



Homeownership Program Bulletin

* Corrected Date

November 18, 2008

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Program Bulletin #2008-36**To: CalHFA Approved Lenders**

CalHFA Conventional Loan Underwriting Guidelines: Updated

This bulletin supersedes Program Bulletins #2007-43 dated December 20, 2007 and #2008-06 dated February 25, 2008 and is effective for loan reservations made on or after November 23, 2008.

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 published CalHFA Conventional Loan Underwriting Guidelines that are incorporated into this Program Bulletin include:

- CalHFA has evaluated its risk management policies compared to those of Automated Underwriting Systems (AUS) and finds it necessary to limit approvals to Fannie Mae's Desktop Underwriter® (DU®). All loans submitted to CalHFA for purchase must be underwritten and approved by lenders through Fannie Mae DU. No other Automated Underwriting Systems are acceptable at this time
- Manually underwritten loans may continue to be submitted to CalHFA provided they meet CalHFA manual underwriting guidelines. Regardless of underwriting method, CalHFA will perform an internal credit underwriting at the time that loans are submitted to CalHFA.
- A minimum borrower contribution of 3% of the sales price from the borrower's own funds is required unless otherwise stated in CalHFA Program Descriptions.
- Minimum credit scores have changed to reflect relationships between Loan-to-Value (LTV), total Debt-to-Income (DTI) Ratio and risk of payment default.
- CalHFA Conventional Loan Underwriting Guidelines will apply to all loans submitted that include a CalHFA subordinate loan, including Conventional, FHA, VA, and USDA loans.

Manual Underwriting and Automated Underwriting System Levels of Acceptance

Manual Underwriting: Unless otherwise stated in CalHFA Program Descriptions, lenders may submit fully documented loans that have been manually underwritten and approved by a lender's underwriter in accordance with the CalHFA Conventional Loan Underwriting Guidelines

and CalHFA Program Descriptions. Exceptions to minimum credit score and total DTI ratio limits are possible with strong compensating factors on a case-by-case basis.

Automated Underwriting: Unless otherwise stated in CalHFA Program Descriptions, lenders may submit fully documented loans that have been underwritten and approved by a lender’s underwriter through DU® or MyCommunityMortgage (MCM®) DU. Only a recommendation of Approve/Eligible or Approve/Ineligible is acceptable provided that the ineligibility is in accordance with CalHFA Conventional Loan Underwriting Guidelines and CalHFA Program Descriptions. Expanded Approvals (EA) are *not acceptable* and will require manual underwriting. Lenders are required to ensure all loans submitted are documented in accordance with the final automated underwriting findings report and the lender’s underwriter’s conditions of approval (copies of both must be included in the loan package when submitted to CalHFA).

Regardless of a lender’s underwriting method (Manual or Automated), or the loan’s LTV, CalHFA Mortgage Insurance Credit Underwriters will perform credit underwriting in accordance with CalHFA Conventional Loan Underwriting Guidelines and CalHFA Program Descriptions on all CalHFA Conventional loans and FHA, VA and USDA loans on which there is one or more CalHFA subordinate loan(s) and also on non-CalHFA Conventional, FHA, VA, USDA first loans on which there is one or more CalHFA subordinate loan(s). 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 are provided in CalHFA Program Descriptions on CalHFA’s web site at www.calhfa.ca.gov/homeownership/.

CalHFA Conventional 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 CalHFA Underwriting Guidelines and documentation standards, and supplement generally accepted underwriting standards in specific areas, as outlined in CalHFA Program Descriptions and in this Program Bulletin. It is the lender’s responsibility to ensure that the standards are followed as stated above.

Tax Act and state law compliance review and loan credit underwriting are two distinct functions at CalHFA with different parameters. Refer to the Lender Program Manual on CalHFA’s web site at www.calhfa.ca.gov/homeownership/ for program eligibility requirements and general procedures for first-time homebuyer programs.

Minimum Credit Scores for both Manual and AUS Underwriting

A minimum representative credit score according to the table below is required to be eligible for CalHFA conventional and mortgage insurance underwriting unless otherwise stated in CalHFA Program Descriptions, regardless of the underwriting method used. In the case of multiple borrowers, the borrower with the lowest middle score is used to determine the representative credit score.

LTV	Minimum Credit Score	DU Underwriting Maximum Total DTI Ratio	Manual Underwriting Maximum Total DTI Ratio
95.01 – 100%	720	51 - 55%	45%
95.01 – 100%	700	46 – 50%	45%
95.01 – 100%	680	≤ 45%	45%
90.01 – 95%	700	51 – 55%	45%
90.01 – 95%	680	50%	45%
≤ 90%	640	55%	45%

If no score is available, alternative documentation may be used only in manual underwriting to demonstrate creditworthiness.

Exceptions will be considered with strong compensating factors on a case-by-case basis.

Alternative Credit History Parameters

On manually underwritten loans only, 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

Unless otherwise stated in CalHFA Program Descriptions, maximum total DTI ratio should not exceed those listed in the table below for both manually underwritten loans and DU underwritten loans regardless of the DU finding.

LTV	Minimum Credit Score	DU Underwriting Maximum Total DTI Ratio	Manual Underwriting Maximum Total DTI Ratio
95.01 – 100%	720	51 - 55%	45%
95.01 – 100%	700	46 – 50%	45%
95.01 – 100%	680	≤ 45%	45%
90.01 – 95%	700	51 – 55%	45%
90.01 – 95%	680	50%	45%
≤ 90%	640	55%	45%

Interest-only loans, when offered, are qualified in accordance with Fannie Mae requirements. For example, qualifying DTI 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 will be considered with strong compensating factors on a case-by-case basis.

Collection Credit Requirements

For manually underwritten loans, CalHFA will 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 jeopardize CalHFA's lien position. Higher balances must be paid off at or prior to closing.

For loans underwritten by DU, CalHFA will not require that collection accounts be paid off at or prior to closing, regardless of the amount, provided the DU findings do not require payoff and the collection will not jeopardize CalHFA's lien position, or unless the DU decision requires pay off.

Where payoff is required, sufficient funds must be verified and documented in the loan file.

Bankruptcy/Foreclosure Credit Requirements

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

Calculation of Variable Income (Part-time and Overtime)

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

Temporary Interest Rate Buydowns

Unless otherwise stated in CalHFA Program Descriptions, temporary buydowns (1-0, 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. Permanent buydowns are not permitted on any CalHFA loans.

Non-Occupying Co-Signer

Unless otherwise stated in CalHFA 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 total 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

CalHFA Program Descriptions specify the amount of down payment required for each loan program. Note that manufactured homes 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 LTV ratio is greater than 90% and up to 6% of the lesser of the sales price or the appraised value if the LTV ratio is equal to or less than 90%.

Borrower Minimum Cash Contribution

Unless otherwise stated in CalHFA Program Descriptions, a minimum borrower contribution of 3% of the sales price from the borrower's own funds is required as detailed in Fannie Mae underwriting guidelines.

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) - five acre maximum
- Manufactured Housing – unless otherwise stated in CalHFA Program Descriptions, loans are limited to 90% maximum LTV and 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 (PUD)

Condominium Project Policy

Condominium projects and attached PUDs must be approved under the Fannie Mae condominium approval procedures. Lender must warrant to CalHFA that the Condominium or attached PUD is Fannie Mae approved. 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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