



Homeownership Program Bulletin

December 20, 2007

Program Bulletin #2007-43

To: CalHFA Approved Lenders

CalHFA Conventional Loan Underwriting Guidelines: Updated

This bulletin replaces Program Bulletin #2007-13 dated May 18, 2007 and is effective for loan reservations made on or after January 01, 2008. It also amends provisions of the Lender Program Manual.

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:

- CalHFA subordinate loans also require credit underwriting under these guidelines.
- Alternative documentation for acceptable credit will be allowed on manually underwritten loans only.
- On manually underwritten loans, collection accounts need not be paid off at or prior to close of escrow if an individual account balance is less than \$250, or the total of all such accounts is \$1,000 or less. On Automated Underwriting Systems (AUS) loans, collection accounts need not be paid off at or prior to close of escrow regardless of the amount, unless the AUS decision requires payoff. In addition, the collection account must not threaten CalHFA's lien position.
- Interested party contributions are limited to 6% for loan-to-value ratios up to 90%; and 3% for loan-to-value ratios over 90%.

Manual Underwriting and Automated Underwriting System 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, which 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.

CalHFA Mortgage Insurance underwriters provide credit underwriting on all CalHFA conventional loans regardless of loan-to-value (LTV), including non-CalHFA first loans on which there is one or more CalHFA subordinate loans. Mortgage insurance coverage is placed on all CalHFA conventional first loans with an 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/.

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.

Unless otherwise stated in CalHFA Program Descriptions, CalHFA will also accept for purchase loans which have been underwritten via an AUS:

- Fannie Mae Desktop Underwriting (DU) or MyCommunityMortgage 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.
- 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 and state law 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/ 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. In the case of multiple borrowers, the borrower with the lowest middle score is used to determine the representative credit score. If no score is available, alternative documentation may be used in manual underwriting to demonstrate creditworthiness. Exceptions are possible with strong compensating factors on a case-by-case basis.

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 total debt-to-income ratio (TDTI) 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

For manually underwritten loans, CalHFA does not require that collection accounts be paid off at or prior to closing if an individual account balance is less than \$250, or the total of all such accounts is \$1,000 or less provided the collection will not threaten CalHFA's lien position. Higher balances will need to be paid off at or prior to closing.

For loans underwritten by AUS, CalHFA does not require that collection accounts be paid off at or prior to closing regardless of the amount provided the collection will not threaten CalHFA's lien position or unless the AUS decision requires pay off.

Where pay off is required, sufficient funds must be verified.

Bankruptcy/Foreclosure Credit Requirements

A minimum of three years since Chapter 7 or Chapter 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 buydown rate, while a loan with an LTV greater than 95% is qualified at the note rate. Temporary buydowns on CalHFA's *interest only* PLUSSM program are not permitted. Permanent buydowns are not permitted on any CalHFA loans.

Non-Occupying Co-Signer

Unless otherwise stated in Program Descriptions, income from non-occupying co-signers 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.

Interested Party Contributions

CalHFA will allow interested party contributions of up to 3% of the lesser of the sales price or the appraised value if the loan-to-value ratio is greater than 90% and up to 6% of the lesser of the sales price or the appraised value if the loan-to-value ratio is equal to or less than 90%.

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)
- 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 current program bulletins 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.

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

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