



Homeownership Program Bulletin

August 4, 2006

Program Bulletin #2006-16

To: CalHFA Approved Lenders

CalHFA Conventional Loan Underwriting Guidelines: Updated

This bulletin replaces Program Bulletin #2005-17 dated August 11, 2005 and is effective for loan reservations made on or after August 19, 2006.

CalHFA loan programs are specifically designed to provide affordable home financing to low and moderate income first-time homebuyers who have demonstrated their capability to assume the role of a responsible home owner. In order to provide these homebuyers every opportunity to succeed as a home owner for years to come, CalHFA constantly reviews and revises product specifications and underwriting standards to best serve these deserving homebuyers.

Since CalHFA began accepting Automated Underwriting System (AUS) approvals on conventional loans, AUS decision engines have changed in product design and options. It is now necessary to issue CalHFA guidelines with respect to AUS decisions and CalHFA loan program requirements. The AUS acceptability for CalHFA conventional loans has been incorporated into the CalHFA Conventional Loan Underwriting Guidelines listed below along with other underwriting criteria.

The key changes incorporated into underwriting guidelines in this Program Bulletin include the following:

- Minimum representative credit score for both Manual and AUS underwriting is 620.
- Total debt-to-income (DTI) ratio limits in AUS underwriting can not exceed 55%. Maximum DTI ratio should not exceed 45% on manually underwritten loans- this remains unchanged.
- AUS levels of acceptance. For example, Fannie Mae Desktop Underwriting (DU) Approve/Eligible or Approve/Ineligible is acceptable. Expanded Approvals (EA) and enhanced DU "Improved Underwriting" AUS approvals are *not acceptable* and will require manual underwriting. Freddie Mac's Loan Prospector (LP) Accept Credit Risk rating is acceptable. Freddie Mac LP Affordable Gold approvals are *not acceptable* and will require manual underwriting.
- Exceptions to minimum credit score and debt-to-income ratio limits are possible with strong compensating factors on a case-by-case basis.
- Collection credit requirements have been amended.
- Bankruptcy/foreclosure credit requirements now match Fannie Mae guidelines.
- Calculation of variable income (part-time and overtime) requires a twelve-month history.
- Temporary interest rate buydowns are allowed on 30- and 40-year fixed rate loan programs only.

Manual Underwriting and AUS Levels of Acceptance

Conventional CalHFA loans are required to be underwritten in accordance with the terms and provisions of both:

- Generally Accepted Underwriting Standards as established by Fannie Mae and Freddie Mac; and
- CalHFA underwriting guidelines and documentation standards that are integrated and serve to supplement Generally Accepted Underwriting Standards in specific areas, as outlined in program descriptions, and in this bulletin.

It is the Lenders' responsibility to ensure that the minimum underwriting guidelines and documentation standards are followed as stated below. These guidelines are also available on CalHFA's web site: www.calhfa.ca.gov/homeownership/information/index.htm.

CalHFA Mortgage Insurance provides credit underwriting and mortgage insurance coverage on all CalHFA conventional loans with a loan-to-value ratio (LTV) greater than 80%. Coverage and premium information is provided in program descriptions on CalHFA's web site at www.calhfa.ca.gov/homeownership/information/index.htm.

CalHFA will accept for purchase loans that have been manually underwritten in accordance with the CalHFA Conventional Loan Underwriting Guidelines. Exceptions to minimum credit score and debt-to-income ratio limits are possible with strong compensating factors on a case-by-case basis.

CalHFA will also accept for purchase loans which have been underwritten via an AUS:

- Fannie Mae Desktop Underwriting (DU) Approve/Eligible or Approve/Ineligible is acceptable. Expanded Approvals (EA) and enhanced DU "Improved Underwriting" AUS approvals and My Community Mortgage DU Approvals are *not acceptable* and will require manual underwriting.
- Freddie Mac's Loan Prospector (LP) Accept Credit Risk rating is acceptable. Freddie Mac LP Affordable Gold approvals are *not acceptable* and will require manual underwriting.
- Loans underwritten using a Lender's proprietary AUS will be considered for purchase only after the system has been approved by CalHFA.

Lenders are required to ensure all loans submitted are documented in accordance with the automated underwriting findings report and underwriter's conditions of approval.

Tax Act Compliance review and loan credit underwriting are two distinct functions with different parameters. Refer to the Homeownership section on Borrower Eligibility on CalHFA's web site at www.calhfa.ca.gov/homeownership/information/index.htm for program eligibility requirements and general procedures for first-time homebuyers.

Minimum Credit Scores for Both Manual and AUS Underwriting

Whether a loan is manually or AUS underwritten (e.g. DU or LP), a minimum representative credit score of 620 is required to form the basis of eligibility for CalHFA conventional loan programs and mortgage insurance. Exceptions are possible with strong compensating factors on a case-by-case basis. The lowest middle score of the three sets of repository scores reported is the representative credit score. If no score is available, alternative documentation may be used to demonstrate credit worthiness.

Alternative Credit History Parameters

Alternative Credit History is permitted with a minimum of four sources and a twelve-month satisfactory payment record. One of the sources must be a twelve-month verification of rent (VOR) history.

Debt Ratio Limits

Maximum debt-to-income ratio (DTI) should not exceed 45% on manually underwritten loans, or 55% on AUS underwritten loans regardless of the AUS finding. Exceptions are possible with strong compensating factors on a case-by-case basis only on manually underwritten loans or AUS underwritten loans submitted for manual review by CalHFA.

Cash Reserves

One month's reserves are required if the DTI is 45% or less; two months reserves are required if the DTI is over 45%. The borrower generally must use his or her own funds to cover the cash reserve requirement. However, a gift for reserves may be used if the borrower has demonstrated the ability to make the housing payment amount and the gift is from an eligible source.

Collection Credit Requirements

If an individual account balance is less than \$250, or the total of all such accounts is \$1,000 or less, CalHFA does not require that such accounts be paid off at or prior to closing. Higher balances will need to be paid off at or prior to closing.

Bankruptcy/Foreclosure Credit Requirements

A minimum of three years since Chapter 7 or 13 bankruptcy discharge date and/or foreclosure and evidence of reestablished credit is required.

Calculation of Variable Income (Part-time and Overtime)

Twelve months income history is required when variable income is used to qualify the borrower.

Temporary Interest Rate Buydowns

Temporary buydowns (1-1, 2-1, 3-2-1) are permitted on 30- and 40-Year Fixed Rate loans only. A loan with an LTV of 95% or less is qualified at 1% above the bought down rate, while a loan with an LTV greater than 95% is qualified at the note rate. Temporary buydowns on CalHFA's *interest only* PLUSSM loan program are not permitted. Permanent buydowns are not permitted on any CalHFA loans (This supersedes Program Bulletin # 2006-14).

Non-Occupying Co-Signer

Use of income from a non-occupying cosigner is permitted when the LTV does not exceed 90%, the owner occupant's DTI does not exceed 55%, and the total DTI does not exceed 45%.

Boarder Income

Boarder income is not permitted.

Deferred Student Loans

A deferred payment amount for any deferred student loan must be included in the monthly debt ratio.

Borrower Minimum Down Payment

No minimum down payment is required except for loans on manufactured homes which require 10% down payment from the borrower's own funds.

Borrower Minimum Cash Contribution

No borrower cash contribution is required.

Appraisals

One of the following appraisal forms is required on all conventional CalHFA loans: Fannie Mae Form 1004/Freddie Mac Form 70 (Uniform Residential Appraisal Report (URAR)), Fannie Mae/Freddie Mac Form 2055 (Interior and Exterior Inspection), Form 1004C (Manufactured Home Appraisal Report), or Form 1073 (Individual Condominium Unit Appraisal Report).

Property Types

- Single Family (no in-law units/granny flats) - 5 acre maximum.
- Manufactured Homes - limited to 90% maximum Combined Loan-to-Value (CLTV)
See Bulletin #2005-20 for further details.
- Condominiums subject to the terms of Program Bulletin # 2005-18.
- Planned Unit Developments.

Condominium Project Policy

Condominium projects must be approved under the Fannie Mae condominium approval procedures. See program Bulletin #2005-18 for more details on acceptable condominiums.

Questions regarding this bulletin should be directed to CalHFA Mortgage Insurance Services Department by phone (916) 322-8936; by fax (916) 322-8697 or by visiting CalHFA's web site at www.calhfa.ca.gov.

Please send all loan files and documents to:
CalHFA Homeownership Programs
1121 L Street, 7th Floor
Sacramento, CA 95814

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