homestead use property
  - If the borrower or co-borrower owns any adjacent land, a survey must be provided that shows the homestead property is a separate parcel that does not exceed the acreage permitted under the Texas Constitution
    - o The survey must support that
      - The homestead property and any adjacent land are separate parcels, and
      - The homestead property is a separately platted and subdivided lot for which full ingress and egress is available

### **State Specific Requirements**

- 50(a)(6) Closing Date Requirements
  - A Texas 50(a)(6) loan may not close until all of the following are met:
    - o Notice Concerning Extension of Credit Disclosure ('12-Day Notice'/'Cooling off Period')
      - Per state law, the loan may not close before the 12th day following the later of:
        - The date the owner submitted an application to the lender for an extension of credit ('loan application date'), and
        - The date the lender provided the 12-Day Notice to the owner(s)
      - The application must be a loan application, not a request for pre-qualification, or a preliminary determination of the amount of credit for which the borrower is eligible
      - The 12-Day Notice period will start from the later of:
        - The date the borrower submits an application, and
        - The date the 12-Day Notice is provided to the owner(s)
      - If the lender mails the disclosure to the owner(s), the date the disclosure is provided may be calculated by adding three calendar days, not including Sundays and federal legal public holidays, to the date the disclosure was mailed
    - o Advance One-Day Notice
      - o The borrowers must be provided a complete and accurate copy of the final HUD1 or HUD1A Settlement State and final loan application no later than one (1) business day prior to loan closing
      - o There can be no changes in these actual fees, points, interest, etc.
      - o Any deviation, no matter how slight, will result in the closing being delayed until another One-Day Notice is prepared and delivered to the borrowers
      - o The closing can be scheduled for the next business day after delivery to the borrowers of the revised 'One-Day Notice' and the loan application

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- Borrowers must certify to the accuracy of the settlement statement by signing the settlement statement or a separate Borrower's Certification of Receipt of Settlement Statement at closing
- After the one-year anniversary of the closing of an existing Texas 50(a)(6) loan
  - An 50(a)(6) loan may not be closed sooner than 12 months after the closing of the previous 50(a)(6) loan
    - A new Section 50(a)(6) loan may not be closed before the anniversary of the filing date of the most recent Section 50(a)(6) loan that was secured by the subject property, including any existing Section 50(a)(6) first or second mortgage, as well as any Section 50(a)(6) mortgage that was closed, paid off and released of record within the past twelve months
    - The title commitment will be reviewed to ensure that no Texas Home Equity mortgage was originated within the most recent 12 month period
- Fee Restrictions
  - Under Texas law, there is a 3% fee restriction on closing costs that can be charged to a borrower in order to obtain a Texas Section 50(a)(6) loan
  - Included in this calculation are all closing costs, paid directly or indirectly by the borrower:
    - Fees must be reasonable and not paid to an employee of the client
    - Bona fide discount points collected are included in the 3% fee cap
      - If discount points were used to buy down the interest rate, a fully executed *Texas Home Equity Discount Point Acknowledgment Disclosure* must be executed
    - All fees paid for by the borrowers which include:
      - Fees paid outside of closing (appraisal, credit, etc.)
      - Fees related to the maintenance of the loans (i.e., tax service fee, etc.) and
      - Fees paid to third parties (title fees, etc.), per diem interest and fees paid to lender
    - Lender credits to the borrower for the interest rate chosen may be applied towards the closing costs included in the 3% calculation
      - A HUD-1 addendum will be required to itemize the closing costs to which the credit is being applied
  - Exclude from 3% limitation:
    - Reserves for escrow accounts
    - Lender paid compensation to the broker
  - Delinquent property taxes cannot be paid from proceeds
  - If closing costs are greater than 3%, fees must be reduced prior to closing
    - Refunds to the borrower are not permitted
- First Payment Due Date
  - The first payment due date on the mortgage may not be more than 60 days from the date of the collateral documents
    - A credit for interim interest may be utilized to comply with this requirement
    - Credit cannot exceed 7 calendar days
- Forms and Disclosures/Documents
  - All loans must contain the following fully and accurately completed forms and documents:
    - Texas 50(a)(6) Legal and Compliance Checklist and Statement of Opinion (TX Attorney Review)
    - Texas Home Equity Discount Point Acknowledgment, if applicable
    - Federal Notice of Right to Rescind
    - Notice Concerning Extension of Credit
    - Each owner of the property and each spouse of an owner must sign the Texas Home Equity Affidavit and Agreement (Fannie Mae Form #3185)
    - The borrower and MSF must sign the Acknowledgment of Fair Market Value of Homestead Property at closing with an appraisal attached to the Acknowledgment
    - Rural Homestead Affidavit (if property is more than 10 acres)
    - Notice of No Oral Agreements signed by lender and borrower
  - Use the following uniform instrument forms at closing:
    - Texas Home Equity Security Instrument (Form 3044.1)
    - Texas Home Equity Note (Form 3244.1)

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- Texas Home Equity Condo Rider, if applicable (Form 3140.44)
- Texas Home Equity PUD Rider, if applicable (Form 3150.44)
- Copies of Documents
  - The lender or the closing agent or attorney must provide the owner(s) with copies of all documents signed by them at closing in connection with the extension of credit
  - Borrowers must sign a Texas Home Equity Acknowledgement of Receipt of Loan Closing Document form
  - The documents may not contain blank spaces

**Title** FNMA B5-4.1-05 and FNMA B8-5-03

- A title insurance policy must be obtained for every loan and must adhere to the following requirements:
  - The borrower or the borrower's spouse must hold legal title to the property
    - No third party may hold a title interest in the mortgaged property
  - Title insurance coverage must be the T-2 Mortgagee Policy of Title Insurance and include both of the following endorsements, which must also expressly show on the HUD-1:
    - T-42 Equity Loan Mortgage Endorsement
    - T-42.1 Supplemental Coverage Equity Loan Mortgage Endorsement
      - In order to obtain these endorsements, the loan must close at the office of the title company that will be issuing the title policy, or an attorney acting as a representative of the title company (insured closing letter is required)
      - Closings handled via mail or by notaries public are not permitted
      - Paragraph 1(a) of the Supplemental Coverage Equity Loan Mortgage Endorsement must be part of the coverage, which means that the loan must be closed at an office of the title company issuing the policy
  - There may be no exceptions to, exclusions or deletions from the coverage
  - If the prior T-2 was issued within the last 7 years, verify that the title company charges the lower reissue rate for the T-2
- 50(a)(6) Right to Rescind In addition to the federal right to rescind that may apply under Regulation Z, all 50(a)(6) loans are subject to a three-day right to rescind under Texas law
  - The Texas right to rescind requires signatures by all spouses, even if the spouse is not on the title; and the right cannot be waived
- Conveyed Property: Any consumer initiated conveyances of the property adding new owners must be completed at least 12 days before closing and the new owners must receive the 'Notice Concerning Extensions of Credit' at least 12 days before closing
- Deed Restrictions:
  - Properties subject to deed restrictions are ineligible
    - Texas appraisals often refer to deed restrictions and are eligible provided they are for covenants, conditions, and restrictions (CC&R's); clarification from the appraiser is required to make this determination

**Transaction Details**

- LTV/CLTV/HCLTV
  - Agency Conventional Limited Cash-Out (Rate & Term Refi) and Cash-Out Refinance

Documentation Process	LTV	CLTV	HCLTV	Max Loan Amount
Desktop Underwriter (DU)	80%	80%	N/A	Conforming Limits
Loan Prospector (LP)	80%	80%	N/A	Conforming Limits

- HELOC subordinate financing is not permitted, so no maximum HCLTV is applicable
- Principal Reductions (Curtailments)
  - If the borrower receives more cash back than what is permitted for the program, MSF can apply a curtailment to reduce the amount of cash back to the borrower to bring the loan into compliance with the maximum cash-back requirement
    - The maximum amount of the curtailment cannot exceed \$500.00

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- If the amount to be curtailed exceeds these amounts, then the loan must be resubmitted back to underwriting for a reduction in loan amount to comply with the maximum cash back and maximum curtailment requirements
  - The loan will also need to be re-disclosed accordingly, as applicable, with changes made
  - After the changes and re-disclosure are made, the loan documents must then be re-drawn accordingly with the new loan amount
- Refinance Requirements
  - Limited Cash-Out (Rate & Term) Refinance
    - A loan is a Limited Cash-Out (Rate & Term) Refi if the first mortgage being paid off is a Texas Section 50(a)(6) loan and the borrower is not getting any cash back from the refinance transaction
    - Closing costs and prepaid items may be included in the loan amount, but the total amount that may be charged is subject to limits imposed by the Texas regulations
    - HUD-1 Settlement Statement(s) required from any transaction within past 6 months
    - The only cash proceeds the borrower may receive are limited to:
      - A refund of a previously paid application fee, or
      - Existing escrow monies in excess of any amount needed to fund any new escrow account
        - MSF Texas Refinance – Borrower Acknowledgement form must be signed at closing
  - Cash-Out Refinance
    - One borrower must have held title to the subject property at least 6 months, measured from the previous note date to the new application date
    - Loan proceeds can be used to pay off secured debt or unsecured debt, except NO unsecured correspondent Client or correspondent Client affiliated debt may be paid off at closing
- Seasoning Requirements
  - 12-month seasoning for any 50(a)(6) loan (first or second lien); based on closing dates
  - No seasoning requirement for any first or second mortgages that are not 50(a)(6) loans
- Subordinate Financing
  - Subordinate financing is only permitted if a pre-existing second mortgage that is NOT a Texas Section 50(a)(6) loan is subordinate to the new Texas Section 50(a)(6) loan first mortgage
  - The existing second mortgage must be a closed-end second lien
  - An existing Texas Section 50(a)(6) second mortgage may not be re-subordinated to a new Texas Section 50(a)(6) first mortgage
    - It must be paid off
    - Only one Texas Section 50(a)(6) loan may be secured by the property at any time
  - A new Texas Section 50(a)(6) second mortgage, including a fixed rate or home equity line of credit, drawn or un-drawn, is not permitted
  - A copy of the renewal and extension exhibit may be used in lieu of subordination agreement
- Use of Proceeds and Payoff of Debts
  - If the payoff of debts to other lenders/creditors is required in order to qualify the borrower, then those payoffs must be shown on the HUD1 and disbursed directly to the creditor by the title company
  - Debts that are elected to be for paid off by the borrower, but are not required to be paid off in order to qualify the borrower, may be disbursed directly to the borrower
  - A loan used for consolidating debt must be originated as an 50(a)(6) loan even if the proceeds at closing are paid directly to the creditors and the borrower personally receives no cash from the transaction.
  - The payoff of purchase money loan or a previous no cash-out refinance
  - Payment of non-delinquent liens for property taxes on the subject property securing the new loan