



# Homeownership Program Bulletin

May 18, 2007

Program Bulletin #2007-13

To: CalHFA Approved Lenders

## CalHFA Conventional Loan Underwriting Guidelines: Updated

This bulletin replaces Program Bulletin #2006-16 dated August 4, 2006 and is effective for loan reservations made on or after June 14, 2007.

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.

Changes to previously announced CalHFA Conventional Loan Underwriting Guidelines that are incorporated into this Program Bulletin include:

- Change in AUS acceptance has been expanded to accept Fannie Mae Desktop Underwriter (DU) MyCommunityMortgage (MCM) approvals effective on May 19, 2007.
- Freddie Mac Loan Prospector (LP) reference to Affordable Gold now correctly identifies the program as HomePossible.
- Debt Ratio Limits have been updated to include federal requirements for qualifying interest-only loans at fully amortized payment levels over the entire term of the loan.
- Guidelines pertaining to Non-occupying Co-signers and Manufactured Housing may not always be appropriate to every loan product offered by CalHFA and the guidelines have been updated to direct lenders to specific Program Descriptions for such restrictions.

### Manual Underwriting and Automated Underwriting System (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 should be integrated with and 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/insurance/](http://www.calhfa.ca.gov/insurance/).

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

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 provided that the ineligibility is acceptable within CalHFA loan programs. 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 provided that it is acceptable within CalHFA loan programs. Freddie Mac LP HomePossible approvals are *not acceptable* and will require manual underwriting.
- Cash Reserve requirements have been removed as a supplement to these guidelines and CalHFA will now accept Fannie Mae Guidelines for cash reserves.
- 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 Lender Program Manual on CalHFA's web site at [www.calhfa.ca.gov/homeownership/](http://www.calhfa.ca.gov/homeownership/) 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. Interest only loans are qualified in accordance with Fannie Mae requirements. For example, qualifying debt-to-income ratio uses a principal, interest, tax, and insurance (PITI) payment calculated assuming full

amortization over the total period of the loan and does not utilize the interest-only monthly payment.

Exceptions are possible with strong compensating factors on a case-by-case basis on underwritten loans submitted for review by CalHFA.

### **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 (1-0, 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* PLUS<sup>SM</sup> loan program are not permitted. Permanent buydowns are not permitted on any CalHFA loans.

### **Non-Occupying Co-Signer**

Unless otherwise stated in Program Descriptions, on CalHFA loan programs that allow non-occupant co-signers, income from a non-occupying co-signer is permitted only under the following circumstances:

1. The LTV does not exceed 90%
2. The owner occupant's DTI ratio does not exceed 55%
3. The total DTI ratio does not exceed 45%.

Refer to specific CalHFA Program Descriptions for non-occupant co-signer acceptability.

### **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 Housing – unless otherwise stated in Program Descriptions, loans are limited to 90% maximum Loan-To-Value (LTV) and Combined Loan-to-Value (CLTV). See CalHFA Program Bulletin #2005-20 for more details on Manufactured Housing.
- Condominiums subject to the terms of CalHFA Condominium Requirements (see below).
- Planned Unit Developments.

## **Condominium Project Policy**

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

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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](http://www.calhfa.ca.gov).

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

**THE INFORMATION PROVIDED IN THIS BULLETIN IS FOR GUIDANCE AND DISCUSSION WITH CALHFA-APPROVED LENDERS ONLY, AND IS NOT TARGETED TO CONSUMERS. ALL OF THE INFORMATION IS SUBJECT TO CHANGE WITHOUT NOTICE.**