WHEDA Advantage
Conventional Underwriting Guide

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Last Revised Date: 9/20/2024

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1.00 Introduction

This guide provides our lending partners with the information needed to understand WHEDA's underwriting requirements and policies for its Advantage Conventional loans.

Information contained in this Guide is in compliance with mortgage revenue bond requirements, and Fannie Mae HomeReady®, HomeStyle® and Fannie Mae standard underwriting requirements and policies.

When the Guide is silent on a requirement or policy, refer to Fannie Mae's current Selling Guide. First, to Fannie Mae's HomeReady®, HomeStyle® requirements, and then to their standard underwriting requirements. In addition, if a transaction includes a combination of Fannie Mae's HomeReady® and HomeStyle® Renovation, the more restrictive eligibility requirement of each of those transactions apply.

All loans submitted under the conventional program must be scored using Desktop Underwriter® (DU)® or Desktop Originator® (DO)®, depending on the lender's delivery channel. Lenders must also choose HFA Preferred™, or HFA Preferred Risk Sharing™ as a community lending program based on the need for mortgage insurance.

This guide does not reflect eligibility requirements that may be imposed by private mortgage insurers.

Lenders who submit loans through the Broker, Mini Corr or Correspondent channel should reference this Guide, the Advantage Conventional Eligibility Matrix , and the Policy and Procedures Manual for additional guidance.

®Desktop Originator(DO), Desktop Underwriter(DO), HomeReady, and HomeStyle are registered trademarks of Fannie Mae.

™HFA Preferred is a trademark of Fannie Mae.

2.00 Underwriting Philosophy

Although WHEDA is exempt from the Ability to Repay (ATR) and Qualified Mortgage (QM) regulations we believe that each loan application should be evaluated on its own merits to determine the likelihood the borrower will repay their mortgage debt.

Mortgage loans should not be automatically approved based solely on the recommendation of an automated underwriting system (AUS). Underwriting decisions should be based on the evaluation of all the layers of risk using common sense, experience and sound judgment. The presence of individual risk factors found in the loan file do not necessarily threaten the borrower's ability to obtain homeownership. However, when multiple layers of risks are present, and there are no compensating factors or positive offsets to the risks, their cumulative effect could dramatically increase the likelihood of default and foreclosure. Each borrower deserves an equal and fair consideration based on their unique circumstances provided the loan as a whole presents an acceptable risk.

The evaluation should include an assessment of:

- The borrower's willingness and ability to repay debt as demonstrated by the borrower's credit and employment/income history, assets and liabilities.
- The borrower's commitment to the purchase (equity and down payment).
- The appraisal report (supported value of the collateral, market conditions, salability).
- WHEDA, Investor and regulatory compliance.

Our guides, matrices and overlay grids establish boundaries of acceptable risk.

3.00 Mortgage Eligibility

WHEDA purchases fixed rate mortgages (FRM) secured by properties (Refer to Section 11.02 for eligible property types) that are the borrower's principal residence. Qualified borrowers do not have to be a first-time homebuyer to be eligible for an Advantage Conventional mortgage, however, the total household income must be less than or equal to the Advantage Conventional Income Limits and the purchase price of the property must be less than or equal to the Advantage Conventional Purchase Price and Loan Limits

When a transaction includes a combination of the WHEDA Advantage Conventional, HomeStyle® Renovation, Limited Cash-out Refinance, or manufactured homes, the more restrictive eligibility requirements will apply.

All loans must be scored using Desktop Underwriter® or Desktop Originator® with an acceptable recommendation for delivery to WHEDA.

Recommendation	Delivery Eligibility
Approve / Eligible	Eligible for delivery for WHEDA
Refer w/ Caution	Eligible for delivery via broker / mini-corr channel. Must be underwritten by WHEDA and meet the minimum requirements per the Advantage Conventional Eligibility Matrix
Approve / Ineligible	May be Eligible for delivery via broker / mini-corr channel. The lender must attempt to resolve the reason for the ineligibility and resubmit the loan casefile to DU. Must be underwritten by WHEDA and meet the minimum requirements per the Advantage Conventional Eligibility Matrix

3.01 LTV/CLTV/HCLTC (09/05/19)

For minimum requirements for down payment and maximum allowable LTV/CLTV/HCLTV requirements refer to the Advantage Conventional Matrix

HFA Preferred™ and HFA HomeStyle Preferred™ Community Lending Programs:

When scoring DU/DO® lenders must choose the appropriate community lending program.

HFA Preferred™

Annual Qualifying Income will be used to determine pricing on the HFA Preferred™ program– *see Chart A below.*

- Loans with Borrower Annual qualifying income ≤ 80% AMI can use Charter MI coverage – *see chart B below.*
- Loans with Borrower Annual qualifying income exceeding 80% AMI will be required to use standard MI coverage – *see chart B below.*
- This change does not eliminate the requirement for Total Household Compliance Income to meet WHEDA limits for the appropriate program.
- This new investor pricing requirement will be reflected on WHEDA rate sheets beginning September 5th, 2019.

CHART A

HFA Preferred™
• Total **annual qualifying income**: ▪ ≤ 80% AMI* may use Charter Level MI coverage ▪ > 80% AMI*: ❖ May be subject to higher interest rate ❖ Loan amounts exceeding 80% LTV require the use of standard MI coverage
***Total <u>Household Compliance Income</u> must still meet the WHEDA Income Limits for the appropriate program.**

CHART B

HFA Preferred Only: Loan amounts exceeding 80% LTV; MI Company overlays apply	
Total annualized qualifying income is ≤ 80% AMI* = Charter Level Coverage	**Total annualized qualifying income is > 80% AMI* = Standard Coverage**
• 95.01 - 97% LTV = 18% coverage • 90.01 - 95% LTV = 16% coverage • 85.01 - 90% LTV = 12% coverage • 80.01 - 85% LTV = 6% coverage • 80% LTV and lower = Not required	• 95.01% - 97.00% = 35% coverage • 90.01% - 95.00% = 30% coverage • 85.01% - 90.00% = 25% coverage • 80.01% - 85.00% = 12% coverage • 80% LTV and lower = Not required

3.02 Purchase Transaction (4/24/2023)

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a 1-4 unit property located in the State of Wisconsin.

Minimum Borrower Contribution for Purchase Transactions

Number of Units	Minimum Borrower Contribution (own funds)	Minimum Down Payment Requirement
One	None 3% If using Lender funded Grants	3%
Two	3%, or 5% if using HomeStyle Renovation 5% if using an institutional or Lender funded Grants	5%
Three or Four	3%, or 5% if using HomeStyle Renovation 5% If using an institutional or lender funded Grants	5%

WHEDA does not require a minimum borrower contribution from the borrower's own funds for any mortgage loan if the loan has an LTV, CLTV or HCLTV ratio of 80% or less.

3.03 First-Time Home Buyer (FTHB)/Veterans Affordable Loan Opportunity Rate (VALOR) Advantage (06/28/17)

First-Time Home Buyers and Qualified Veterans may receive special pricing options by meeting the FTHB/VALOR Income and purchase price limits along with the requirements indicated below.

FTHB Definition and Requirements

To be eligible for the FTHB Advantage, a borrower must be a first-time home buyer, defined as a borrower who has not had an ownership interest in a principal place of residence in the last three years.

- A non-applicant spouse must meet the definition of a First-Time Home Buyer.
- This requirement is waived if the borrower is purchasing a home in a federally designated target area

Two years' federal income tax transcripts including all schedules, and a current credit report will be reviewed to determine no previous home ownership in the last three years. There must be no evidence of the following:

- Mortgages
- Mortgage interest deduction
- Property tax deduction

VALOR Definition and Requirements

To be eligible for VALOR, a borrower must provide Form DD-214 reflecting an honorable discharge in the "Character of Service" field.

First time home buyer requirement is waived.

NOTE: VA Certificate of Eligibility does not replace the DD-214.

Income Limits

The combined gross annual income of all adults persons, not just the borrower's, intending to occupy the property cannot exceed the FTHB/VALOR Income and purchase price limits for the county in which the property is located.

Purchase Price Limits

The purchase price of the subject property cannot exceed the FTHB/VALOR Income and purchase price limits for the county in which the property is located.

Exclusions

A FTHB/VALOR Advantage borrower cannot receive the WHEDA Tax Advantage (MCC) benefit. FTHB/VALOR Advantage preferred interest rates are not available on a WHEDA FHA Advantage loan.

Federal Recapture Tax

FTHB/VALOR Advantage mortgage loans are subject to federal recapture tax. If a borrower's income has increased to more than an amount prescribed by the Tax Code, then a portion of the federal interest rate subsidy must be recaptured upon the sale of the property. The recapture tax is applicable when a property is sold within nine years from the date the loan closed and is limited to no more than fifty percent (50%) of the net gain recognized by the borrower. The recapture tax is implemented when a borrower files their federal income tax return in the year they sell their home.

The borrowers must execute the document, Acknowledgement of Federal Recapture Tax (Form 3) as a part of the loan application package.

Additional information regarding Recapture Tax can be found in IRS Publication 523 "Selling Your Home" or by calling the IRS at 1-800-729-1040 or by visiting their website www.irs.gov.

Federal Recapture Tax Guaranty

If the borrower's tax professional has determined that the borrower is subject to a federal recapture tax, the borrower should contact WHEDA after they have completed and filed their tax return for the year in which the home was sold. WHEDA will reimburse the borrower the amount equal to the recapture tax reported to the Internal Revenue Service.

3.04 HomeStyle® Renovation (07/01/21)

The HomeStyle Renovation program allows a borrower to purchase a property or refinance an existing WHEDA loan and roll the cost of repairs, remodeling, renovations, or energy improvements into the transaction. There is no minimum dollar amount for the improvements.

Program is only available in the Mini-Correspondent and Broker Channels.

To calculate the maximum mortgage amount, lenders should use Fannie Mae's [HomeStyle Renovation Maximum Mortgage Worksheet.]()

Maximum cost of improvements	
Transaction Type	The cost of renovations must not exceed…
Purchase transaction	75% of the lesser of: • The sum of the purchase price of the property plus renovation costs, or • The "subject to" appraised value of the property
Refinance (WHEDA to WHEDA only)	75% of the "subject to" appraised value of the property
Manufactured Home	The lesser of: • $50,000 or • 50% of the "subject to" appraised value of the property

Eligible Improvements

Allowable improvements include, but are not limited to:

All property types

- Renovations to kitchen and bathrooms
- Installing energy efficient furnaces and/or cooling systems
- Windows
- Doors
- Siding
- Roofs
- Energy Star Appliances that are a part of a substantial change or upgrade to the room in which the appliance would otherwise be placed

Manufactured Housing

- Improvements to kitchens or bathrooms
- Installing energy efficient heating and cooling systems
- New windows, doors, siding, or roofing

Condominiums

- Must be permissible under HOA by-laws, or written approval from the HOA
- Must be limited to the interior of the unit

Ineligible Improvements

All Property Types:

- Swimming Pools
- Hot Tubs
- Appliances that are not a part of a substantial change or upgrade to the room in which the appliance would otherwise be placed.

Manufactured Homes

- Structural Changes – such as garages or additions.

Contractor Requirements

- If the borrower is utilizing a Dwelling Contractor, they are subject to WHEDA/Lender's determination that the dwelling contractor is licensed by the State of Wisconsin.
    - The easiest way to search for a Dwelling Contractor is by using their License Number

- Any individual contractor (Non Dwelling Contractors) that are being utilized are subject to WHEDA/Lender's determination that the individual is licensed by the State of Wisconsin.

Documentation requirements

The application package must include the following documentation for review of the renovation:

- Scope of Work:
    - Must include a breakdown of materials and labor
    - Must be specific to the work being done. A general scope of work, bid or estimate is not acceptable. Examples:
        - hardwood flooring vs. flooring;
        - install granite counter tops vs. install counter tops;
        - all components of a gut rehab to a bathroom, type of vanity, type of bathtub and/or shower, type of flooring, electrical or plumbing needs, etc., vs. remodel of bathroom .
- Renovation Contract Agreement (Form 38) - signed/dated by the borrower(s) and ANY/ALL contractor(s)
    - Each dwelling contractor, business entity and individual providing contracted work on the renovation project MUST execute and be - co-signed by borrower(s)
        - Provide borrower(s) with the contract fully executed by both contractor and borrower(s).
        - Fully describe the work to be completed.

        - State the agreed upon cost.
        - Identify any sub-contractors.
        - Indicate when various stages of the work will be completed including start date and completion date. (Completion date not to exceed 6 months from the date of closing)
- Renovation Loan Agreement (Form 39) - signed/dated by the borrower(s) and lender, at closing.
- Renovation Multi-disbursement (Form 40) -For title company to send draw requests to WHEDA post-closing.
- HomeStyle® Renovation Maximum Mortgage Worksheet (Form 41) - Completed by Originating Lender to determine maximum allowed renovations.
- HomeStyle® Renovation Mortgage Consumer Tips (Form 1204) - signed/dated by the borrower(s).

Certified HUD Consultant

A Certified HUD Consultant is required to help homeowners have an expert available through the renovation process. The roles of the consultant are to assist with:

- determining both required and desired repairs;
- preparing the detailed Score of Work;
- obtaining inspection reports to approve disbursements; and
- evaluating the merit of offers submitted by contractors.

A list of certified HUD Consultants can be found by visiting: https://entp.hud.gov/idapp/html/f17cnsltdata.cfm

Contingency Reserve

A 15% contingency reserve for cost overruns is required on all HomeSytle renovation loans. This is based on the "hard costs" of materials and labor as determined by the final scope of work.

The contingency reserve may be funded by:

- financing it into the loan;
- use of the borrower's own funds; or
- documented gift funds from an acceptable gift donor.

Title Company

The use of a title company for the renovation process is required. The role of the title company during the renovation period is to:

- order inspections for work completed;
- collect lien waivers;
- process draw requests from WHEDA;
- disburse funds to contractor; and

- provide a title update ensuring WHEDA has retained 1st lien position.

Renovation-Related Costs

Renovation-related costs that may be considered part of the total renovation costs include:

- 15% contingency reserves
- Property inspection fees
- Costs and fees for title update
- Certified HUD Consultant fees
- Permit fees, if not included in the contractor bid
- Post-closing draw fees, inspection fees and wire fees

If the borrower is unable to occupy the subject property at the time of closing, up to six months (PITIA) may be included in the total renovation costs.

Sweat equity is not allowed.

See section 10.10 of Policy and Procedures Guide for closing and posting-closing instructions.

3.05 Limited Cash-Out Refinance (LCOR) Transaction (2/10/2022)

The following are acceptable in conjunction with a LCOR:

- WHEDA-to-WHEDA transaction
- Modifying the interest rate of an existing WHEDA first mortgage
- Financing the payment of closing costs and prepaids
- Paying off subordinate liens (Community Seconds) used to purchase the property. The lender must document the entire amount of the subordinate financing was used to acquire the property
- Receiving "cash back" in an amount that is not more than the lessor of 2% of the new loan amount or $2,000.
- If Cash to Close is less than $500.00, verification of funds is not required.
- At least one borrower on the existing WHEDA first mortgage must be a borrower on the new refinance transaction
- The property cannot be currently listed for sale

NOTE: A WHEDA Home Plus second mortgage loan originated prior to or on 10/1/2008 **is not** considered an eligible Community Second if draws were taken after the original closing date. The lender must contact the WHEDA Servicing department at 800-562-5546, and request confirmation on whether or not a draw was taken.

WHEDA Secondary Financing

An Easy Close DPA loan is an eligible Community Second in conjunction with the refinance. The funds can be used for down payment, closing costs and/or prepaids.

An Easy Close DPA loan should be entered into DU®/DO® as a Community Second-Repayment within 5 years.

Existing Community Seconds

Community Seconds that were used to acquire the subject property can be financed into the new loan and/or be subordinated, however the maximum CLTV/HCLTV is 105%. Refer to the Advantage Conventional Matrix for additional guidance.

Existing Non-Community Seconds

Existing Non-Community Seconds can be subordinated. However, the maximum LTV/CLTV/HCLTV is limited to 95%. Refer to the Advantage Conventional Matrix.

Subordination Agreement

A subordination agreement from the creditor must be provided when submitting the loan package. If the borrower has an existing qualified WHEDA second mortgage, a Subordination Agreement will be drafted by WHEDA's Servicing Department. A $50 subordination fee will be assessed. Refer to Exhibit 4-Schedule of Fees.

Home Buyer Education and Counseling

Home buyer education is not required.

3.06 Minimum Reserve Requirements (08/23/16)

DU Case Files: DU®/DO® will determine the reserve requirements based on the overall risk assessment and the minimum reserve requirement that may be required for the loan transaction.

Manually underwritten loans (Broker and Mini Corr Channel Only): Refer to the Advantage Conventional Matrix

Gift funds are an acceptable source for reserves on both manually underwritten loans and loans receiving a DU®/DO® Approve/Eligible recommendation.

Cash-on-hand cannot be considered for reserves for both manually underwritten and loans submitted through DU®/DO®.

3.07 Escrow Accounts (12/15/14)

Escrow accounts for taxes, ground rents, property and flood insurance premiums and private mortgage insurance premiums are required for all loans.

If a special assessment levied against the property was not paid at loan closing, the borrower's monthly payment must include an amount sufficient to pay the assessment by the time it is comes due.

4.00 Borrower Eligibility

This Chapter provides the general requirements needed for a borrower to be eligible for a WHEDA Advantage Conventional loan.

4.01 Income Limits (12/15/14)

The combined gross annual income of all adults intending to occupy the property cannot exceed the Advantage Conventional Income Limits or the FTHB/VALOR Income Limits for the county in which the property is located. Refer to Chapter 3.0, Section 3.03 FTHB/VALOR Advantage requirements and Chapter 6.0 Calculating Compliance Income for additional guidance.

Good to Know
Compliance income applies to all adult occupants. The number of occupants may be different than the number of loan applicants.

4.02 Citizenship (10/09/19)

All borrowers must have a valid Social Security Number and be one of the following:

- U.S. citizen
- Permanent Resident Alien
- Non-Permanent Resident Alien
  - Have documentation to support they are in the country legally and
  - Have a valid Employment Authorization Document

If the validity of the Social Security Number is in question, the lender must verify and validate the Social Security Number through one of the following:

- Social Security Administration
- Acceptable third party vendor

4.03 Child Support/Maintenance (12/15/14)

Arrearages reported on the State of WI Lien Docket must be paid in full prior to closing.

4.04 Ownership of Other Property (08/23/16)

The borrower may have an ownership interest in additional residential dwellings at the time of closing. Only **one** can be financed, other than the subject property.

If the borrower is utilizing the First-Time Homebuyers (FTHB) program, the borrower cannot have owned and occupied any property as a principal residence within the previous three years.

A manufactured home permanently attached to real estate is considered a residential dwelling for this purpose.

Ownership in a time share, either as a deeded interest or a right-to-use arrangement, is not considered ownership in a residential dwelling due to the very limited (typically one or two weeks per year) access to the unit.

4.05 Home Buyer Education and Counseling (12/21/21)

WHEDA requires pre-purchase Home Buyer Education (HBE) for specific borrowers and programs. The education must be completed before closing by at least one borrower (1) signing the Note. DU/DO findings will disclose the requirement based on the declarations from the loan application.

Once the Borrower(s) complete Home Buyer Education they will receive a separate "certificate" reflecting:

- Borrower's name
- Name of the entity and/or person providing the education
- Date completed.

The certificate is good for twelve (12) months from completion date and must be included in the application package sent to WHEDA.

PRE-PURCHASE HOME BUYER EDUCATION (HBE) is required for:

- First Time Home Buyer(s) (2) utilizing ANY WHEDA Conventional or FHA loan program
  - Waived if one Borrower is NOT a First Time Home Buyer
- Any WHEDA Conventional loan where all borrowers are relying solely on nontraditional credit to qualify, ALL borrowers must complete the education.

Home Buyer Education can be obtained several ways, either face-to-face or through an online course. Some options have a fee or costs associated with them, and this fee or cost must be included in the TRID disclosures.

(1) Any WHEDA loan where ALL Borrower(s) rely solely on nontraditional credit to qualify, all Borrowers must complete Home Buyer Education

(2) A First Time Home Buyer is defined as a person who has not had an ownership interest in a principal place of residence in the last three years.

HOME BUYER EDUCATION PROVIDERS

WHEDA accepts education from the following providers:

- Education | Fannie Mae
- HUD Approved Housing Counseling Agency
- Education from a provider that aligns with the National Industry Standards for Homeownership Education

4.06 Landlord Education (09/20/2024)

PRE-PURCHASE LANDLORD EDUCATION is required for Borrower(s) utilizing any Conventional Program and purchasing a:

- 2-unit property, LTV/CLTV/HCLTV greater than 85%
- 3-4 unit property, LTV/CLTV/HCLTV greater than 75%

The education must have been completed within 12 months of the application date.

LANDLORD EDUCATION PROVIDERS

Below are links to acceptable online Landlord Education provided by Mortgage Insurance Companies:

- https://mortgage.archgroup.com/us/training/homebuyer-education/

Below are links to acceptable Landlord Education providers:

- https://www.naca.com/landlord-training/
- https://www.landlordcert.org/
- City of Milwaukee Landlord Training
  - Borrowers can contact a home buying counseling agency in their area or a local housing authority to find out if Landlord training is offered.
- Fannie Mae's Becoming a landlord
  - After completion, Buyer must meet with a local home counselor or their lender to review the self-examination and receive a signed certificate of completion.

4.07 Guarantors and Co-Signors (12/15/14)

A guarantor or co-signor is not allowed; however exceptions can be made based on a borrower's particular circumstance. Exceptions require a manual underwrite by WHEDA.

4.08 Non-Occupant Co-Borrowers (12/15/14)

Non-occupant Co-Borrowers are not allowed.

5.00 Income and Employment Documentation

The lender is required to document a 2-year history of stable employment and a reliable stream of income.

Income and employment documentation must be no more than four months old on the Note date. The lender must update the documentation if it has expired.

5.01 Paystub (12/15/14)

The paystub must be dated no earlier than 30 days prior to the initial loan application date, reflect a minimum 30 days of income, identify the name of the employer and the borrower, and include all year-to-date earnings. The paystub must include sufficient information to appropriately calculate income. If not, additional documentation must be provided.

5.02 Request for Verification of Employment (VOE) (12/15/14)

If the borrower has been on their present job for less than 1 year, provide a Verification of Employment or a third-party vendor employment verification. The VOE should not be sent directly to an individual. It must include wage rate, base wage rate hours and other income hours per week, year-to-date earnings, date of employment, frequency of payment and previous year earnings.

5.03 W-2 Forms (12/15/14)

IRS W-2 forms must cover the most recent two year period and clearly identify the borrower as the employee. The sum of the W-2's must match the wages earned on the borrower's federal tax transcripts.

5.04 Tax Transcripts (12/15/14)

The lender must execute IRS Form 4506-T and provide a copy of the borrower's tax transcripts for the most recent two year period.

Transcripts will be reviewed for compliance income, self-employment activity, unreimbursed employee expenses, income from assets and claimed mortgage interest.

Refer to Section 7.22 for Self Employed, S-Corp and Partnership's

for additional guidance.

5.05 Verbal Verification of Employment (VVOE) Requirements (1/19/2024)

A VVOE for all active employment for each borrower must be obtained and dated within 10 business days prior to the Note date. Most recent paystub within 15 business days of the note date. Bank Statement no earlier than 15 business days prior to note date.

Hourly, salary and commission income employees

Verify and document the employer's phone number, and if possible, their address, independently through the phone book, the internet, directory assistance, or by contacting the applicable licensing bureau.

The VVOE should include:

- The name and title of the person who confirmed the employment,
- The date of the call, and
- The source of the phone number, if the internet – provide the website address
- Employment status

If a VVOE cannot be obtained, one of the following methods may be used:

- The Work Number Website
  If the verification is obtained from The Work Number website, the 10-day business period is measured from the date of the Client's request to the vendor, not the date the information was updated in the vendor's database.
- A written verification of employment sent directly to the employer
- The lender may use an email chain verifying employment.
- The lender must conduct due diligence to confirm the email address for the employer is accurate;
- The lender must ensure the email is from the employer's work email address and includes the borrower's name; name, title, and work email address of the individual contacted at the employer; date of contact; and borrower's current employment status.

Self-employed borrowers

Verify the existence of the borrower's business within 30 calendar days prior to the Note Date through one of the following methods:

- From a third-party such as a CPA, regulatory agency, or the applicable licensing bureau, if possible
- By a phone listing and address for the borrower's business using a telephone book, internet, or directory assistance
- By verbal contact: Document the source of the information, and document the name and title of the lender's employee who obtained the information

Seasonal employment

If verbal verification occurs during the off season and the borrower is currently not working for that business, independent verification that the business exists, and that the borrower previously worked for that business as stated on the loan application is required.

6.00 Calculating Compliance Income

Calculating total household income is a key to determining if the borrowers are income compliant for the WHEDA Advantage program.

Compliance income is the anticipated income of anyone age 18 or older who intends to occupy the property, regardless of their relationship to the borrower. This may include adult children, parents, aunts, uncles, grandparents, partners, companions, roommates, etc.

Compliance income is generally calculated using the greater of:

- Current gross income from all verified sources projected 12 months forward, or
- Gross income from all sources earned in the last tax year

> **Good to Know**
>
> Compliance income is not the same as qualifying income.
> Submit Form 29 - Compliance Income Evaluation for a WHEDA compliance income review.

Lenders should review and compare information on the loan application to other documents in the loan file such as paystubs and tax returns to identify other potential occupants.

> **Good to Know**
>
> Re-occurring non-payroll deposits may indicate additional undisclosed sources of income that may be required to be documented for household income compliance.

Refer to Section 4.1-Income Limits Section 4.1- Income Limits for additional guidance.

6.01 Income Inclusions (12/15/14)

- Earned income of all occupants over the age of 18
- Unearned income of all occupants under the age of 18
- Social Security Income (SSI)
- Child support
- Alimony
- Pension/retirement
- Disability Income
- Public Assistance
- Interest and dividend income on funds retained after closing
- Self-employment income (adding back depreciation, depletion, meals and entertainment, and business use of home). If a business is operated at a loss, such loss may not be used to offset income generated from other sources.
- Rental income from Other Real Estate Owned
- Rental income being used for qualifying on a 2-unit purchase. Refer to Section 7.18 Rental Income from the Subject Property for additional guidance.
- Mortgage Credit Certificate (MCC) income being used for qualifying income

6.02 Income Exclusions (12/15/14)

- Earned income for all occupants under the age of 18
- Foster care income
- Food Share Wisconsin
- Non-recurring payments from:
  - Inheritances
  - Insurance settlements
  - Lottery winnings
  - Gambling winnings
  - Capital gains
  - Settlements for personal loss

6.03 Determining Household Size (08/23/16)

Total Household Size includes all persons who will occupy the subject property. Occupants include but are not limited to the following:

- Adults age 18 or older
- Children
  - If a borrower shares custody of a minor child, a copy of the final divorce decree and marital settlement agreement or any other type of written legal agreement or court decree is required to determine if the borrower has at least 50/50 custody.
- Partner, companion
- Parent, Grandparent
- Niece, nephew
- Aunt, uncle
- Boarder, Renter (2-4 unit property)

The borrower is required to complete the Borrower's Affidavit (WHEDA Form 2) listing the names, ages, relationship to each borrower and the amount of income earned or income received on behalf of each household occupant.

c

7.00 Calculating Qualifying Income

A key to determining the borrower's ability to repay their mortgage loan debt is determining all stable and predictable sources of income that are likely to continue into the future.

Good to Know

1) Qualifying income is not the same as Compliance income.
   Refer to Section 6.0 Calculating Compliance Income for additional guidance.
2) For manually underwritten loans, up to 30% of the total qualifying income for the mortgage loan may be represented by the stable and continuing income of an occupying co-borrower for whom neither an acceptable traditional credit profile nor an acceptable nontraditional credit profile can be developed due to lack of sufficient credit history.

7.01 Base Pay Income (12/15/14)

A minimum history of two years of employment income is required, however, income that has been received for a shorter period may be considered as acceptable income, as long as there are positive factors to offset the shorter income history. For example, a borrower who graduated from college or tech school and is currently employed in a field that applies to their educational degree.

7.02 Bonus and Overtime Income (12/15/14)

Bonus and overtime income must show a history of at least 24 months with the current employer, however, bonus and overtime income that has been received for no less than 12 months may be considered as acceptable income provided the borrower's loan application demonstrates positive factors that reasonably offset the shorter income history.

7.03 Commission Income (02/01/19)

Commission income must show a history of at least 24 months with the current employer. A history of less than 24 months but greater than 12 months can be considered with compensating factors to offset the shorter history

7.04 Alimony or Child Support (1/19/2024)

Alimony and child support must continue for at least three years after the date of the mortgage loan application. Child support income can be adjusted upward 115%.

A copy of the divorce decree, separation agreement, or other written legal agreement must be provided and state the amount that is being awarded and the duration it will be received.

Document no less than a six-month history from the State of Wisconsin Department of Workforce Development.

If payment amounts are inconsistent with the amount court ordered or are sporadic, the income is not acceptable for the purpose of qualifying.

7.05 Automobile Allowance (02/01/19)

The borrower must have received payments for at least two years.

The full amount of the allowance is added to the borrower's monthly income, and the full amount of the lease or auto loan payment is added to the borrower's monthly debt obligation.

7.06 Boarder Income (08/09/19)

Rental payments that a borrower receives from one or more individuals who reside with the borrower can be considered in an amount up to 30% of the total gross income that is being used to qualify the borrower for the purchase of a one unit property.

The boarder is someone who would not be obligated on the mortgage debt and may or may not be related to the borrower.

Document the boarder has lived with and paid rent to the borrower for the last 12 months by providing the following:

- A copy of the individual's driver's license, bills, bank account statements, etc. evidencing the boarder to demonstrate a history of shared residency, and
- Copies of cancelled rent checks for the last 12 months

Payment of rent by a boarder directly to a third party is not acceptable.

Boarder income may not be used when utilizing the HomeStyle® Renovation program.

7.07 Disability Income – Long Term (12/15/14)

Disability income must be verified with a copy of the disability policy or benefits statement from the provider, i.e. insurance company, employer, or other qualified disinterested party. It does not apply to disability income that is received from the Social Security Administration (SSA).

The policy or statement must verify the following:

- The borrower's current eligibility for the long-term benefit,
- The amount and frequency of the disability payment, and
- If there is a termination or modification date.

7.08 Employment Offers or Contracts (11/13/19)

A copy of the borrower's fully executed contract is required along with the borrower's first paystub with sufficient information to support the income used for qualifying.

A borrower may close on a loan prior to the borrower receiving a paystub under all the following conditions:

- One-unit, principal residence, purchase transaction only;
- Borrower is not employed by a family member or by an interested party to the transaction;
- Borrower is qualified using only fixed based income;
- Additional requirements as stated in Fannie Mae Selling guide B3-3.1; and

If the borrower's start date is…	Documentation Required
The note date or no more than 30 days prior to the note date	• Employment offer or contract, and • Verbal verification of employment that confirms active employment status
No more than 90 days after the note date	Employment offer or contract

7.09 Foster Care Income (10/29/15)

Document a two year history of the borrower receiving foster care income from a state or county agency.

If a two year history cannot be documented, the income may still be considered stable if:

- The borrower has at least a 12-month history of providing foster-care, and
- The income received does not represent more than 30% of the borrower's total gross income being used to qualify for the loan.

7.10 Housing Choice Voucher (Section 8) (1/19/2024)

Each municipality's Housing Choice Voucher program must be approved by WHEDA.

Provide a copy of the Housing Choice Voucher and add the amount of the benefit to qualifying income. There is no requirement that the income history be documented prior to the loan application or evidence it will continue for any period of time from the date of the application.

If the income may be grossed up 115%.

7.11 Housing or Parsonage Income (12/15/14)

Housing or Parsonage allowance may be considered as qualifying income if there is documentation that the income has been received for the most recent 12 months and the allowance is likely to continue for the next three years. The housing allowance may be added to income but cannot be used to offset the monthly mortgage payment

7.12 Mortgage Credit Certificate (MCC) (08/23/16)

The monthly Mortgage Credit Certificate (MCC) benefit may be treated as an addition to the borrower's monthly income using the following calculation:

[(Mortgage Amount) x (Note Rate) x (MCC %)] ÷12 = Amount added to borrower's monthly income.

The MCC %, Tax Certificate Percentage Rates, are as follows:

- 25% Statewide
- 40% Qualified Military Veteran
- 40% Property is located in a HUD designated target area

Borrower's applying for a WHEDA FTHB/VALOR Advantage loan, a Conventional loan with a preferred interest rate, are not eligible for a MCC and therefore are not eligible to use the benefit as qualifying income.

7.13 Social Security Income (1/19/2024)

Social Security and Social Security Disability income must be documented with a current Social Security Administrator's (SSA) award letter or proof of current receipt.

Supplemental Social Security income must be documented with a current SSA award letter and proof of current receipt.

The Social Security income can be adjusted upward 115%.

If a borrower is eligible to receive Social Security benefits on behalf of a family member, a spouse, ex-spouse, dependent parents, a minor child or disabled child the following is required:

- A copy of the SSA award letter
- Proof of current receipt and
- Verification of a three year continuance (e.g. verification of the beneficiary's age)

7.14 Retirement Income (12/15/14)

Document regular and continued receipt of the income. Verify receipt by providing one of the following:

- Award letter
- Federal income tax transcripts
- IRS W-2 or 1099 forms
- Proof of current receipt

If the retirement income is a distribution from a 401(k), IRA or Keogh retirement account, verify the income will continue for at least three years after the date of the loan application.

The borrower must have unrestricted access to the accounts without penalty, and if the assets are in the form of stocks, bonds or mutual funds, 70% of the value, after any applicable costs for the subject transaction, must be used to determine the number of distributions remaining.

7.15 Military Income (12/15/14)

Military personnel who are full-time may be entitled to different types of pay in addition to their base pay. Flight or hazard pay, rations, clothing allowance, quarters' allowance and proficiency pay are acceptable sources of income.

Provide evidence a particular type or types of pay will continue to be received in the future, plus additional pay (hazard pay, ratios, clothing allowance, etc.) if the additional pay is likely to be received in the future.

Military reserve pay may be used as qualifying income if it can be verified as having been uninterrupted for the previous 2 years and has a strong likelihood of continuation.

VA education benefits cannot be used as qualifying income as the benefit offsets the education expense.

7.16 Seasonal Employment and Seasonal Unemployment Income (02/01/19)

A minimum 2 year history of seasonal employment is recommended. A history of less than 24 months but greater than 12 months can be considered with compensating factors to offset the shorter history. Verify the borrower has worked with the same employer or the same line of seasonal work.

A minimum 2 year history of seasonal unemployment income is required. Provide a copy of the borrower's two most current federal tax transcripts.

The unemployment income must clearly be associated with reoccurring seasonal layoffs.

7.17 Secondary Employment Income (02/01/19)

Secondary employment (part-time or full-time) is income the borrower earns from a second job or multiple jobs in addition to their primary job.

A minimum history of two years of uninterrupted secondary employment income is recommended. A history of less than 24 months but greater than 12 months can be considered with compensating factors to offset the shorter history.

7.18 Rental Income from the Subject Property (11/13/19)

To determine the amount of income from the subject property that can be used for qualifying purposes, the following must be considered:

If the borrower…	**Then the maximum rental income for qualifying purposes…**
• Currently owns a principal residence (or has a current housing expense), and • Has at least a one-year history of receiving rental income or documented property management experience	75% of the lesser of the actual lease agreement or fair market rent
• Currently owns a principal residence (or has a minimum 6-month housing expense), and • Has less than one-year history of receiving rental income or documented property management experience	The lesser of: • 75% of the lesser of the actual lease agreement or fair market rent, or • an amount not exceeding the PITIA of the subject property.
• Does not own a principal residence, and • Does not have a current housing expense	Rental income from the subject property cannot be used.

Purchase (2-4 unit greater than 5 years old)

Provide a copy of the current lease agreement. If the property is not currently rented, the fair market rent reflected on the Small Residential Income Property Appraisal Report can be used.

If there is a current lease on the property that is being transferred to the borrower, verify the lease does not contain any provisions that affect first lien position on the property.

Refinance (WHEDA-to-WHEDA 2-4 unit property greater than 5 years old)

Provide a copy of the current lease and a copy of the borrower's federal tax transcripts including all schedules.

Accessory Unit

Provide a copy of the current lease agreement. If the property is not currently rented, the fair market rent reflected on the Single Family Comparable Rent Schedule (Form 1007) can be considered.

Accessory Unit income may not be used when utilizing the HomeStyle® Renovation program.

7.19 Rental Income from Other Real Estate Owned (11/13/19)

Lenders must review and consider the chart in section 7.18 for the maximum allowable rental income that may be used for qualifying purposes.

Borrower(s) may own additional residential property at the time of closing. Only one additional property, other than the subject property, can be financed.

Calculating rental income

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

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

If the property was in service:

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

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

Treatment of the Income (or Loss)

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

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

7.20 Temporary Leave Income (02/01/19)

Temporary leave from work is generally for a short period of time and for reasons such as maternity or parental leave, short-term medical disability leave, or other temporary leave that is acceptable by law or by the borrower's employer. Borrowers may or may not be paid during their absence from work.

If the borrower will be on temporary leave at the time of closing and the borrower's income is needed to qualify for the loan, the following requirements apply:

- The borrower's overall employment history must be stable and reliable.
- A letter from the borrower confirming their intent to return to work
- Verification from the borrower's employer or third party designee that specifies the duration of the temporary leave or the expected or agreed upon return date.
- Verification of the amount of regular employment income the borrower received prior to the temporary leave.

If the borrower's return to work date is prior to the first mortgage payment date, the borrower's regular employment income will be used for qualifying.

If the borrower will not return to work as of the first mortgage payment date, use the lesser of the borrower's temporary leave income, if any, or the regular employment income.

7.21 Tip Income (12/15/14)

A VOE or a recent paystub and IRS W-2 forms covering the most recent two year period is required. The tip income must be selected and entered into DU®/DO® in the "Other Types of Income" data field.

7.22 Unreimbursed Expenses (02/01/19)

"REMOVED"

7.23 Self-Employment, Corporations, Partnership and S-Corp Income (12/17/14)

Average the net income from the prior two years personal and business tax transcripts. If the income for the most recent year shows a substantial decline, the income from that year will be used. A sharp decline in the most recent year will be closely reviewed to determine if the business has the ability to support the borrower's debt obligations.

The lender must perform a written analysis of both the borrower's personal income, including the business income or loss, reported on the borrower's personal income tax returns and the borrower's business income when the borrower is relying solely on the income for qualifying.

Provide Fannie Mae Form 1084 or a comparable cash flow analysis that applies the same principles as Fannie Mae, and Fannie Mae Form 1088 or any other method that provides a comparative income analysis of the business's viability.

The lender is not required to prepare a written evaluation of self-employment income when the borrower is qualified using only salaried income from a primary job and self-employment income is from a separate and secondary source of income.

The forms should be submitted with the WHEDA Advantage Conventional Loan Application Package Checklist (Form 6). Refer to Fannie Mae's Selling Guide for additional guidance.

7.24 Business Operated at a Loss (12/15/14)

Negative cash flow from a business reduces other qualifying income. If the business is operated at a loss, such loss may not be used to offset income generated from other sources when determining compliance with income limits.

7.25 Non-Borrower Household Income (11/09/15)

The income from a non-borrower family member may be considered as a compensating factor in Desktop Underwriter to allow a debt-to-income ratio greater than 45%, but not to exceed 50%. This income will not be considered as a part of the qualifying income. The following requirements apply:

- The income must be reflected in Desktop Underwriter as an Other Income type of "Non-Borrower Household Income".
- The amount of the non-borrower income must be 30% or more of the total qualifying income used to underwrite the loan.
- The non-borrower must provide a signed certification of his/her intent to reside in the subject property, with the borrower, for a minimum of 12 months.

8 Assets

Verification of assets is a key component in determining the funds for the borrower's down payment, closing costs and/or reserves come from an acceptable source. This section provides guidance on the acceptable sources and required documentation.

Truncated or masked account numbers for bank and portfolio or investment accounts where at least the last four digits are displayed are permissible on the loan application, DU, and on asset documentation.

8.01 Depository Accounts (12/15/14)

The lender can use the following types of documentation to verify a borrower has sufficient funds for down payment, closing costs and/or reserves.

- The Verification of Deposit (VOD). The VOD must be requested directly from the depository from the lender and contain the following information:
  - The borrower, clearly identified as the account holder
  - Account number
  - Date opened
  - Current balance
  - 2-month average balance
  - Signed and dated by a representative of the depository institution.

- Copies of bank statements. The statements must cover the most recent 2-month period and contain the following information:
  - The borrower, clearly identified as the account holder,
  - Account number,
  - Time period covered by the statement,
  - Transaction history –Deposits, withdrawals, purchases and sales transactions, as applicable
  - Beginning and ending account balances, and
  - Institution name and address

If the lender is the holder of the borrower's account, the lender can provide a printout from its system, but is must contain all of the required data above and be signed by a representative of the lender who is not involved in the transaction.

Funds must be invested in the borrower's account at least 2 months prior to the loan application date.

Large deposits into a depository account or newly opened account may be an indication of borrowed funds and must be addressed

Good to Know

Re-occurring non-payroll deposits may indicate additional undisclosed sources of income that may be required to be documented for household income compliance.

8.02 Gifts (10/3/23)

An acceptable gift donor may be a spouse, parent, sibling, child, grandparent, aunt, uncle, cousin, domestic partner, Seller as long as they are not affiliated with another interested party to the transaction or fiancé/fiancée who has lived with the borrower for the last 12 months, and residence has been documented.

All gift funds must be verified and received by the borrower prior to the closing. Provide the following:

- Completed and signed Gift Affidavit (Form 11).
- Copy of gift check (or withdrawal documentation) to borrower showing the gift donor as the remitter.
- Copy of borrower's deposit receipt or a bank statement that shows the gift deposit.

Gifts funds are an acceptable source for reserves, if required.

8.03 Gifts of Equity (10/3/23)

A gift of equity is allowed if the seller is an acceptable gift donor.

Seller as long as they are not affiliated with another interested party to the transaction.

A completed and signed Gift Affidavit, Form 11, with a notation of "gift of equity" is required.

The gift of equity must be reflected on the Loan Estimate and the Closing Disclosure.

8.04 WHEDA DPA Programs (7/1/23)

Easy Close DPA and Capital Access Advantage DPA are second mortgage programs administered by WHEDA, which are available only to a qualified WHEDA first mortgage borrower. Both the Easy Close DPA and Capital Access Advantage DPA are approved second mortgages by our end investors and mortgage insurers.

Refer to the program matrices for a quick look at the terms and requirements:

- Easy Close DPA Matrix
- Capital Access DPA Matrix

Easy Close DPA

Easy Close Loan Terms and Eligibility Requirements

- Maximum loan amount is 6% of the lessor of the:
  - purchase price(1), or
  - appraised value
- Minimum loan amount is $1,000
- 10-year amortization period
- Fixed interest rate
- The borrower must qualify for a WHEDA first mortgage

(1) Loan amounts for the 1st and/or 2nd mortgages may need adjusting to ensure CLTV and/or cash-back requirements are met.

Closing the Easy Close

- Refer to the WHEDA Advantage Policy and Procedures Manual, Section 9.03 Preparing the Easy Close DPA Documents for additional guidance.

- The Easy Close DPA closing documents are available on the website in a pdf editable format.

<u>Capital Access Advantage DPA</u>

Capital Access Advantage Loan Terms and Eligibility Requirements

- Loan amount $7,500
- 0.00% APR
- No monthly payments, must be repaid when the first mortgage is paid in full or refinanced
- Must meet Capital Access Advantage Income and Purchase Price Limits
- The borrower must qualify for a WHEDA first mortgage

Closing the Capital Access Advantage

- Refer to the WHEDA Advantage Policy and Procedures Manual, Section 9.04 Preparing the Capital Access DPA second mortgage documents for additional guidance.
- The Capital Access Advantage DPA closing documents are available on the website in a pdf editable format.

8.05 Earnest Money (12/15/14)

Provide a copy of the cancelled earnest money check.

8.06 Down Payment Assistance (DPA) (02/01/19)

Down Payment Assistance in the form of a forgivable loan, grant or other loans from community-based organizations and government agencies may be an acceptable source of down payment. The down payment assistance must meet the eligibility requirements of Fannie Mae's Community Seconds

If the assistance is a loan which requires payments within the first 5 years:

- Loan must be fully amortized
- Monthly payment amount must be included in the debt ratio
- Lien must be subordinate to the WHEDA first mortgage, and Easy Close DPA second mortgage, if applicable

If the assistance is deferred for at least 5 years or forgivable:

- Monthly payment amount is not included in the total debt ratio
- Lien must be subordinate to the WHEDA first mortgage, and second mortgage, if applicable.

A copy of the commitment letter from the DPA provider listing the amount and terms of the assistance should be submitted in the package.

<u>Gift vs. Secondary Financing</u>

Lenders should use the following guidance for determining if certain down payment assistance will be considered a gift or secondary financing.

- **Gift** should be used in instances where the DPA does not file a mortgage, but files a retention agreement. The amount should be entered in the asset section. As a result, the combined-loan-to-value will not be affected.

- **Secondary Financing** should be used in instances where the DPA files a mortgage. The amount should be entered a in the subordinate financing section. As a result, the combined-loan-to-value will be affected.

8.07 Retirement Funds (7/13/15)

Vested funds from an individual retirement account (IRA/SEP/Keogh accounts) and tax favored retirement savings accounts (401K accounts) are acceptable sources of funds for down payment, closing costs and reserves. Reduction to the vested balance is no longer required.

In order for retirement funds to be considered as reserves, retirement accounts must be vested and allow withdrawals for reasons other than employment termination.

If using for down payment and/or closing costs, lenders must verify the borrower has withdrawn the funds.

If the retirement asset is in the form of Stocks, Bonds or Mutual Funds see Section 8.16 Stocks, Bond and Mutual Funds

8.08 Cash Value of Life Insurance (12/15/14)

Document the cash value of the life insurance and receipt of the funds by one of the following:

- A copy of the check from the insurer, or
- A copy of the payout statement from the insurer.

8.09 Sale of a Personal Asset (12/15/14)

Proceeds from the sale of a personal asset (automobile, boat, land,) is acceptable. The purchaser of the asset cannot be an interested party in the sales transaction. Provide the following:

- Proof of ownership
- Current fair market value of the asset
- Purchase Agreement/Bill of sale or copy of the transferred title
- Verification of receipt of funds

8.10 Tax Refund (12/15/14)

A copy of the borrower's federal and/or State tax returns must be reviewed to determine the anticipated amount of the refund.

Document the receipt of the funds by providing one of the following:

- Copy of the bank statement reflecting the automatic deposit, or
- Copy of the tax refund check and proof of deposit into the borrower's account

8.11 Borrowed Funds (12/15/14)

Proceeds from a loan secured by the borrower's own asset is acceptable.

The loan must be fully amortized and repayment must be on a monthly basis. The term of the loan must be reasonable based on the life of the asset.

Document the loan transaction by providing:

- Proof of ownership of the asset
- Current fair market value of the asset
- A copy of the executed Note
- Verification of receipt of funds

8.12 Cash–on-Hand (08/09/19)

Cash-on-hand is an acceptable source of funds for the borrower's down payment, funds for closing costs and prepaid items for the purchase of a one-unit property.

The lender must verify and document the following:

- The borrower customarily uses cash for expenses. The amount of funds saved should be consistent with the borrower's earnings capacity.
- Funds saved have been on deposit with a financial institution no less than 30 days prior to closing.
- The borrower must provide a written explanation disclosing the source of the funds and the borrower must state in the explanation that the funds have not been borrowed.
- The borrower's credit report shows limited or no use of credit cards, personal or mortgage loans and shows a limited or no use of depository accounts with a financial institution.

Cash on hand may not be used:

- to fund the borrower's reserve requirement, or
- when utilizing the HomeStyle® Renovation program.

8.13 Repayment of Debt (12/15/14)

Funds received from repayment of loans to family and friends must be verified and reconciled with the borrower's ability to have made such loans.

8.14 Interested Party Contributions (IPC) (8/15/18)

An interested party may contribute up to 3% of the purchase price for the borrower's closing costs and prepaid escrows (including single premium up front mortgage insurance) for loans greater than 90% combined loan-to-value. And, up to 6% of the purchase price for loans equal to or less than 90% combined loan-to-value.

An interest party, other than a family member, may not contribute to the down payment.

The lender may provide cash incentives (e.g. coupon for closing costs) to the borrower provided:

- The cash incentive does not exceed $500
- No repayment is required
- The lender is not the property seller, affiliated with the property seller, or another interested party to the sales transaction.

8.15 Lease with Option to Purchase (12/15/14)

When a borrower has entered into a lease agreement with an option to purchase at a predetermined sales price with a provision for rent credit, the credit may be used towards the borrower's down payment.

Provide the following:

- Lease/Purchase Agreement

- Cancelled checks and/or bank statements for the duration of the lease
- Fair Market rent documented by an independent appraiser under the following terms:

The portion of the rent payment that exceeds the fair market rent is eligible towards the down payment and /or closing costs.

A rent credit that is less than or equal to fair market rent is considered an Interested Party Contribution. Refer to Section 8.14 Interested Third Party Contributions

for additional guidance.

8.16 Stock, Stock Options, Bonds and Mutual Funds (7/30/15)

Stocks, Bonds and Mutual funds are acceptable sources of funds for down payment, closing costs and effective reserves.

If using for down payment and/or closing costs, document the borrower's ownership, vested balances and receipt of funds realized from the sale of the asset. If the value of the asset is 20% or more than the amount needed for down payment and closing costs, no documentation of the sale is required.

If used for reserves, 100% of the value of the assets may be considered.

8.17 Sweat Equity (7/11/2023)

Sweat Equity is an ineligible source of funds for down payment.

9 Credit

A borrower's credit history is an account of how well the borrower handled credit in the past and it is a good indicator of how the borrower is likely to handle their credit in the future. Older established credit accounts that may have zero balances have a more positive impact on the borrower's credit profile than a borrower who has thin or newly established accounts.

9.01 Credit Report (12/15/14)

Obtain a triple-merged credit report for all borrowers, including a non-applicant spouse, if applicable.

When the lender requests a triple-merged credit report, and if one or two of the credit reporting agencies do not contain any credit information for the borrowers who have traditional credit, the report is still acceptable as long as

- Credit data is available from one repository,
- A credit score is obtained from that repository, and
- The lender requested a triple-merged credit report.

The credit report must be no more than four months old on then Note date. If the credit report is stale dated, the lender must update the report.

9.02 Credit Scores (9/16/21)

The lender must attempt to obtain 3 FICO credit scores for each borrower. The FICO credit score is available from the three major credit repositories, Equifax Beacon®, Experian® and TransUnion FICO®. If the borrower's credit file includes complete and accurate information to ensure the validity of the credit score, the lender does not need to further evaluate the borrower's credit worthiness.

The Representative Credit Score

The representative credit score for the mortgage loan is determined based on the credit scores of each borrower and is used to determine loan eligibility.

To determine the Representative Credit Score for each borrower the lender should select a single applicable score for each borrower.

- When two credit scores are obtained, choose the lower score
- When three credit scores are obtained, choose the middle score. If two of the three scores are the same, choose the middle of three scores. For example: 660, 640, 640 = 640; 720, 720, 680 = 720.

If there is only one borrower, then the single applicable score used to underwrite that borrower is the representative credit score.

If there are multiple borrowers, determine the applicable credit score for each borrower. The averaged median credit score from all borrowers must be equal to or greater than 620.

Refer to the Advantage Conventional Matrix for minimum credit score requirements.

9.03 Length of Credit History (5/22/15)

The borrower's credit report will be reviewed for newer credit vs. older established credit to determine any risk factors that may be present. Examples are: older accounts with recent late payments; significant amount of recently opened accounts.

9.04 Analysis of Credit Report (12/15/14)

Credit history within the past 12 months will be a strong factor in the underwriting decision. Borrowers should exhibit no late payments, judgments, or new collections within the past 12 months. Late payments within 13-24 months will be evaluated on a case-by-case basis.

9.05 Minimum Credit Score Requirements (9/16/21)

Transaction Type	Minimum Representative Credit Score
DU/DO loan case files	Average median of 620
Manually underwritten mortgage loans	Refer to the Advantage Conventional Matrix

Exceptions to the Minimum Credit Score Requirement

Certain transactions are not subject to the minimum credit score requirements, including:

- Mortgages that are manually underwritten with nontraditional credit, and
- Mortgages manually underwritten with low credit scores. See Section 9.12 Non-Traditional Credit
  - Loans must be submitted in the Broker or Mini Corr Channel
  - Loans must be manually underwritten by WHEDA and the private mortgage insurance company, if applicable

Borrowers Without Credit Scores (Manual Underwrite)

When a borrower is relying on nontraditional credit to qualify or if one borrower has credit scores and other borrowers do not have credit scores, the following requirements apply:

- The property must be a one-unit, principal residence
- The transaction must be a purchase or a limited cash-out refinance
- The purchase price or loan limit cannot exceed the FTHB Purchase Price and Conventional, respectively
- The maximum DTI is 36%
- There is no minimum reserve requirement

DU Credit Score Requirements

The lender must request credit scores for each borrower from each of the three credit repositories. If one or two of the credit repositories do not contain any credit information for the borrowers who have traditional credit, the credit report is still acceptable as long as

- The credit data is available from one repository,
- A credit score is obtained from that repository, and
- The lender requested a triple-merged credit report

If the transaction does not meet the above requirements, or if every borrower on the loan application lacks a least one credit score, then DU will issue an Out of Scope recommendation. The loan may be manually underwritten by establishing a nontraditional credit profile for the borrower(s).

Borrowers Without Credit Scores (DU Loan Casefiles Only)

Lenders can use DU to underwrite loan files for borrowers who do not have a traditional credit profile and credit scores if at least one other borrower on the loan application has one or more credit scores and all of the following conditions are met:

- The property must be a one-unit, owner occupied, and a principal residence for all borrowers
- The transaction must be a purchase or limited cash-out refinance
- The income used to qualify the borrowers cannot come from self-employment
- The borrower(s) with the traditional credit profile and credit score(s) must contribute more than 50% of the qualifying income

For loans receiving a Refer with Caution, a borrower's credit report should reflect a minimum of (3) 12-month qualified trade-lines for each borrower.

The definition of a Qualified Trade-Line is a trade-line reflected on the credit report that has a last active date within the last 24 months and reflects a minimum of 12 months of on-time payments.

- Deferred student loans or student loans that do not appear to have had sufficient payments made will not be considered a qualified trade-line.
- Authorized User and Co-signed accounts will not be considered a qualified trade-line unless the borrowers can provide cancelled checks to verify, they have been making the payment for at least 12 months.

Thin credit files can be supplemented with alternative credit references which reflect 12 consecutive on-time payments, such as, but not limited to verification of rent, utilities, cell phone or auto insurance, etc. See Non-Traditional Credit for additional guidance.

When compensating factors exist such as, but not limited to larger down payment from the borrower's own verified funds, a long history of older established accounts, reserves, etc., may be used to offset the lack of required qualified trade-lines and/or alternative credit references.

Alternative sources of credit may not be used to offset existing derogatory credit on the credit report.

9.06 Collections, Judgments, Charge-Offs of Non-Mortgage Accounts, Liens and Garnishments (09/08/20)

All judgments reported on the credit report or on title must be paid in full. Judgments for a non-applicant spouse that incurred prior to the marriage are not required to be paid.

For manually underwritten loans, borrowers are not required to payoff outstanding collections or non-mortgage charge-offs, if the balance of an individual account is less than $250, or the balance of all accounts is $1,000 or less.

For loans scored via automated underwriting, lenders should follow the requirements stated in the DU®/DO® findings report.

9.07 Bankruptcy and Foreclosure (10/20/17)

Significant derogatory credit events dramatically increase the likelihood of a future default and represents a significantly higher level of default risk. Examples of significant derogatory credit events include bankruptcies, foreclosures, deeds-in-lieu of foreclosure, preforeclosure sales, short sales, and charge-off of mortgage accounts.

The lender must determine the cause and significance of the derogatory event, verify adequate time as elapsed since the date of the event, and verify that the borrower has re-established an acceptable credit history.

The borrower must reestablish a traditional credit. Nontraditional credit or "thin file" credit profiles are not acceptable.

BANKRUPTCY (Chapter 7 or Chapter 11)

A four-year waiting period is required, measured from the discharge or dismissal date of the bankruptcy action.

Exceptions for Extenuating Circumstances

A two-year waring period is permitted if extenuating circumstances can be documented. It is measured from the discharge or dismissal date of the bankruptcy action.

BANKRUPTCY (Chapter 13)

A distinction is made between Chapter 13 bankruptcies that were discharged and those that were dismissed. The waiting period required for Chapter 13 bankruptcy actions is measured as follows:

- Two years from the discharge date, or
- Four years from the dismissal date.

The shorter waiting period based on the discharge date recognizes that borrowers have already met a portion of the waiting period within the time needed for the successful completion of a Chapter 13 plan and subsequent discharge. A borrower who was unable to complete the Chapter 13 plan and received a dismissal will be held to a four-year waiting period.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted after a Chapter 13 dismissal if extenuating circumstances can be documented. There are no exceptions permitted to the two-year waiting period after a Chapter 13 discharge.

Multiple Bankruptcy Filings

For a borrower with more than one bankruptcy filing within the past seven years, a five-year waiting period is required, measured from the most recent dismissal or discharge date.

NOTE: Two or more borrowers with individual bankruptcies are not cumulative, and do not constitute multiple bankruptcies.

Exceptions for Extenuating Circumstances

A three-year waiting period is permitted if extenuating circumstances can be documented and is measured from the most recent bankruptcy discharge or dismissal date. The most recent bankruptcy filing must have been the result of an extenuating circumstance.

A strong and satisfactory 12–24-month credit history since the derogatory issue is required.

FORECLOSURE

A seven-year waiting period is required and is measured from the completion date of the foreclosure action as reported on the credit report or other foreclosure documents provided by the borrower.

Exceptions for Extenuating Circumstances

A three-year waiting period is permitted if extenuating circumstances can be documented and is measured from the completion date of the foreclosure action. The following requirement applies between three and seven years:

- Maximum LTV/CLTV/HCLTV ratio is 90%

Foreclosure and Bankruptcy on the Same Mortgage

If a mortgage debt was discharged through a bankruptcy, the bankruptcy waiting periods may be applied if the lender obtains the appropriate documentation to verify that the mortgage obligation was discharged in the bankruptcy. Otherwise, the greater of the applicable bankruptcy or foreclosure waiting periods must be applied.

Deed-in-Lieu of Foreclosure, Pre-foreclosure Sale, and Charge-Off of a Mortgage Account

These transaction types are completed as alternatives to foreclosure.

A deed-in-lieu of foreclosure is a transaction in which the deed to the real property is transferred back to the servicer. These are typically identified on the credit report through Remarks Codes such "Forfeit deed-in-lieu of foreclosure."

A pre-foreclosure sale or short sale is the sale of a property in lieu of a foreclosure resulting in a payoff of less than the total amount owed, which was pre-approved by the servicer. These are typically identified on the credit report through Remarks Codes such as "Settled for less than full balance."

A charge-off of a mortgage account occurs when a creditor has determined that there is little or no likelihood that the mortgage debt will be collected. A charge-off is typically reported after an account reaches a certain delinquency status and is identified on the report with a manner of payment (MOP) code of “9”.

A four-year waiting period is required from the completion date of the deed-in-lieu of foreclosure, pre-foreclosure sale, or charge-off as reported on the credit report of other documentation provided by the borrower.

Exceptions for Extenuating Circumstances

A two-year waiting period is permitted if extenuating circumstances can be documented.

Deed-in-lieu and pre-foreclosure sales may not be accurately or consistently reported in the same manner by all creditors or credit reporting agencies.

If not clearly identified in the credit report, the lender must obtain copies of appropriate documentation. The documentation must establish the completion date of a previous foreclosure, deed-in-lieu or pre-foreclosure sale, or date of the charge-off of a mortgage account; confirm the bankruptcy discharge or dismissal date; and identify debts that were not satisfied by the bankruptcy. Debts that were not satisfied by a bankruptcy must be paid off or have an acceptable, established repayment schedule.

EXTENUATING CIRCUMSTANCES DOCUMENTATION

Extenuating circumstances are nonrecurring events that are beyond a borrower’s control that result in a sudden, significant and prolonged reduction in income or a catastrophic increase in financial obligations.

If a borrower claims that the derogatory credit information is the result of an extenuating circumstance, the lender must substantiate the borrower’s claim. The following documentation is required, but is not limited to:

Written explanation from the borrower explaining the relevance of the documentation.

Documents that confirm the event, such as, a copy of the final divorce decree, medical reports or bills, notice of job layoff, job severance papers; and

Documents that illustrate the factors that contributed to the borrower’s inability to resolve the problem that caused the event, such as, a copy of insurance papers or claim settlements, property listing agreements, lease agreements, tax returns covering the periods prior to, during, and after a loss of employment, Fannie Mae underwriting guidelines apply to the waiting period and re-establishment of credit.

9.08 Inquiries (12/15/14)

An explanation and/or documentation will be required for all recent credit inquiries made within the last 90 days of the credit report date.

9.09 30-Day Charge Accounts (12/15/14)

Document that the borrower has sufficient funds to cover the unpaid balance of all 30-day charge accounts.

9.10 Undisclosed Debt (12/15/14)

Document any discrepancies between the credit report and information disclosed in the application or elsewhere. All debts must be documented, and the payments will be included in the debt-to-income ratios.

9.11 Disputed Accounts (09/11/17)

Any disputed account flagged on the DU®/DO® findings report must be resolved according to the steps provided within the report. The borrower may incur the cost of any fees associated with resolving the disputed account.

9.12 Nontraditional Credit (Manual Underwrite Only) (4/20/2023)

When the lender requests a credit score for the borrower, but the borrower has no score due to lack of credit history with the repositories, an acceptable nontraditional credit profile must be established which includes the following:

- A minimum of three sources of nontraditional credit that has been active for at least 12 months;
  - One of the sources must be housing related, i.e. rental payments;
    - Verification of Rent from a professional management company; or
    - Copies of 12 months cancelled checks or bank statements showing the rental payment being paid each month
  - One of the sources must be a utility company (i.e. gas, electric); and
  - The remaining source may represent any reasonable service or purchase as long as the repayment terms are in writing and the borrower can provide cancelled checks or money order receipts that reflect the creditor as the payee, such as but not limited to:
    - Auto insurance premiums paid monthly
    - Telephone Land Line or cell phone
    - Cable or satellite
- No late payments on the rental housing payments within the past 24 months (or inception, is less than 24 months);
- Only one account, excluding the rental payments, may have had a 30-day past due in the last 12 months.
- No collections or judgments (other than medical collections) filed within the past 24 months. All judgments must be satisfied. Collection accounts in excess of $250 per individual account or $1,000 in aggregate must be paid-in-full.; and
- If a borrower with no credit scores has a prior bankruptcy or foreclosure in his or her credit history, her/she must have re-established credit that satisfies the Bankruptcy and Foreclosure requirements. Refer to Section 9.07- Bankruptcy and Foreclosure
- A manual underwrite is required and the lender must submit the loan request to WHEDA via the Broker or Mini Corr Channel and to the private mortgage insurer, if applicable.
- Transaction is limited to the purchase of a 1-unit property.
- Refer to the Advantage Conventional Matrix for LTV/CLTV and cash reserve requirements.

Bank statements do not by themselves validate payments but can be used to validate information reported by other sources. Withdrawals and debits on the borrower's bank statements can provide a secondary confirmation of payment obligations.

Vague statements such as “current,” “satisfactory,” or “pays as agreed” are not acceptable by themselves.

Alternative credit references must include all of the following:

- Creditor's name
- Name of person providing the reference
- Date account was opened
- Amount of highest credit
- Current status of the account
- Required payment amount
- Unpaid balance
- Payment history

Borrower with Disabilities

If a borrower with a disability does not have traditional credit, the lender may use documentations provided by a court appointed guardian or by a Social Security Administration representative payee provided that this party:

- Manages the borrower’s financial transactions, and
- Maintains financial records on the borrower’s behalf, and
- Use credit accounts held jointly in the name of the borrower to pay financial obligations with Disabilities

Guardians will be required to document evidence of court approval to enter into a mortgage contract on behalf of the borrower

The borrower or their legal guardian must complete Home Buyer Education.

10 Debt Analysis

The debt-to-income ratio impacts the borrower's ability to repay the mortgage loan. Generally, the lower the borrower's total debt-to-income (DTI) ratio, the lower the risk. As the ratio increases, so does the level of risk.

10.01 Ratios (08/23/16)

For loans receiving an Approved/Eligible AUS decision the maximum DTI is determined by the AUS.

For manual underwrites refer to the Advantage Conventional Matrix for maximum total debt-to-income ratio limits

10.02 Housing Payment (08/23/16)

The monthly housing expense is the sum of the following:

- Principal and interest (P&I)
- Real estate taxes
- Hazard insurance
- Private mortgage insurance, if applicable
- Flood insurance, if applicable
- Homeowners Association dues
- Ground rent (Community Land Trust)
- Special Assessments
- WHEDA Easy Close DPA, if applicable

10.03 Revolving Accounts (08/23/16)

WHEDA reserves the right to use 3% of the outstanding balance of a revolving account for the monthly payment if the 3% payment is higher than what appears on the credit report.

Use 5% of the balance if no payment amount is listed on the credit report.

Payment in full of revolving debt to a zero balance to obtain satisfactory qualifying ratios is permitted, however, payoff of revolving debt solely to qualify should be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be an important factor in determining whether to include or exclude the liability.

10.04 Installment Debt (02/01/19)

Include all installment debt with a remaining term of 10 months or more.

The payoff or paydown of an installment debt is allowed. This approach should be carefully evaluated with the borrower's overall credit history and credit use being strong determining factors in the analysis.

Installment debts with fewer than 10 months remaining are generally excluded. However, debts with less than 10 months must be counted if the amount of the debt affects the borrower's ability to pay the mortgage payments immediately after closing.

Timeshare accounts are treated as installment loans, even if they are identified as a mortgage debt on the credit report.

10.05 Lease Payments (12/15/14)

Lease payments must always be included as a debt when determining total debt-to-income ratios.

10.06 Authorized User Accounts (12/15/14)

Do not count authorized user accounts as a qualified trade-line unless the borrowers can provide cancelled checks to verify they have been making the payments for at least 12 months. If the borrowers have been making the payments, include the monthly payment in the borrowers' debt ratio.

If the borrower is an authorized user of a trade line that belongs to a non-applicant spouse the lender must include the monthly payment when calculating the borrower's total debt ratio.

10.07 Non-Applicant Spouse Debt (08/23/16)

All open and active accounts will be included in the total debt ratio.

The borrower will not be held responsible for judgments incurred by a non-applicant spouse prior to the documented date of the marriage.

The borrower will not be held responsible for payment of collections incurred by a non-applicant spouse prior to the documented date of the marriage.

10.08 Alimony and Child Support (09/11/17)

There are two available options for the treatment of Alimony paid by the borrower as follows:

- Reduction of the borrower's monthly qualifying income by the amount of the monthly alimony payment; or
- Include the monthly alimony payment as a monthly liability

All child support obligations with a remaining term of 10 months or more, must be included in the debt-to-income ratios calculation.

10.09 Court-Ordered Assignment of Debt (12/15/14)

When a borrower has outstanding debt reflected on the credit report that was assigned to another party by a court order such as a divorce decree or marital settlement agreement, and the credit does not release the borrower from liability, the borrower has a contingent liability.

The contingent liability does not need to be included as part of the borrower's monthly debt obligation.

10.10 Student Loans (09/11/17)

If a monthly payment is provided on the credit report, the lender may use that amount as the monthly payment for qualifying purposes.

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

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

- If the borrower is on an income-contingent payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.
- For deferred loans or loans in forbearance, the lender may calculate
  - 1% of the outstanding balance;
  - A payment that will fully amortize the loan based on the documented loan repayment terms.

10.11 Debt Paid by Others (09/11/17)

If documentation is provided indicating a non-mortgage related monthly obligation is paid by another party for the past 12 months, the debt may be excluded from the debt-to-income ratio. This policy applies regardless of whether the other party is obligated on the debt.

If documentation is provided indicating a mortgage related monthly obligation is paid by another party, the debt may be excluded from the debt-to-income ratios provided:

- The mortgage was awarded to a former spouse via court related documents and 12 months of on time payments have occurred; or
- The party making the payments is obligated on the mortgage debt; and documentation is provided showing the party made the most recent 12-months of payments

This policy does not apply if the other party is an interested party to the subject transaction, such as a seller, realtor, or a non- borrowing spouse.

10.12 Business Debt (12/15/14)

When a borrower is self-employed obtain 12 months of cancelled checks to verify the obligation was paid with company funds. If delinquencies have occurred in the past 12 months, include the debt as part of the borrower's individual obligations.

10.13 Co-Signed Debt (12/15/14)

A borrower's co-signed obligation is not considered debt if the borrower can provide copies of cancelled checks for the most recent 12 months verifying the account was paid by the primary debtor.

11 Property Eligibility

This Section provides Lenders guidance on the property eligibility requirements and purchase price/loan limits for the program.

11.01 Location (12/15/14)

The property must be located in Wisconsin and should be located within a 50 mile radius of the borrower's place of employment.

11.02 Eligible Property Types (07/11/2023)

- Existing single family dwelling
- 2-4 unit which is at least 5 years old (Landlord Counseling is required)
- Condominiums – warrantable only
  - Projects requiring PERS are eligible at the lender's expense.
  - CPM (Condo Project Manager) is required on all Full Review projects.
- Manufactured Homes – Double-wide
  - Manufactured homes in a condo project, and requiring PERS, are eligible at the lender's expense

11.03 Ineligible Property Types (01/19/18)

- New Construction or Major Rehabilitation
- Commercially used properties
- Time share units
- Earth homes
- Dome homes
- Geothermal homes
- Manufactured Homes – Single-wide

11.04 Property Use (08/23/16)

If a borrower claims a deduction for "Business Use of Home" on their federal income tax return, then no more than 15% of the total square footage of finished space of the home including finished space in the basement can be used for trade or business purposes.

The property cannot be subdivided, farmed, or used commercially.

11.05 Offer to Purchase (12/15/14)

Provide a copy of the complete and fully executed contract including all addendums, counters, amendments, and notices.

Loan Limits/Purchase Price Limits

The lender must review the accepted Offer-to-Purchase to determine if the purchase price is less than or equal to the maximum purchase price allowed based on the determined household size and county the property is located in. Refer to the Advantage Conventional Loan Limits and FTHB/VALOR Loan Limits for additional guidance.

Personal Property

Only the acquisition of real property and fixtures (carpeting, built-in appliances, window coverings, etc.) can be financed.

Real Estate Condition Report

Provide a copy of the Real Estate Condition Report. Address any concerns noted on the report.

Sales Concessions

The value of excessive sales concessions must be deducted from the purchase price when calculating the LTV and CLTV for underwriting and eligibility requirements.

Joint Party Agreements

Obtain a copy of the recorded joint party agreement if the property shares a driveway, well, septic system, or wall with an adjoining property. The agreement should address the shared maintenance and must "run with the land."

Code Requirements

The property must meet state and local code compliance requirements. If code violations are noted, they must be corrected prior to closing. Minor issues may be escrowed with the lender to ensure correction after closing.

11.06 Appraisal Report (10/02/18)

Appraisal requirements are as follows:

- Obtained in compliance with the Appraiser Independence Requirements
- Compliant with Uniform Appraisal Dataset requirements
- An interior & exterior review by a licensed appraiser
- Based on the “as is” value of the property
    - For loans utilizing the HomeStyle Renovation program, the appraisal must be completed “subject to” the completion of the renovation. A Completion Certificate must be submitted to WHEDA within 6 months of the note date.

See section 3.04 of this guide and section 10.10 of the Policy and Procedures Guide for information regarding the HomeStyle Renovation program.

The following exhibits must accompany the appraisal:

- Exterior building sketch with dimensions
- Street map that shows the location of the property and comparable properties
- Original photographs showing the front, back, and street scene of the subject property and the

front of each comparable
- Interior photographs of the kitchen, all bathrooms, main living area, examples of physical deterioration, examples of recent updates

Acceptable Forms

- Uniform Residential Appraisal Report (1004)
- Small Residential Income Property Appraisal Report (1025)
- Appraisal Update and/or Completion Report (1004D)

Condition of Property

The property must be in average or better condition. Remedy any repairs noted on the Appraisal, Property Inspection, or Real Estate Condition Report that impact the safety, soundness or structural integrity of the property.

Acreage/Land Value

The value of the home should be 60% of the total appraised value.

Shared Roads, Well and Septic Systems

Roads, wells and septic systems that are not publicly governed and maintained must have a recorded maintenance agreement must meet community standards and provide adequate service to the property. If shared facilities are used, the owners of the subject property must have the right to access those facilities on an on-going basis through a legally binding agreement for access and maintenance.

The lender is responsible for obtaining a well and septic inspection. Any issues noted on the inspection must be remedied prior to closing.

11.07 Repair/Improvement Escrow (11/10/17)

**This section excludes HomeStyle Renovation. See section 3.04 of this guide and section 10.10 of the Policy and Procedures Guide

for information regarding the HomeStyle Renovation program.

In the event repairs/improvements as required by the appraisal, or offer to purchase, cannot be completed prior to or at closing, the following option may be available, as long as the repair/improvement does not affect the safety, soundness structural integrity of the subject property.

Seller and/or Borrower Paid Escrow

- Obtain bids for the work from a qualified contractor
- If borrower paid, verify sufficient funds and document the source. Gifts are allowed from an acceptable donor
- Escrow 110% of the total bid amounts
- Escrow must be held with the Lender or the Title company
- Closing Disclosure must reflect the Repair Escrow
- A copy of the escrow agreement must accompany the Funding Certificate for review prior to

closing

- Any unused funds held in escrow should be returned to the appropriate party
- The lender will be required to submit evidence of completion to WHEDA within 90 days of closing.
  - Satisfactory completion of repairs;
  - That no mechanics liens have been placed;
  - Closure of the escrow account;
  - Re-certification of the “subject to” valuation by the original appraiser, if applicable.

11.08 Uniform Collateral Data Portal® (UCDP®) and Submission Summary Report (SSR) (12/15/14)

The lender is responsible for a successful upload of the appraisal report through the UCDP to Fannie Mae and submitting a copy of the Submission Summary Report (SSR) to WHEDA.

11.09 Community Land Trusts (12/15/14)

A community land trust (CLT) is a private non-profit community organization that safeguards land in order to provide affordable housing opportunities. CLTs buy and hold land permanently, preventing market factors from causing prices to rise. CLTs build and sell affordably-priced homes to families with limited incomes — the CLT keeps the price of homes affordable by separating the price of the house from the cost of the land.

Community land trusts are developed by communities to create and preserve long-term affordable housing for low to moderate income residents in their area.

Community land trusts purchase homes in their communities, then sell or rent the improvements and holds a lease on the land using a long-term ground lease at an affordable monthly ground rent.

Land Trust Eligibility

Community land trusts or their affiliated organization must have a minimum of two years’ experience in successfully managing affordable housing and must be approved by WHEDA. Community Land Trusts requesting WHEDA approval must complete a Community Land Trust Application and Certification form.

Ground Lease and Rider

The community land trust ground lease must be based on the model developed by the Institute for Community Economics or using the Fannie Mae Approved Ground Lease. The term of the lease must extend for at least five years beyond the maturity date of the mortgage.

Any resale restrictions must terminate automatically on foreclosure or acceptance of a deed-in-lieu of foreclosure.

A Community Land Trust Ground Lease Rider (Fannie Mae Form 2100) must be executed and recorded at closing.

Borrower Eligibility

Borrowers must satisfy specific eligibility criteria set by the community land trust. Standard WHEDA Advantage underwriting guidelines apply with the following exceptions:

- DU®/DO® Approve/Eligible recommendation
- Monthly ground lease rent must be included in the borrower's total debt-to-income ratio

Calculation Loan to Value (LTV) Ratio

Transactions are based on the leasehold value. They are not based on the lesser of the sales price or appraised value. The LTV will be determined by dividing the unpaid principal balance of the community land trust mortgage by the value of the leasehold interest and improvements on the property appraisal. Refer to Fannie Mae Selling Guide (Chapter B5-5.1-04).

Determining Property Value

The lender must determine that the appraiser is knowledgeable and experienced in the appraisal techniques that are necessary to appraise this type of property. Appraiser should be referred to the Fannie Mae Selling Guide for detailed requirements.

The appraiser must contact WHEDA Single Family Origination at 800-334-6873 to obtain the long-term bond rate which will be used for the capitalization rate in determining leasehold value.

Addendum to Appraisal Report

The appraisal must include the following statement:

"This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Uniform Community Land Trust Ground Lease rider."

The appraiser must check the box on the appraisal "subject to the following repairs, alterations, or conditions" and add the following statement:

"See attached addendum for development of capitalization rate and an expanded discussion of the comparable sales used and considered."

11.10 Reconsideration of Value ROV (8/29/2024)

This procedure includes the steps and requirements for lenders or borrowers to appeal an appraisal when it is believed that the value is unsupported, unacceptable appraisal practices or reflect prohibited discriminatory practices. Refer to Fannie Mae Selling Guide (Chapter B4-1.3-12).

- Lender must disclose to the borrower the ROV process at time of application and again when the appraisal report is provided to the borrower.
- For Appraisals ordered by WHEDA in our Broker channel, a fully completed Appraisal Appeal Form should be uploaded into WHEDA Connect. The form should provide:
    - Identification and description of unsupported, inaccurate or deficient areas in the appraisal.
    - Provide additional information about the valuation.
    - Provide 3 additional comparable (with a max of 5).
- For loans submitting in our MiniCorr or Correspondent channel, Lender to provide all supporting documentation related to the ROV request with the loan submission to WHEDA.

- Lender must ensure ROV policies and procedures align with Appraisal Independence Requirements (AIR).