**Employment Stability Standards**

**Overview**

Analyzing a borrower's present and past employment provides the basis to evaluate employment stability which is a precursor to income stability.

**Economic Issues**

Underwriting must not ignore national, regional or local economic issues in the employment analysis if it could affect the stability of the employment and income or impact the loan decision. Borrowers should exhibit the potential for maintaining continuous employment and/or income to meet minimum investor guidelines. Any known economic issue relating to employment and/or loss of income must be addressed by the borrower and the employer.

**Employment Stability Standards and Analysis for Salaried Borrowers**

Mortgage Banking requires the following for a salaried borrower (unless stated otherwise in the Product Guide):

* When a borrower has been generating income for 2 or more current and consecutive years in the same or related field with any number of employers, the Underwriting decision may be based on the borrower's current income.
  + If less than 2 years current and consecutive employment history and the borrower is:
    - a new entrant into the workforce, the borrower must provide documentation (diploma, job training certificate, or transcripts) to prove stability and potential.
    - re-entering the workforce, the borrower must provide documentation to evidence a minimum of a 6-month current and consecutive employment history and a previous work history.
  + Full explanation of each employment gap greater than 30 days.
* Exhibit the potential to maintain continuous employment and income.
* Prior to closing, Mortgage Banking must independently verify and note in the loan file that the borrower is employed.

If the lender is unable to determine the stability of the borrower’s income on the basis of the available documentation, the income source may not be used to qualify.

**Note**: See [BWG Underwriting Policy](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/BWG_Evaluation_Tool.htm) for treatment of variable sources of income used for borrower qualification.

**Employment Stability Standards and Analysis for Self-Employed Borrowers**

Mortgage Banking requires the following for a self-employed borrower (unless stated otherwise in the Product Guide):

* Minimum of 2 years
  + Borrower must operate the same business
* Exhibit the potential for maintaining continuous operation and income
  + Fluctuating or diminishing income:
    - Evidence must show the business’s ability to meet current and future obligations
* Prior to closing, Mortgage Banking must independently verify and note in the loan file that the borrower is employed

If the lender is unable to determine the stability of the borrower's income on the basis of the available documentation, the income source may not be used to qualify.

**Borrowers on Mandatory Furlough at Time of Closing**

Borrowers that are on a mandatory furlough from their job must return to work prior to the closing in order to use the income for qualification purposes.

All of the following are required as evidence:

* Verbal verification from the employer that reflects the borrower has returned to work under the same terms as prior to the furlough.
* Copy of most recent pay stub to verify that the borrower has returned to work and supports the qualifying income used for the loan.

**Verbal Verification and Confirmation of Current Employment**

A borrower’s employment status may change during the loan application process.  Verification of employment or business operation must be completed prior to the loan closing for each borrower on all applications regardless of the type of documentation used to verify income (unless otherwise stated in the product guide). Verbal verification and confirmation is required within the following timeframes:

**Note**: Verification is not required for passive income sources (i.e. Social Security, Retirement Income, Investments).

* **Non-self-employed**: Complete within 10 business days prior to closing.
* **Self-employed**: Verification of the existence of the borrower's business must take place within 30 calendar days prior to funding from a third party source, (e.g. CPA, regulatory agency, applicable licensing bureau) and by verifying a phone listing and address for the borrower’s business using a telephone book, the internet or directory assistance.

**Asset Types**

**Policy**

Mortgage Banking requires assets for a variety of reasons:

* Funds needed to close for the purchase of a property in order to cover down payment and other closing costs
* Funds needed to close in order to payoff other debt that is required as part of the loan approval
* Funds needed to meet reserve requirements per program guidelines

Not all funds are eligible for these purposes. The Asset [Types table](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Asset) below identifies asset types, eligibility, and links to additional details for each asset type.

Verify assets as directed by the Automated Underwriting System (AUS). For manual underwriting, see the channel-specific operations guides and [Loan Quality Review Checklist](http://mbpp.jpmchase.net:8090/Underwriting/Monthly_Loan_Quality_Review_Procedures.htm).

**Alert**: All assets used for income qualification cannot be used for closing costs or reserve requirements, exceptions must be approved by the BWG Specialized Team.

**Source of Funds for Large Deposits**

Verify source of funds for all large deposits to ensure the applicant did not borrow the funds. "Large" is defined as any single deposit that exceeds 25% of the total monthly qualifying income for the loan.

**Notes**:

* If the source of a large deposit is readily identifiable on the account statement, such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, and the source is printed on the statement, the borrower does not need to provide further explanation or documentation. However, if the source of the deposit is printed on the statement, but the underwriter still has questions as to whether the funds may have been borrowed, the underwriter should obtain additional documentation.
* The underwriter has authority to require the source of deposits with amounts at or below the 25% threshold value established above, as they deem appropriate and according to their discretion.
* If the available documentation suggests that an account may have been opened within 90 days of the loan application, additional investigation is required. The source of funds used to open the account, along with any subsequent large deposits, must be verified.
* If the borrower's funds are not required for cash to close or reserves, the funds do not need to be sourced, provided the underwriter has no indication in the loan file that there may be additional undisclosed liabilities attributed to the funds.

**Reserves**

Mortgage Banking bases reserves on the housing expense for the subject property, and in some cases for other property owned by the borrower. Housing expenses, also known as Principal, Interest, Taxes and Insurance (PITI), include:

* Principal and interest
* Insurances
* Real estate taxes
* Ground rent
* Special assessments
* Homeowners' association Fees
* Monthly co-op fees
* Payments for subordinate financing

When a borrower has more than one application in process, aggregate the reserves required for each property. Reserve requirements vary depending on the product, type of transaction, multiple financed properties or when a borrower is using rental income for a principal residence they are converting to an investment property.

**Note**: Funds being used as an income source (dividend, interest, annuities, etc.) may not be used as an asset source.

See [Closing Condition Required for Cash to Close](http://mbpp.jpmchase.net:8090/Underwriting/Closing_Condition_Required_for_Cash_to_Close.htm) for additional information.

Specific product, program, or Agency minimum investment standards may differ. See [Product Guides](http://mbpp.jpmchase.net:8090/Product_Guides/Product_Guides.htm) for eligibility.

**Asset Types**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Asset Type** | **Funds to Close for Purchase** | **Funds to Close for Payoff of Debt** | **Reserves Requirements** | [**Compensating Factors**](http://mbpp.jpmchase.net:8090/Credit_Policy/Exceptions.htm#Compensating_Factors) | **Not Eligible** |
| [Annuities](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Annuities) | X | X | X | X |  |
| [Borrowed funds - secured](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Borrowed_Funds_-_Secured) | X | X |  |  |  |
| [Borrowed funds - unsecured](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Borrowed_Funds_-_Unsecured) |  |  |  |  | X |
| [Bridge loan proceeds](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Bridge_Loan) | X | X |  |  |  |
| [Business assets**1**](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Business_Assets) |  |  |  |  |  |
| [Checking, savings, or share accounts](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Checking) | X | X | X | X |  |
| [Cash on hand](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Cash_on_Hand) |  |  |  |  | X |
| [Cash-Out Proceeds from a Refinance](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Cash-Out) | X | X |  |  |  |
| [Cash surrender value of life insurance](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Cash_Surrender) | X | X | X | X |  |
| [Certificates of deposit](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Certificates) | X | X | X | X |  |
| [Custodial accounts](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Custodial_Accounts) |  |  |  |  | X |
| [Earnest-money deposit](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Earnest) | X |  |  |  |  |
| [Employer gifts and grants**1**](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Employer) |  |  |  |  |  |
| [Foreign deposit](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Foreign_Deposit) | X | X | X | X |  |
| [G'Mach](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#G_Mach) |  |  |  |  | X |
| [Gift funds](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Gift_Funds) | X |  |  |  |  |
| [Gift of equity](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Gift_of_Equity) | X |  |  |  |  |
| [Lot equity](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Lot_Equity) | X |  |  |  |  |
| [Marketable bonds](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Marketable_Bonds) | X | X | X | X |  |
| [Marketable securities](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Marketable_Securities) | X | X | X | X |  |
| [Non-marketable securities](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Non-marketable) |  |  |  | X |  |
| [Proceeds from sale of real estate](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Proceeds) | X | X | X | X |  |
| [Profit Sharing Plans**1**](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Profit) |  |  |  | X |  |
| [Relocation benefits](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Relocation) | X |  |  |  |  |
| [Rental or lease credits](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Rental) | X |  |  |  |  |
| [Repayment of a loan](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Repayment) | X | X | X | X |  |
| [Restricted securities**1**](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Restricted) |  |  |  | X |  |
| [Retirement accounts**1**](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Retirement) | X | X | X | X |  |
| [Stock options - if exercisable](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Stock_Options) | X | X |  |  |  |
| [Sweat (work) equity](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Sweat_Equity) |  |  |  |  | X |
| [Tax deferred exchanges (aka 1031)](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Tax_Deferred) |  |  |  |  | X |
| [Trust account funds](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Trust_Account) | X | X | X | X |  |
| [U.S. Savings Bonds](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#U.S._Savings_Bonds) | X | X | X | X |  |

**1** See detail below for eligibility.

**Annuities - Non-Retirement**

Mortgage Banking counts annuities at a lower percentage because of access restrictions and potential tax ramifications. Cash value of non-retirement-based annuities is an eligible source for funds needed to close or for reserve requirements at 70% of stated value, net of any loans. If funds are needed for closing, evidence of liquidation is required.

For additional information and requirements on retirement-based annuity accounts, see the [Retirement Accounts](http://mbpp.jpmchase.net:8090/Credit_Policy/Assets/Asset_Types.htm#Retirement) section of this topic.

**Borrowed Funds - Secured**

To use borrowed funds as a source of closing funds:

* An asset the borrower already owns must secure the loan (e.g., CDs, marketable securities, other real estate, life insurance policies, and retirement accounts).
* Obtain a copy of the note to verify the terms of repayment and secured nature of the loan.
* Reduce the value of the remaining asset by the amount of the secured loan balance.

For requirements on how to treat this asset type from a debt/liability perspective, see [Asset-secured Loans](http://mbpp.jpmchase.net:8090/Credit_Policy/Debt_Analysis_Guidelines.htm#Asset-secured_Loans) in the "Debt Analysis Guidelines" topic of this guide.

**Alert**: *Do not* use borrowed funds for calculating reserve requirements.

**Borrowed Funds - Unsecured**

Unsecured loans, unsecured credit lines, advances against overdraft protection, and advances against credit cards or lines *are not* eligible sources for funds needed to close or for reserve requirements.

**Bridge Loan Proceeds**

Bridge loans secured by other real estate owned by the borrower are acceptable in meeting closing-fund requirements. Mortgage Banking requires:

* A copy of the bridge loan note or a commitment letter from the bridge-loan lender that reflects all of these:
  + The amount of the bridge loan (the amount cannot exceed the equity in the bridge-loan property)
  + The term, maturity date, and renewal provisions
  + Required payments on the bridge loan
  + Description of the bridge loan security (property address)
  + The bridge loan cannot be cross-collateralized against the new property
* Documentation of the borrower's ability to successfully carry the payments for the new home, the current home, the bridge loan, and other obligations
* Documentation of receipt of the funds

**Alert**: Record the bridge loan on the bridge-loan security, or if not recorded, at minimum, the bridge loan must be in recordable form.

See [Debt Analysis Guidelines](http://mbpp.jpmchase.net:8090/Credit_Policy/Debt_Analysis_Guidelines.htm#Bridge) for payment calculation policy.

**Business Assets**

Generally, business assets *are not* an eligible source of funds.

Underwriting considers use of business accounts on an exception basis only. When Underwriting approves an exception, Mortgage Banking restricts the use of business assets by the percent of ownership in the business.

Business assets are eligible when the borrower can evidence that the withdrawal of the funds will not affect the operation of the business.

Cash from a self-employed professional service business account may be an eligible source of funds, provided the business doesn't need the cash to service its current liabilities. However, because businesses typically use these funds to meet current overhead and future capital requirements, and because the funds are not generally representative of the borrower's savings history, they are not always acceptable.

Following are some of the business types that can meet these requirements. Businesses other than these types may require additional supportive documentation:

* Sole proprietor
* Sub Chapter S
* Individually owned corporation

**Alert**: A disinterested third party (CPA, tax attorney, etc.) must provide documentation confirming that the use of these funds will not adversely affect the business.

**Checking, Savings or Share Accounts**

Cash on deposit in checking, savings or share accounts (credit unions) is an eligible source of funds. Deposits must be in U.S. currency, held in institutions located in the U.S.

**Cash on Hand**

Generally, cash on hand *is not* an eligible source of funds.

Underwriting considers cash on hand on an exception basis under our "low-to-moderate-income" products when the borrower's profile demonstrates that he or she does not use the services of depository or financial institutions and manages his or her finances on a cash basis, as opposed to incurring credit card or other forms of consumer debt.

See [Affordable Lending](http://mbpp.jpmchase.net:8090/Credit_Policy/Affordable_Lending_Prime.htm) for guidance on low-to-moderate-income products.

**Cash-Out Proceeds from a Refinance**

Cash-out proceeds from a refinance are an eligible source for funds needed to close, provided the funds are verified with a "*HUD-1*" or equivalent settlement statement. The proceeds are not eligible for use as reserves for the loan transaction.

**Cash Surrender Value of Life Insurance**

Cash Surrender Value of Life Insurance (CSVLI) is an eligible source of funds. Generally, review the two most recent statements that clearly indicate the cash-surrender value of the life insurance policy and, if used for funds to close, document the receipt of the funds.

**Certificates of Deposit (CD)**

Certificates of deposit must be in U.S. currency, held in institutions located in the U.S.

**Funds to Close**

* 100% of the value is eligible. Borrower must provide evidence of liquidation

**Assets for Reserves**

* 100% of the value is eligible. Borrower does not need to liquidate funds.

**Custodial Accounts for Children or Others**

Custodial accounts for children or others are not eligible sources of funds.

**Earnest-Money Deposit**

The deposit on the sales contract is an eligible source for down payment and closing costs. When the borrower uses the deposit to make any portion of the down payment, it must come from his or her own funds. Verify the source according to AUS messaging, if applicable.

See [Closing Condition Required for Cash to Close](http://mbpp.jpmchase.net:8090/Underwriting/Closing_Condition_Required_for_Cash_to_Close.htm) for additional information.

**Employer Gifts and Grants**

Employer gifts and grants are eligible as funds to close for a purchase when an authorized member within the Housing Assistance Program Management Group approves their use.

**Foreign Deposit**

Foreign deposits are deposit accounts in either of these:

* Deposit institutions located outside of the U.S.
* Non-U.S. denominated currencies in a deposit institution located in the U.S.

These deposits can be subject to exchange-rate risk and country risk.

The use of foreign deposits for closing funds and reserves requires all of these:

* Borrower must transfer funds into a U.S. bank/deposit account.
* Documented proof the transferred funds belonged to the borrower(s) prior to transfer must be in the loan file.
* Documented proof of wire transfer must be in the file.

See the [Currency Converter](http://www.xe.com/) for currency conversion.

**G'Mach (group savings non-profit organization)**

Funds in a G'Mach account, pooled savings, or community savings account are not an eligible source of funds.

**Gift Funds**

Gifts are an eligible source of down payment and closing costs for purchase and no cash-out refinance transactions on a primary residence or second home provided all of these are true:

* For purchase transactions, the borrower invests at least 5% of his or her own funds toward the down payment. **Exception**: Mortgage Banking waives this requirement when eligible assets include gift funds and the LTV/CLTV is 80% or less.
* The gift donor must be a relative. For the purposes of this policy, a relative is any person related by blood, legal proceedings, marriage, or adoption, and includes a fiancé, fiancée or domestic partner.
* The donor cannot be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
* The borrower provides evidence of the transfer of the gift funds from the donor's account to the borrower, such as one of these:
  + A copy of the donor's check and the borrower's deposit slip
  + A copy of the donor's withdrawal slip and the borrower’s deposit slip
  + A copy of the donor's check to the closing agent
  + A settlement statement showing receipt of the donor's check

**Alert**: When the funds transfer did not occur prior to settlement, document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

* The borrower provides an executed "gift letter" from the donor that specifies all of these:
  + The name and address of the receiving party
  + The name and address of the donor party
  + The donor's relationship to the borrower or receiving party
  + The dollar amount of the gift
  + A statement from the donor that no repayment is expected
  + The property being financed
  + The date the funds were (or will be) transferred

Product and program requirements and restrictions:

* Specific product, program, or Agency minimum investment standards may differ.
* Specific Community Home Buyer products and programs require verification of the funds in the donor's account and borrower receipt of the funds. See specific product and program guidelines in this manual.

**Alert**: Gifts Funds are *not eligible* for use on Cash-out Refinance transactions.

**Gift of Equity**

Gifts of equity are an eligible source of down payment and closing costs for a primary residence or second home provided all of these are true:

* The borrowers have contributed at least 5% of their own funds to the transaction. **Exception:** Mortgage Banking waives this requirement when eligible assets include a gift of equity and the LTV/CLTV is 80% or less. See the product or program guidelines in this manual for specific requirements.
* The borrower documents the gift from a relative, domestic partner, fiancé, or fiancée with a letter signed by the donor. The letter must include all of these:
  + Specification of the property being purchased
  + The donor's statement that no repayment is expected
  + The donor's name, address, phone number, and relationship to the borrower
* The executed application (FNMA 1003/FHLMC 65) reflects this donor and gift information:
  + "Source of down payment" and "Assets" sections reflect gift as the source
  + Identification of donor's name, address, phone number, relationship, and amount
* The gift of equity appears on the "*HUD-1 Settlement Statement*."
* The gift of equity shows transfer of ownership to the borrower.
* The borrower provides verification that they received the gift of equity prior to, or at closing.

Specific product, program, or Agency minimum investment standards may differ. See [Product Guides](http://mbpp.jpmchase.net:8090/Product_Guides/Product_Guides.htm) for eligibility.

**Lot Equity**

Mortgage Banking may credit the value of the lot/land equity toward the borrower's minimum down payment when:

* The borrower holds title to the lot on which a property is being constructed (and financed with a construction-to-permanent mortgage), and
* The borrower's equity contribution will be the difference between any outstanding liens against the land and the market value of the land.
* Land value is determined on the borrower’s acquisition of the land:

|  |  |
| --- | --- |
| **IF the borrower acquired the land...** | **THEN the value of the land will be...** |
| * more than 12 months preceding the loan application, or * acquired the land at any time as a gift, inheritance, or other non-purchase transaction, | its current appraised value. |
| 12 or fewer months preceding the date of the loan application, | the lesser of its sales price or its current appraised value. |

**Alert**: The borrower's cash investment must be documented with a certified copy of the HUD-1 (or similar settlement statement), a copy of a warranty deed that shows there are no outstanding liens against the property, or a copy of a release of any prior lien(s). If the borrower acquired the land as a gift, inheritance, or other non-purchase transaction 12 or fewer months preceding the date of the loan application, obtain documentation to verify acquisition and transfer of the ownership of the land for the loan file.

Specific product, program, or Agency minimum investment standards may differ. See [Product Guides](http://mbpp.jpmchase.net:8090/Product_Guides/Product_Guides.htm) for eligibility.

**Marketable Bonds (non-retirement)**

Marketable bonds are an eligible source of funds when they are traded on a major market exchange (e.g., NYSE, AMEX, NASDAQ) and when market activity and valuation can be readily determined.

**Funds to Close**

100% of the value is eligible.

Borrower must provide evidence of liquidation.

**Asset for Reserves**

70% of the value is eligible.

Borrower *does not* need to liquidate funds.

**Marketable Securities (non-retirement)**

Marketable securities (net of margin accounts) are an eligible source of funds. Marketable securities must be traded on a major market exchange (e.g., NYSE, AMEX, NASDAQ) where market activity and valuation can be readily determined.

Marketable securities are subject to large swings in value. If a borrower is using marketable securities as the source of funds for closing, the terms of the account must be verified including balance, account number, etc.

**Funds to Close**

100% of the value is eligible.

Borrower must provide evidence of liquidation.

**Asset for Reserves**

70% of the value is eligible.

Borrower *does not* need to liquidate funds.

**Non-marketable Securities - Stocks and Bonds**

Generally, non-marketable securities (stocks and bonds) are *not eligible* as cash reserves. They are not traded on a major stock exchange, and their valuation and market value cannot readily be obtained.

**Proceeds from Sale of Real Estate (SORE)**

Proceeds from the sale of real estate are an eligible source of funds. To use proceeds from the sale of other currently owned real-estate property for closing-fund requirements and cash reserves, both of these must be true:

* The closing of the other real estate transaction must take place prior to or simultaneous with the subject closing.
* A fully executed "*HUD-1*" or equivalent settlement statement must verify the net proceeds to the borrower.

**Profit Sharing Plans from Known Companies**

Certain retirement accounts *are not* eligible as reserves due to severe access restrictions. When using as a compensating factor, these funds must be readily accessible.

**Relocation Benefits**

To use relocation benefits paid by an employer to a borrower for closing funds, the borrower must provide:

* A copy of the executed buy-out agreement to purchase the existing residence
* Funds for prepaid items unless specifically stated in the relocation package to use any closing costs and points that may be included in the relocation package
* A copy of the fully executed settlement statement at loan closing as evidence of sale and release from liability

**Note**: If the borrower meets the above conditions, eliminate the PITI on the existing residence from the debt-to-income ratio analysis.

See [Corporate Relocation](http://mbpp.jpmchase.net:8090/Credit_Policy/Employment/Corporate_Relocation.htm) for additional requirements.

**Rental or Lease Credits**

To use credits granted to a borrower from rent paid toward an option to buy lease arrangement as closing funds, Mortgage Banking requires all of these:

* The lease agreement must state how the credit will accrue.
* The borrower must provide both of these:
  + Copies of canceled checks or money orders to evidence a history of a minimum of 12 months
  + A copy of the rental or purchase agreement evidencing a minimum original term of 12 months
* The appraiser must provide either of these:
  + A statement of fair-market rent
  + An FNMA 1007 single-family comparable rent schedule for the property

**Alerts**:

* Only apply the portion of the rental payment that exceeds the fair-market rent to the down payment or closing costs.
* Rental or lease credits are *not eligible* as reserves.

**Repayment of a Loan**

Lump sum repayment of a loan is eligible as an asset provided Mortgage Banking receives, at minimum, both of these:

* Evidence (paper trail) that the borrower provided funds to the party repaying the loan
* Evidence of the recent lump-sum repayment

**Restricted Securities**

Generally, restricted securities *are not* an eligible source of funds. Restricted securities cannot be readily traded due to Rule 144 and Security and Exchange Commission (SEC) regulations.

When using as a compensating factor, these funds should be readily accessible.

**Retirement Accounts**

Retirement accounts are eligible to be included in reserves or funds to close as indicated below.

**Retirement Accounts as a Source of Funds to Close**

Eligible retirement accounts are eligible for use as closing funds under these guidelines:

* 70% of stated vested value
* **Less any loans**
* With proof of distribution

**Retirement Accounts as Reserves**

Eligible retirement accounts are eligible for use as reserves under these guidelines:

* 60% of stated vested value
* **Less any loans**

**Eligible Accounts**

These retirement accounts are eligible for use as closing funds or reserves:

* Annuities
* IRAs
* Keoghs
* 401(k) accounts
* 403 (b) accounts
* 457 accounts

**Note**: If the retirement account only allows withdrawals in connection with the borrower's employment termination, retirement (unless the borrower is of retirement age), or death, the funds cannot be used to meet the reserve requirements.

**Stock Options - If Exercisable**

**Stock Options as Closing Funds**

To use stock options (the right to purchase stock at a set price, the "strike price," often below market price) as closing funds, the borrower must:

* Exercise the options, and may use only the net proceeds
* Liquidate the options
* Provide documentation of receipt of funds

The options are subject to market risk and may:

* Trigger significant tax ramifications
* Have an execution cost
* Be restricted

**Alert**: If the brokerage firm or fiduciary that negotiated the execution of the options did not deduct income taxes from the net proceeds, Underwriting must verify that the borrower will not suffer severe cash flow or liquidity problems when the taxes come due.

**Stock Options as Reserves**

Stock Options *are not* eligible as reserves.

**Alert**: If the brokerage firm or fiduciary that negotiated the execution of the options did not deduct income taxes from the net proceeds, Underwriting must verify that the borrower will not suffer severe cash flow or liquidity problems when the taxes come due.

**Sweat Equity (Work Equity)**

Sweat equity *is not* an eligible source of funds.

**Tax Deferred Exchanges (AKA 1031)**

Tax Deferred Exchanges *are not* an eligible source of funds.

**Trust Account Funds**

Trust Account Funds are an eligible source of funds when both of these are true:

* The borrower has immediate access to the trust account funds.
* The trust manager or trustee provides written documentation confirming the value of the trust account.

Document the conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

**U.S. Savings Bonds**

U.S. Savings Bonds are an eligible source of funds. To use U.S. Savings Bonds for closing funds and cash reserves:

* The borrower must provide a list of amounts, serial numbers, and maturity dates of the bonds.
* Base the value of the bonds on their purchase price unless the borrower can document a higher redemption value.
* Do not make photocopies of the bonds.

# Foreign Borrower

## Policy

Mortgage Banking requires validation of the identity of each applicant prior to the extension of credit.  Requirements for applicant verification are intended to align with existing federal obligations under laws requiring information and document verification evidencing the applicant is legally present in the United States.

Citizenship of the United States is determined by three fundamental principles: right of birthplace, right of blood, and naturalization (acquisition of citizenship), but it not required for participant eligibility. Mortgage Banking will consider a legal Non-U.S. Citizen  to be an eligible borrower under the same terms available to United States Citizens, unless expressly stated in a product or program guide.

## Definitions of Non-U.S. Citizen Legal Status

**Permanent Resident**

A foreign national that has been officially granted immigration benefits, which include permission to permanently reside and take employment in the United States. The holder must maintain permanent resident status and can be removed from the United States if certain conditions of this status are not met.  Evidence of lawful permanent residency is issued as a Permanent Resident Card, Green Card, by the U.S. Citizenship and Immigration Services (USCIS).

Also referred to as a:

* Lawful Permanent Resident, or
* Green Card Holder

**Temporary Resident**

A foreign national who has been officially granted immigration benefits, which include permission to temporarily reside and take employment in the United States. The visa holder must maintain the temporary United States resident status and can be removed from the United States if certain conditions of this status are not met; visa expiration not included. Evidence of preliminary permission of a lawful non-immigrant is validated by the issuance of a visa by a consulate outside of the United States. The U.S. Citizenship and Immigration Services (USCIS) approve the final petition. The Department of Homeland Security issues an Arrival/Departure Record (I-94) that evidences the individual's duration of stay.

Also referred to as a:

* Temporary Non-Immigrant
* Non-Permanent Resident
* Lawful Non-Permanent Resident

**Other Non-Immigrant**

A legal status used for a foreign national who temporarily resides or works in the United States legally for a specific purpose and time with proper identification documentation (passport and visa, including types B-1, B-2, F-1, H-3 and J-1). **Currently, this status is ineligible for financing with Chase.**

Also referred to as a:

* Non-Resident Alien

**Undocumented Foreign National**

A legal status used for a foreign national individual who resides and/or works in the United States illegally and lacks proper identification documentation. **Currently, this status is ineligible for financing with Chase.**

Also referred to as an:

* Unlawful Non-Resident Alien

**Other Designations, ineligible for financing with Chase:**

* A **Refugee** is a person who flees to the United States for safety.
* A **Defector** is an individual that pursues allegiance to the United States after renouncing his or her allegiance to a foreign country.
* An **Asylee** is an individual that has been granted asylum in the United States.
* **Withholding of Removal** or **Withholding of Deportation** is a lawful designation where reasonable fear of persecution or torture exists in their home country.
* **Diplomatic Immunity** is a lawful designation that permits a diplomat free passage throughout the United States.
* **Temporary Protection Status (TPS)** is given to nationals of certain countries who are temporarily in the United States, and who are unable to safely return to their home country due to dangerous conditions, either environmental or political.

**Notes:**

* Applicant must live and be employed in the United States (income documentation must be in U.S. currency).
* A Foreign National is a citizen of a country other than the United States, who has not become a naturalized citizen of the United States and receives select immigration benefits, and may be a Permanent Resident, Temporary Resident, Other Non-Immigrant, or Undocumented Foreign National.
* If the Legal Status differs between applicants, the least restrictive product or program offering will apply.
* Marriage to a U.S. Citizen does not eliminate requirements to verify that the Non-U.S. Citizen is in the country legally.
* If a Temporary Resident is applying with a U.S. Citizen, the U.S. Citizen must occupy the collateral and make a contribution toward qualifying income, assets, and reserves.  If unable to contribute to each, Temporary Resident policy will be utilized.
* Any application to extend the stay and/or alter a visa status will not be accepted as official identification, until the approval is granted and evidenced.  For example, an I-797, Notice of Action form, is not a visa and may not be used in place of a visa.
* Applicant(s) must adhere to SSN or ITIN guidance within [Foreign Borrower ID (SSN/TIN) Requirements](http://mbpp.jpmchase.net:8090/Credit_Policy/Prime_First_Mortgage_Borrower/Foreign_Borrower_ID_Requirements.htm).

## Documentation of Legal Status

Prior to underwriting approval, a Non-U.S. Citizen must provide non-expired, official identification to confirm and document (identification type and number, place of issuance, and dates of issue and expiration) the applicant’s immigration status.

#### Permanent Resident

* Permanent Resident Card with Photo (USCIS form I-551); aka Green Card

If no Permanent Resident Card:

* Passport with Photo and I-551 stamp with date

**Note**: As a documentation alternative, a [Permanent Resident Case Status](https://egov.uscis.gov/cris/Dashboard.do) check may be performed using the individual's USCIS receipt number. The result may be used to evidence Permanent Resident status.

#### Temporary Resident

* Passport with Photo,
* [Visa](http://mbpp.jpmchase.net:8090/Credit_Policy/Prime_First_Mortgage_Borrower/Visa_Type_Reference.htm) ; if expired, Arrival/Departure Record (I-94), and
* USCIS Employment Authorization Document (EAD), if applicable or qualifying a non-passive income source.

**Notes:**

* At the time of closing, all documentation must be official and valid; no exceptions.
* Qualifying only passive income eliminates the EAD requirement
* Work visa type E-1, E-2, H-1A, H-1B, H-1C, or L-1, with a complete annotation section, does not require an EAD
  + Any other work visa not requiring an EAD, including type E-3, H-1B1, O-1 or TN, must be referred to the Legal Department (see Alert.)

**Alert**: Each [Legal Department](mailto:legal.department.foreign.borrower.review@chase.com) referral must contain the individual's name and application number in the subject line, a completed [Foreign Borrower ID template](http://sharepoint.jpmchase.net/Sites1/SPggxlfh/Retail%20Policies%20and%20Procedures%20Job%20Aids/Foreign%20Borrower%20ID%20Template.docx), and images of all relevant documentation. All content must be retained in the loan file.

**Foreign Borrower ID (SSN/ITIN) Requirements**

These guidelines result from the [Foreign Borrower](http://mbpp.jpmchase.net:8090/Credit_Policy/Prime_First_Mortgage_Borrower/Foreign_Borrower_Prime.htm) topic.

**Social Security Number (SSN)**

A Social Security Number (SSN), a nine-digit identification value, is issued by the Social Security Administration as part of the Social Security Act.

Social Security numbers are only issued to the following eligible Non-U.S. Citizens who have a USCIS (U.S. Citizenship and Immigration Services) work authorization (the borrower’s SSN must be validated by the Social Security Administration):

* Permanent Resident
* Temporary Resident

**Note:** A borrower with salaried or self employment income MUST have a SSN in order for the income source to be counted as qualifying income.

**Individual Taxpayer Identification Numbers (ITIN)**

The Individual Taxpayer Identification Number (ITIN), a nine-digit tax-only identification number, is issued by the Internal Revenue Service (IRS) to individuals who are not eligible for a Social Security Number. This identification number is only for federal taxation transactions and is not intended to serve any other purpose outside the tax system and may be issued to Non-U.S. Citizens.

Specifically, an ITIN does not:

* Take the place of a SSN,
* Authorize legal entry,
* Authorize work in the U.S.,
* Validate identification, or
* Serve as an acceptable identification number for Customer Identification Program (CIP) purposes

Click here for link to ITINs at: <http://www.irs.gov>.

Mortgage Banking does not originate or purchase loans where a borrower(s) possesses an Individual Taxpayer Identification Number (ITIN), and he or she is earning wages in U.S. currency or for a U.S. based employer. If the borrower has an ITIN for purposes of reporting taxes from passive income sources only, and they are not employed in the U.S., an ITIN is acceptable.

To be eligible for financing, an ITIN-holding applicant must:

* Apply with an individual who possesses a SSN,
* Provide legal status identification documentation (Permanent Resident only),
* Satisfy credit history requirements,
* Supply acceptable verification of income (passive sources only) and
* Sign and execute a 4506-T (2 year minimum)

# Non-occupant Co-borrower

## Policy

In certain situations, it may be necessary to consider the income of a non-occupant co-borrower(s) when the stand-alone debt-to-income ratio of the occupant borrower exceeds our normal qualifying guidelines.

Use of income from a non-occupant co-borrower may be applied subject to the following:

* The occupant borrower must evidence five percent of the down payment from his/her own sources if the LTV is greater than 80 percent; and
* The sum of all borrowers' income and debt must qualify under the specific product or program parameters unless indicated differently below.
* Maximum LTV/CLTV 90%
* No limit to loan purpose

In addition, product specific requirements apply as follows:

Occupant Borrower Qualifying ratio:

### Agency 1

* 43% DTI

**Note:** Combined DTI ratio of all borrowers cannot exceed 36%

### Agency 2

* 35%/43%

**Note**: Combined ratios of all borrowers cannot exceed 28%/36%

### Non-Agency

* 35%/43%

**Note:** Combined ratios of all borrowers cannot exceed 28%/36%

**Collateral General Requirements**

**Collateral Defined**

Collateral is the asset the borrower pledges to the lender. It is the basis for Mortgage Banking's risk assessment and customer investment evaluation.

To consider collateral as adequate security for a loan, Mortgage Banking requires the following:

* The fair market value
* The ability to perfect a security interest
* Determine the property is eligible to be used as collateral
* Determine the condition of the collateral

Use the appraisal report to determine the fair market value of the collateral.

**Note**: The real estate collateral's marketability and salability are critical factors that reduce loan losses.

**Fair Market Value and Collateral Value**

**Fair Market Value**

The appraiser uses a real estate appraisal to define the subject property's market value. The market value is the most probable price the property would realize when these exist:

* Competitive and open market conditions
* All conditions necessary for a fair sale
* The buyer and seller each act prudently and knowledgeably
* Undue stimulus (e.g., a distress sale) does not affect the price

**Collateral Value**

In addition to fair market value, the appraiser uses these factors to determine a borrower's investment in the property:

* Contributions and sales concessions in a purchase
* Improvements done to the property for a refinance
* The actual cost to build a new home

**Lien Position**

The lien of the real property must be, and remain, a first and paramount lien on the borrower's estate in the real property. This precludes the surrender of the superior lien position for any purpose including, but not limited to, government-sponsored home improvement programs repaid via the home owner’s real tax assessment where the lender surrenders its superior lien status.

**Determining Collateral Value**

The collateral value affects the loan-to-value ratios as well as exception approval and identification. Methods to determine collateral value are different for purchase versus refinance transactions. Neither set of guidelines apply to land contracts.

**Alert**: If the subject property sold within the last 36 months, the underwriter must review the subject property's prior sales. The appraiser should explain and justify any significant sales price increase over the prior sale.

**Purchase Transactions**

On all loans (agency or non-agency), base the collateral value upon the lesser of these:

* Sales price (minus concessions or excess contributions)
* Appraised value

**Refinance Transactions**

Guidelines vary between non-agency and agency loans:

|  |  |
| --- | --- |
| **Agency Loans** | |
| Calculate the value from the new appraised value. | |
| **Non-agency Loans** | |
| **IF the borrower has owned the improved property for...** | **THEN base the property value on...** |
| less than 6 months, | the lesser of the:   * Original purchase price * Purchase price, plus the added value of any documented improvements made within the last 6 months * Current appraised value * Lowest appraised value, when the loan has two (2) appraisals  **or** * Verified cost when the subject property is a custom home built by or for the borrower |
| 6 months or more, | either of these:   * Current appraised value * The lowest appraised value, when the loan has two appraisals |

**Importance of Conditions**

When the appraiser identifies "conditions" that could affect the collateral's value or desirability, this becomes an important credit factor. For example, a property may have unique characteristics that overlay additional risk considerations, and could severely reduce its appeal or marketability.

The underwriter must identify any appraisal condition and assess any potential economic, environmental, or legal changes, and determine if these increase the loan risk.

See [Distressed Markets Policy](http://mbpp.jpmchase.net:8090/Credit_Policy/Prime_First_Mortgage_Borrower/Distressed_Markets_Policy.htm).

**Private Transfer Fee Covenants**

The Federal Housing and Finance Agency (FHFA) issued final rule 12 CFR Part 1228 that prohibits the agencies from purchasing mortgages on properties encumbered by certain types of private transfer fee covenants if they were created on or after February 8, 2011.

Chase will not originate a loan on a property that is encumbered by a private transfer fee covenant unless it is permitted under the FHFA rule. The final rule allows private transfer fees paid to mandatory membership homeowner associations, condominiums, cooperatives and certain tax-exempt organizations that use private transfer fee proceeds to benefit the property.

Defined: A private transfer fee covenant is attached to the title to real property and requires payment of a transfer fee to be paid to an identified third party upon each resale of the property. The fee typically is stated as a fixed amount or as a percentage, such as one percent of the property's sales price.

**Heating Source**

If property uses alternative heating source, comment to address if sufficient to heat entire dwelling; habitable as a year-round residence, safe & legal; market acceptance of the heating source.

Market acceptance should be demonstrated by selecting comparable sales with same/similar alternative heating source.

**Water, Wells, Septic and Sewage Systems**

Water, well, septic and sewage systems must meet community standards, be adequate, be in service and be accepted by area residences.

If public water and/or sewage facilities are not available then private well and septic facilities must be available and utilized by the subject property. The private facilities must be viable and adequate to service the subject property.

Generally, the private well and septic facilities must be located on the subject property site. However, off-site private facilities are acceptable if the inhabitants of the subject property have the right to use and access the off-site facilities and there is an adequate, legally binding agreement for use, access and maintenance.

The appraiser must comment when the viability, adequacy, or market acceptance of, or access to, the well and septic facilities are an issue. If not an issue, the appraiser should demonstrate market acceptance by selecting comparables (sales, listings, rentals) with same/similar characteristics.

**Community-owned or Privately Maintained Streets**

When the property is on a community-owned or privately maintained street, Chase requires an adequate, legally enforceable agreement or covenant for maintenance of the street. The agreement or covenant must include the following provisions and be recorded in the land records of the appropriate jurisdiction:

* Responsibility for payment of repairs, including each party’s representative share
* Default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations
* The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners

**Properties in States with Statutory Provisions**

When the property is in a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, Chase does not require a separate agreement or covenant.

**Properties in States without Statutory Provisions**

When the property is not in a state that imposes statutory requirements for maintenance, and either of these are true, the property is not eligible for financing:

* No agreement or covenant for maintenance of the street exists.
* An agreement or covenant exists but does not meet the requirements listed above.

The appraiser does not need to provide a copy of the maintenance agreement, but must report that the subject meets the aforementioned requirements.

**Properties in Special Assessment Districts**

A community facilities district is a district that creates a special tax to fund a wide variety of public improvements and the ongoing operation and maintenance costs of a limited number of public services. Appraisers must evaluate carefully the value of properties in these districts.

These requirements apply to community facilities districts:

* Appraisers must report any special assessments that affect the property.
* If the special assessment district is experiencing financial difficulty that effects the value or marketability of the property, the appraiser must:
  + Reflect the difficulty in the analysis and note the difficulty and impact in the report
  + Reflect market reaction to the potential liabilities that may arise within a financially troubled special assessment district
  + Consider the current and expired listings of properties for sale, pending contract sales, and recent closed sales within the district
* If financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because no comparable market data exists, the mortgage secured by such property is not eligible for financing.
* The borrower must disclose to the appraiser any information regarding special assessments on a given property.
* Appraisers must consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales, and note the effect of the assessment in the appraisal report
* The borrower must disclose to the appraiser whether the subject property and the comparable sales are located within, or affected by, a community facilities district.

**Note**: Properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different special assessment or to no assessment at all.

**Subject Property "For Sale" or "Was For Sale"**

Requests for refinances in which the subject property is "for sale" present financial uncertainties and vulnerability Mortgage Banking and for the borrower. Due to these risks, Mortgage Banking declines financing requests when the property is currently for sale.

Per the Subject section of the appraisal, the appraiser must report any listing activity for the subject property within the last 12 months of the effective date of the appraisal.

When the subject property had been for sale within the prior 12 months, but is not currently for sale, Mortgage Banking may consider refinancing under these conditions:

|  |  |
| --- | --- |
| **No Cash-out Transaction** | **Cash-out Transaction** |
| The listing must have expired or been withdrawn prior to the application date, and, | The listing must have expired or been withdrawn 180 days prior to the application date, and, |
| * The appraisal confirms:   + The MLS does not currently list the home as for sale   + The home is not publicly offered or for sale by owner   + The date the listing was withdrawn or expired   + The home is occupied * The appraised value should be at least 10% less than the lowest listing price (when not, obtain a full second appraisal to validate a higher value). * The borrower must provide evidence that the property is no longer for sale (e.g., copy of the cancelled agreement). | |

**Fair Lending Statement**

The appraiser must follow appropriate practices during the property evaluation process. Corporate policies specifically prohibit the appraiser from developing a value conclusion based on the applicant's:

* Race
* Color
* Sexual orientation
* Religion
* Gender
* Handicap (disability)
* Familial status
* National origin

**Alert**: Appraisers must not use subjective racial and stereotypical terms, phrases, or comments on the appraisal report. Examples include, but are not limited to:

* Pride of ownership
* Lack of pride of ownership
* Good neighborhood
* Crime-ridden area

If an appraiser uses unacceptable terminology:

* Refer the transaction to Credit Risk Management (via Valuation Provider Management) immediately.
* Obtain a new or revised appraisal before making and communicating a loan decision to the borrower.

For additional information, see [Fair Lending Policy](http://mbpp.jpmchase.net:8090/Federal_Compliance_Policy/Fair_Lending_Policy.htm).

**Deferred Maintenance, Gross Living Area, Additions, Permits, Accessory Dwelling Unit and Security Bars on Bedroom Windows**

**Deferred Maintenance**

The appraiser is required to report on any physical deficiencies or adverse conditions that affect the livability, soundness or structural integrity of the property in the "Improvements" section of the report. The appraiser is not required to provide a cost-to-cure for the listed items.

In addition, the appraiser must also rate the property condition for both the subject property and comparable sales based on the UAD property condition ratings (C1, C2, C3, C4, C5 or C6). The rating should be determined as a holistic overall rating for the property. This means the appraiser must consider all improvements and select the rating that reflects the property as a whole. Also, the property is rated on its own merits and not as compared to other properties in the neighborhood.

* C1 – C3 are acceptable condition ratings and the appraisal should be completed "as is."
* C4 is defined as minor deferred maintenance with physical deterioration due to normal wear and tear or minor needed repairs to property components and/or mechanical systems (often viewed as cosmetic in nature). The appraisal can be completed "as is."
* C5 is defined as obvious deferred maintenance with some significant needed repairs to components and/or mechanical systems in order to be livable. The appraisal must be completed "subject to." and the needed repairs that will improve the condition rating to a C4 must be listed in the appraisal report.
* C6 is defined as substantial damage or deferred maintenance that is severe and affects the safety, soundness and structural integrity of the property. The appraisal must be completed "subject to" and the needed repairs that will improve the condition rating to a C4 must be listed in the appraisal report.

A mortgage secured by a property with a C5 condition rating or a C6 condition rating is only made if all the issues that caused the C5 or C6 rating are cured prior to loan closing.

**Alert**: Any structural or safety issues, or uncompleted items that affect livability or the integrity of the structure, *must be resolved* prior to closing. Examples include:

* Lack of gas
* Electricity
* Plumbing defects
* Foundation defects
* Chinese drywall
* Non-mitigated environmental or toxic waste concerns

**Alert**: When the appraiser reports that the property may have Chinese drywall and that damage to the drywall exists, a qualified drywall contractor must inspect the property. When the appraiser makes a general disclaimer indicating that Chinese drywall *may be* *present*, but reports no damage to the drywall, no action is necessary; however, when the appraisal or inspection indicates clearly that the drywall is Chinese, the property is not eligible for Chase lending.

The underwriter, or Underwriting Center manager, determines based on the appraiser's comments whether to continue with the loan.

**Gross Living Area**

The appraiser is to measure the exterior of the subject property to determine the Gross Living Area (GLA). Interior dimensions are permitted for condos and townhouses. Only areas that are attached and have continuous interior access, and are suitable for year round occupancy, can be included in the GLA. Living areas that are detached from the main structure, do not have direct interior access, or are partially or fully below grade, are to be fully described and reported separately from the GLA.

To ensure consistency in the sales comparison analysis, appraisers must compare above-grade areas to above-grade areas and below-grade areas to below-grade areas. In extreme instances appraisers may deviate from this approach if the style of the subject property or any of the comparables does not lend itself to such comparisons. However, in such instances, the appraiser must explain the reason for the deviation and clearly describe the comparisons that were made.

The appraiser is to reconcile any substantial difference between their measured living area and the living area reported on public records.

**Additions**

When the appraiser determines an addition to the original structure is present, they are expected to describe the added improvements, and comment on:

* Whether the appraiser was able to confirm the existence of permits ,
* The conformity of the addition in both quality and functional utility to the original improvements,
* The affects on marketability and compliance with local zoning laws including the consequences of being out of compliance within the municipality.

When the additions or modifications create "Health and Safety" issues or are not allowed by zoning, the appraisal is to be made "subject-to" remediation of the item, or removal of the addition, depending on severity of the issue.

If zoning does not allow the non-permitted addition (e.g., a single family with a guest unit; a 3 or 4 unit when only a 2 unit is allowed), the property is not acceptable for financing and the AMC should stop the inspection process to notify Chase.

**Permits**

The appraiser is to document if they have verified the addition was built with permits and their source of information. The appraiser is not required to provide a copy of the permits.

Permitted additions should be included in the GLA (if they meet the definition of GLA above), or as basement or additional living area as appropriate.

Non-permitted additions are only to be included in the GLA if all three of the following conditions are met:

* They were constructed in a "workmanlike" manner,
* Non-permitted additions are typical for the market area,
* The appraiser is able to demonstrate market acceptance by the use of comparable sales with similar non-permitted additions.

Non-permitted additions that are not typical for the market area are not to be included in the GLA, basement or other living area. The report can be made "as-is" as long as the appraiser describes the functional obsolescence for the cost of removal and returning the structure to its original state.

Guidance for non-permitted 2nd kitchen:

* Non-permitted 2nd kitchens do not have to be removed unless as it stands provides a health or safety issue or is not allowed per zoning (i.e., illegal use).
* For a single family home where the non-permitted 2nd kitchen is allowed by zoning and is not a health or safety issue;
  + A non-permitted 2nd kitchen should not be valued but the area should be included in the appropriate area calculations (GLA, Basement or other living area) as if the kitchen components have been removed.
  + The report should be "as is" as long as the appraiser describes the functional obsolescence for the cost of removing the kitchen and returning the structure to its original state.
  + However, the non-permitted 2nd kitchen can be valued in its "as is" state without functional obsolescence if the appraiser can find two (2) similar non-permitted kitchens to demonstrate market acceptance.

Guidance for non-permitted additions for a 2-4 unit property:

* If the additional unit was created by converting a portion of another unit (including basement) and is allowed by zoning but is not permitted, the property should be appraised based upon the number of permitted units/kitchens it possesses.
* The report should be "as is" as long as the appraiser describes the functional obsolescence for the cost of removing the kitchen and any other requirement of returning the structure to its original state (the original # of units).
* However, the non-permitted addition can be valued in its "as is" state if allowed by zoning, conversion was made in a workman-like manner and the appraiser provides three (3) similar non-permitted conversion/units to demonstrate market acceptance.

**Insurance Requirements for Unpermitted Additions:**

When non-permitted or unverified permitted areas are included in the valuation of the property, the underwriter must ensure the hazard insurance policy is not adversely affected by the presence of the unpermitted addition (Adverse impact would include a caveat in the insurance policy that excludes unpermitted additions or adds a total exemption if the condition exists from the insurance coverage).

**Accessory Dwelling Unit/Guest Unit**

A single family home may contain an accessory dwelling unit (ADU), also referred to as a "mother-in-law unit" or "guest apartment." ADUs are self-contained living units (including a private bath and kitchen) that have their own direct access from the outside.

An ADU can be either attached or detached and above or below grade. ADUs should only be included in the GLA if they are attached and have direct interior access. ADUs with only exterior access are to be reported, and valued, separately from GLA.

* An attached non-permitted 2nd unit (Guest Unit or ADU) should not be valued but the area should be included in the area calculations as if the kitchen components have been removed. The report should be "as is" as long as the appraiser describes the functional obsolescence for the cost of removing the kitchen and returning the structure to its original state.
* A detached non-permitted 2nd unit (Guest unit or ADU) should not be valued unless the appraiser can find three (3) similar non-permitted units to demonstrate the acceptance of the non-permitted unit in the market and zoning does not prohibit a 2nd unit (i.e., illegal use.)

Properties with accessory dwelling units must be appraised in conformity with local zoning requirements and must accurately report the property’s highest and best use. The decision to appraise as a single family with ADU or a 2-unit property will depend on the zoning classification and property characteristics.

The appraisal report must indicate whether the unit is legally conforming and whether it is typical for the area. The appraisal report must provide a complete description of the unit. The sales comparison analysis should include at least one comparable sale with an ADU. However, in instances where the ADU is legal but comparable sales cannot be obtained, the appraiser must explain the reason for the deviation and clearly describe the basis for inclusion and valuation.

**Security Bars on Bedroom Windows**

Security bars on bedroom windows are a potential safety issue. The appraiser must include comments as to whether or not they have safety release latches and if the security bars meet local building codes.

The appraisal reviewer should be able to infer from the outside building photos whether the property has security bars (see [Appraisals](http://mbpp.jpmchase.net:8090/Collateral/Appraisals.htm) for photo requirements). If the security bars are evident on bedroom windows, the appraiser should provide additional comments to describe acceptability.

Security bars installed per local building codes are acceptable regardless of the lack of safety release latches. When the appraiser does not comment on, or states that the bars on the bedroom windows do not meet local building codes, the underwriter must request from the AMC evidence of safety release latches on the security bars, or proof that they meet the current building code for their municipality.

**Escrow Holdback Account Criteria**

See [Escrow Holdback for Conventional Loans](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/Escrow_Holdback_for_Conventional_Loans.htm) for details.

**Insurance**

This topic provides hazard and flood insurance requirements.

**1-4 Unit, PUD (Attached or Detached) or Condo (Detached)**

In addition to the hazard insurance requirements outlined in the table below, Mortgage Banking may also require master or blanket coverage at the project level:

|  |  |
| --- | --- |
| **Hazard Insurance Coverage - Individual Homeowner** | |
| **Policy Requirements** | A hazard insurance policy must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. A hazard insurance policy cannot limit or exclude from coverage windstorm, hurricane, hail damages, or any other peril normally included under an extended coverage endorsement, unless a separate policy or endorsement is obtained that provides adequate coverage of the limited or excluded peril. This separate coverage may come from an insurance pool established by the state to cover the limitations or exclusions.  Mortgage Banking requires homeowners or master casualty insurance policy in force at the time of closing through an insurance company that has an acceptable rating by any of these:   * A.M. Best Company * Standard and Poor's, Inc. * Demotech, Inc.   Refer to the [Ratings Comparison Table](http://mbpp.jpmchase.net:8090/Collateral/Insurance.htm#Ratings_Comparison_Table__Individual_and_Blanket_Policies_) below for ratings information.  **Note**: For all property types *except co-op*, Mortgage Banking accepts hazard insurance policies underwritten by Lloyd's of London or Hawaiian Insurance and Guaranty Company even though they are not rated by one of the acceptable rating agencies. In addition, coverage obtained through state insurance plans is acceptable, if that is the only coverage available. |
| **Amount of Deductible** | The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) to secure a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement) require deductible no greater than 5% of the face amount of the policy. |
| **Amount of Coverage** | * Guaranteed replacement cost coverage or similar verbiage as stated in the declarations page (e.g. dwelling replacement coverage, extended replacement cost) or * 100% of the insurable value of the improvements as established by the insurer. If this is not shown on the HOI, see [Coverage Limits](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/hazard_homeowners_insurance_requirements.htm#Coverage_Limits_-_Single_Family__1-4_Unit__PUD__Attached_Detached__or_Condo__Detached_) in the Hazard Homeowners Insurance Procedures topic. |
| **Named Insured** | The named insured is:   * Borrower   **Note**: The policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured when a condominium's legal documents allows. |

See [Hazard Homeowners Insurance Procedures](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/hazard_homeowners_insurance_requirements.htm) for additional guidance.

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| **Flood Insurance Coverage - Individual Homeowner** | |
| **Policy Requirements** | Under the National Flood Insurance Reform Act of 1994, Mortgage Banking does not make, increase, extend, or renew any loan or line of credit secured by improved real estate (including manufactured and mobile homes) that is located or will be located in an area identified as a special flood hazard area (SFHA) unless the property is covered by flood insurance. Require an in-force flood insurance policy on the individual unit at the time of closing.  The Flood Insurance Rate Maps (FIRM) identifies the SFHAs with zones that begin with "A" or "V." Since federal law mandates flood insurance, do not waive under any circumstances.  When the property is located in a SFHA, but the dwelling is not in a SFHA, requires no flood insurance. However, if *any* part of the principal dwelling is located in an SFHA, then obtain flood insurance. |
| **Amount of Deductible** | The maximum deductible for an individual flood policy is $5,000. |
| **Amount of Coverage** | The minimum amount of flood insurance required is the lower of:   * + The maximum amount of flood insurance available through the NFIP currently $250,000 per unit or   + The replacement cost of the insurable improvements. Mortgage Banking will defer to the insurance company's determination/definition of replacement cost and/or insurable value of the improvements (i.e., 100% replacement cost, guaranteed replacement cost, full insurable value, replacement cost, similar verbiage insuring the cost of the dwelling, insurable improvements, etc.), or   + The outstanding principal balance of the first lien loan, plus (1) the unpaid principal balance of any other loan and (2) the total line of credit amount for any line of credit secured by the same property. * The policy or declaration's page should state the type, amount and effective date of the coverage. * Mortgage Banking will not require flood insurance coverage in excess of the maximum coverage available for the type of property insured under the applicable National Flood Insurance Administration (NFIA) program. |
| **Escrows** | The National Flood Insurance Reform Act of 1994 prohibits a lender from waiving flood insurance escrows if the lender establishes an escrow account for the payment any of these:   * Taxes * Hazard insurance * Mortgage insurance * Special assessments or other similar items   When Mortgage Banking waives the escrow or impound account for these items at the borrower's request, an escrow for flood insurance is not required. However, if an escrow account is established for the payment of any of these items, then you must escrow flood insurance. In these cases, do not permit waiver of flood insurance escrow. |

See [Flood Insurance Coverage Calculation](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/Flood_Insurance_Coverage_Calculation.htm) for additional guidance.

**PUD (Attached/Detached) or Condo (Attached/Detached), Co-op**

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| **Hazard Insurance Coverage - Master/Blanket Coverage** | |
| **Policy Requirements** | **PUD (Attached/Detached) or Condo (Attached/Detached)** |
| A hazard insurance policy must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. A hazard insurance policy cannot limit or exclude from coverage windstorm, hurricane, hail damages, or any other peril normally included under an extended coverage endorsement, unless a separate policy or endorsement is obtained that provides adequate coverage of the limited or excluded peril. This separate coverage may come from an insurance pool established by the state to cover the limitations or exclusions.  Mortgage Banking requires a homeowners or master casualty insurance policy in force at the time of closing through an insurance company that has an acceptable rating by any of these:   * A.M. Best Company * Standard and Poor's, Inc. * Demotech, Inc.   Refer to the [Ratings Comparison Table](http://mbpp.jpmchase.net:8090/Collateral/Insurance.htm#Ratings_Comparison_Table__Individual_and_Blanket_Policies_) below for ratings information.  The number of condominium or attached PUD units insured must reflect on the master hazard insurance policy declarations page or as an addendum to the policy. When the number of units are not clearly listed on the policy, Mortgage Banking accepts an endorsement from the insurance company or HOA that states the number of units covered by the policy.  **Notes**:   * Detached PUD projects do not require verification of hazard insurance for the common elements. * For HARP Refi Plus and Relief Refi transactions verification of master hazard insurance coverage for common areas is not required. |
| **Co-op** |
| Mortgage Banking requires a commercial insurance policy in force at the time of application through an insurance company that has an acceptable rating by any of these:   * A.M. Best Company * Standard and Poor's, Inc. * Demotech, Inc.   Refer to the [Ratings Comparison Table](http://mbpp.jpmchase.net:8090/Collateral/Insurance.htm#Ratings_Comparison_Table__Individual_and_Blanket_Policies_) below for ratings information.  **Notes**:   * When the borrower's application date precedes the expiration date of the project's insurance, as shown in the [Project Approval Database](http://rlp.finone.bankone.net:7778/pls/apex/f?p=278:1:0), you do not need to obtain an update provided that the loan closes within the credit expiration date of the original loan approval. * For HARP Refi Plus and Relief Refi transactions verification of master hazard insurance coverage for common areas is not required. |
| **Requirements** | **PUD (Attached/Detached) or Condo (Attached/Detached)** |
| The HOA must maintain a policy that covers all of the common elements except for those that are normally excluded such as land, foundation or excavations.  Common elements include these:   * Fixtures * Building service equipment * Common personal property and supplies   The following is not permitted:   * A self-insurance arrangement whereby the owners association is self-insured or has banded together with other unaffiliated associations to self-insure all of the general and limited common elements of the various associations. * Master or blanket insurance for unaffiliated condo associations or project:   + PAG may approve master or blanket insurance policies that cover multiple unaffiliated condo associations or projects.   + A master or blanket insurance policy is defined as covering multiple condo projects that are not under the same master association and do not share the use of common facilities. * A master or blanket hazard insurance policy that covers multiple unaffiliated condo projects must meet all the following:   + The coverage limits must be the higher of:     - > 50% of the total insurance replacement value for all condo projects insured, or     - > 150% of the total insurable replacement value for the single largest condo project under the policy, but not more than 100% of the total insurable value for all condo projects insured.   + The policy endorsement must:     - State that insurance is being provided under a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated condo projects;     - State that loss limits apply per occurrence and loss claims will be paid per occurrence;     - Reinstate the original per occurrence coverage limit after each loss occurrence or claim so that the full original per occurrence limit is immediately available for any subsequent loss for any perils;     - Include a Coinsurance Waiver; and     - State that each condo project is a named insured.   + The policy or endorsements cannot contain an aggregate (or policy term) loss limit for any perils that require coverage.   Accept an individual insurance policy in lieu of a master policy for these property types:   * Eligible 2-4 unit condominiums * Detached PUDs with common areas * Detached PUDs and Detached Condo projects with these:   + No common areas (verify through the appraisal report or directly with the HOA)   + Elements   + Public ways (private streets, sidewalks, pathways, etc),   + Commercial spaces or other areas under the supervision of the HOA   **Note**: Detached PUD Projects do not require verification of master hazard insurance for the common elements. |
| **Co-op** |
| The cooperative corporation must maintain a policy that provides for at least fire, and has an extended coverage endorsement. The policy must cover the entire project, including the individual units.  Do not permit either of these:   * A blanket policy that covers multiple unaffiliated co-op associations or projects. * A self insurance arrangement whereby the HOA is self insured or has banded together with other unaffiliated associations to self insure all of the general and limited common elements of the various associations |
| **Amount of Deductible** | The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) to secure a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), then require deductible no greater than 5% of the face amount of the policy. |
| **Amount of Coverage** | Insurance should cover replacement cost of the project improvements, including the individual unit. Coverage does not need to include these:   * Land * Foundations * Excavations or other items that are usually excluded from insurance coverage   When the policy includes a coinsurance clause, require an "*Agreed Amount Endorsement*" to waive the requirement for coinsurance.  An insurance policy that includes either of these endorsements ensures full insurable value replacement cost coverage:   * "*Replacement Cost Endorsement*," under which the insurer agrees to pay up to, but no more than, 100% of the property's insurable replacement cost or * "*Replacement Cost Endorsement*," under which the insurer agrees to replace the property up to a specified percentage over the policy limit, or agrees to replace the property regardless of the cost.   The policy or declaration's page should state the type, amount and effective date of the coverage. |
| **Operating Reserve Accounts** | The operating reserve accounts must include funds to cover the deductible amounts for the HOA or cooperative corporation. |
| **Named Insured** | **PUD (Attached/Detached) or Condo (Attached/Detached)** |
| Homeowners' Association or the project name  **Note**: When a condominium's legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured. |
| **Co-op** |
| The Cooperative Corporation |

See [Hazard Homeowner Insurance - Condo/Co-op Procedures](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/Hazard_Homeowner_Insurance_-_Condo_Co-op_Requirements.htm) for additional guidance.

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| **Flood Insurance Coverage - Master/Blanket Coverage** | |
| **Policy Requirements** | Under the National Flood Insurance Reform Act of 1994, Mortgage Banking does not make, increase, extend, or renew any loan or line of credit secured by improved real estate (including manufactured and mobile homes) that is located or will be located in an area that has been identified as a special flood hazard area (SFHA) unless the property is covered by flood insurance.  The Flood Insurance Rate Maps (FIRM) identifies the SFHAs as flood zones that begin with "A" or "V." Since federal law mandates flood insurance, you cannot waive under any circumstances.  **Note**: Detached PUD projects do not require verification of flood insurance for the common elements. |
| **Specific Policy Requirements** | **Attached/Detached PUD or Attached/Detached Condo** |
| When any parts of a PUD or condominium project's improvements are in a SFHA, the HOA must:   * Condo - Maintain a Residential Condominium Building Association Policy (RCBAP) for flood insurance * Attached PUD - Maintain a master policy general form issued by FEMA * Provide that premiums are paid as a part of the common expenses   When a condominium project consists of high-rise or other vertical buildings, Mortgage Banking requires the HOA to obtain the policy for each building that is located in a SFHA.  Reflect the number of condominium or attached PUD units insured on the master flood insurance policy declarations page or as an addendum to the policy (when flood insurance is required). When the number of units is not clearly listed on the policy, Mortgage Banking accepts an endorsement from the insurance company stating how many units are covered by the policy.  **Notes**:y   * PAG approval of the master flood insurance is required. * Detached PUD projects do not require verification of flood insurance for the common elements. * For HARP Refi Plus and Relief Refi transactions an individual flood insurance policy is allowed to provide the necessary flood insurance coverage or to close a gap in the master policy coverage; or to provide full coverage if the condo project does not maintain a RCBAP. |
| **Co-op** |
| When any parts of a cooperative project's common ownership improvements are in a SFHA, the cooperative must maintain building coverage through a "*General Property Policy Form*."  Loans secured by individual cooperative units are not covered under the Flood Disaster Protection Act. These loans are secured by stock share, not real estate. |
| **Amount of Deductible** | **Attached/Detached PUD or Attached/Detached Condo** |
| **Individual Unit Policy**: Maximum deductible for an individual flood policy is $5,000.  **Master Policy**: Maximum deductible for master policy is $25,000. Individual polices are not permitted at origination. |
| **Co-op** |
| Maximum deductible is $25,000 per building. |
| **Amount of Coverage** | **Attached/Detached PUD or Attached/Detached Condo** |
| For condominium projects, require the minimum amount of coverage at the lower of:   * 100% replacement cost coverage of each insured building (including all common elements and property); or * Maximum coverage available under the NFIP, currently $250,000 per unit.   The policy or declaration’s page should state the type, amount and effective date of the coverage. |
| **Co-op** |
| For cooperative projects, require the minimum amount of coverage at the lower of:   * 100% replacement cost coverage of each insured building (including all common elements and property); or * Maximum coverage available under the NFIP, currently $250,000 per building.   The policy or declaration's page should state the type, amount and effective date of the coverage. |
| **Master or Blanket Policy** | A master or blanket policy must provide coverage for all of the common elements and property, as well as for each of the individual units in the building. |
| **Escrows** | **Attached/Detached PUD or Attached/Detached Condo** |
| The National Flood Insurance Reform Act of 1994 prohibits a lender from waiving flood insurance escrows if the lender establishes an escrow account for the payment of these:   * Taxes * Hazard insurance * Mortgage insurance * Special assessments or other similar items   When Mortgage Banking waives the escrow or impound account for these items at the borrower's request, requires no escrow for flood insurance. However, if an escrow account is established for the payment of any of these items, then you must escrow for flood insurance. In these cases, do not permit a waiver of flood insurance escrow. |
| **Co-op** |
| Not applicable |
| **Simultaneous Closing Coverage Requirements** | **Attached/Detached PUD or Attached/Detached Condo** |
| Where there is a simultaneous closing of a first mortgage loan and a home equity loan or line, require flood insurance coverage in an amount sufficient to cover both Mortgage Banking loans provided it does not exceed the maximum permitted by law. |
| **Co-op** |
| Not applicable |

See [Flood Insurance Coverage Calculation](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/Flood_Insurance_Coverage_Calculation.htm) for additional guidance.

**Condo (Attached) and PUD (Attached)**

**Note:** For an attached PUD the "walls-in" coverage can be provided by either an individual insurance policy provided by the homeowner or the master policy provided by the HOA.

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| **HO-6 "Walls In" Individual Homeowner and Master Insurance** | |
| **Policy Requirements** | Require a homeowners or HO-6 casualty insurance policy in force at the time of closing through an insurance company that has an acceptable rating by any of these:   * A.M. Best Company * Standard and Poor's, Inc. * Demotech, Inc.   Refer to the [Ratings Comparison Table](http://mbpp.jpmchase.net:8090/Collateral/Insurance.htm#Ratings_Comparison_Table__Individual_and_Blanket_Policies_) below for ratings information. |
| **HO-6 Insurance Policy Requirements** | The homeowners must maintain a policy of HO6 "Walls In" insurance if the master insurance policy for the project does not provide coverage. The policy must cover all of the individually owned interior structural parts of the building and the interior finish (including fixtures and appliances).  The policy must protect against all these perils:   * Fire and lightning * Windstorm or hail * Explosion * Civil commotion or riot * Damage caused by:   + Aircraft   + Vehicle   + Smoke   + Vandalism or malicious mischief   + Theft   + Volcanic eruption |
| **Amount of Deductible** | The maximum allowable deductible is 5%. |
| **Minimum Coverage** | The minimum HO-6 coverage, as determined by the insurer, must be sufficient to repair the unit to its condition prior to a loss claim event. Policy must reflect "Replacement Cost Coverage," or similar language.  An insurance policy that includes either of these endorsements ensures full insurable value replacement cost coverage:   1. "*Replacement Cost Endorsement*," under which the insurer agrees to pay up to, but no more than, 100% of the property's insurable replacement cost **or** 2. "*Replacement Cost Endorsement*," under which the insurer agrees to replace the property up to a specified percentage over the policy limit, or agrees to replace the property regardless of the cost.   The policy or declaration's page should state the type, amount and effective date of the coverage. |

**Ratings Comparison Table (Individual and Blanket Policies)**

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| **Ratings Comparison Table Based on Agency Policies** | | | |
| **Ratings Agency** | **Agency (GSE)** | **All Property Types (Except Co-op)** | **Co-op** |
| [A.M. Best](http://www.ambest.com/) | Fannie Mae | "B" or better financial strength rating | "B" or better financial strength rating |
| Freddie Mac | * "B/III," *or*, * for a non-US insurer, "A/VIII" | "A-" or better |
| [Demotech, Inc.](http://www.demotech.com/) | Fannie Mae | "A" | Not applicable |
| Freddie Mac | "A" | Not applicable |
| [Standard and Poor's, Inc.](http://www.standardandpoors.com/home/en/us) | Fannie Mae | "BBB" | Not applicable |
| Freddie Mac | "BBB" | "A" |

**PUD (Attached), Condominium (Attached/Detached) or Co-op - Liability Insurance**

Mortgage Banking must verify liability coverage as part of its review of a project. These property types are exempt from this requirement:

* Attached PUDs - Type E (Established)**1**
* Detached PUDs - Type E (Established) and Type F (New)

Require that the owners' association for a PUD or condominium or cooperative corporation for a cooperative project maintain a comprehensive commercial general liability (CGL) insurance policy to cover the entire project. The policy must also cover these:

* All common areas and elements
* Public ways (private streets, sidewalks, pathways, etc)
* Any other areas that are under the supervision of the homeowners' association
* Commercial spaces that are owned by the homeowners' association (or cooperative corporation), even if they are leased to others

The CGL insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance or use of the project's common areas and elements.

When not already included in the terms of the CGL coverage, there must be a "severability of interest" endorsement that precludes the insurer's denial of a unit owner's claim because of negligent acts by the association, the fee simple landowner or lessor or other unit owners.

Require the amount of the coverage for at least $1 million for bodily injury and property damage and that it provides for claim settlements on an occurrence basis.

**Note**: For HARP Refi Plus and Relief Refi transactions verification of master liability insurance coverage for common areas is not required.

**Co-ops with Elevators (Agency transactions)**

Require the amount of the coverage at least $3 million for bodily injury and property damage for any single occurrence. Any combination of primary and umbrella excess (per occurrence and aggregate limits) may satisfy this requirement.

**Condominium (Attached/Detached) or Co-op - Fidelity Bond Insurance**

Require fidelity insurance for all condominiums and co-ops except projects that consist of 20 or less units.

When required, the HOA or cooperative corporation must have blanket fidelity bonds for anyone who either handles or is responsible for funds that it holds as administrators, whether or not the administrator receives compensation for services. Require the following:

* The bonds name the HOA or cooperative corporation as the insured.
* The premiums are paid as a common expense by the association or corporation.
* The amount of fidelity coverage must equal no less than the maximum amount of funds in the custody of the HOA/cooperative corporation or its management firm at any one time or coverage that meets the state's statutory fidelity bond requirements if documented.
* A management agent that handles funds for the HOA or cooperative corporation should be covered by its own fidelity insurance policy which must provide the same coverage required of the HOA or cooperative corporation.
* If the HOA/cooperative corporation or management firm adheres to at least one of the following controls, then the amount of fidelity insurance coverage can be reduced to equal at least 3 months of assessments on all units in the project:
  + Maintains separate accounts for the operating budget and the reserve fund with copies of the monthly statements sent directly from the bank to the HOA or cooperative corporation, or
  + Two or more board members must sign any check drawn on the reserve fund account, or
  + Separate records and accounts are maintained for each HOA or cooperative corporation using the management firm’s services and the management firm does not have the authority to draw checks or transfer funds from the HOA or cooperative corporation reserve account.

**Note**:

* Verification of master fidelity insurance coverage is not required:
  + For HARP Refi Plus, DU Refi Plus and Relief Refi transactions (Required for LP Open Access).
  + If required amount of coverage is $5,000 or less. (This flexibility is only available for Non-Agency loans or loans sold to FNMA)..

**Condominium (attached), PUD (attached) or Co-op – Special Endorsements**

For a multi-unit building where the heating and cooling system is centrally located a policy or policy endorsement is required for adequate protection against mechanical breakdown and equipment failure.

The master policy should have an endorsement that provides the lesser of $2 million, or the insurable value of the building(s) housing the boiler or machinery.  In lieu of an endorsement, the project may purchase separate standalone boiler or machinery coverage. If a higher limit is required by private Mortgage Investors for projects similar in construction, location and use the project must maintain the higher insurance limit. An inflation guard endorsement is required, when it can be obtained.

The master policy must also include a building ordinance or law endorsement.

**PUD or Condominium - Earthquake Insurance**

Condominiums and PUDs do not require earthquake insurance.

**Allowable Investment Properties**

**Rent Loss Insurance**

When you use rental income to qualify the borrower(s), require rent loss insurance coverage for at least six (6) months for these:

* Investment properties
* 2-4 unit owner-occupied properties

Generally, rent loss insurance pays the insured homeowner (policyholder) for any of these:

* Lost rental income due to the insured property rendered non-rentable by direct physical loss caused by a peril such as:
  + Fire
  + Lightning
  + windstorm
  + Hail
* Time needed to repair or replace the property or 12 months, whichever is shorter

**Cooperatives - Rent Loss Insurance or Business Income Insurance**

The cooperative corporation must maintain rent loss insurance whenever there are co-op owned units not occupied by tenant or shareholders. Units occupied by the superintendent or maintenance personnel are not subject to the rent loss insurance requirement.

The cooperative corporation must maintain business income insurance to cover 12 months of the cooperative unit maintenance fees lost due to a cause of loss identified in the "*Insurance Services Office's (ISO) Commercial Property Causes of Loss - Special Form*" endorsement.

**Title Insurance Underwriters**

Underwriting title insurance companies must maintain a FNMA-acceptable financial rating from either one (1) of two (2) vendors, LACE or Demotech. When the underwriting title company is unrated, or their rating is not FNMA-acceptable, require an "*Assumption of Liability*" endorsement (Fannie Mae form 858 or equivalent) for each title policy.

Vendor Management periodically prepares LACE (and) Demotech-rated title insurance underwriter lists for distribution, but does not maintain a list of "approved" title companies.

See [Title Insurance/Survey](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/Title_Insurance_Survey.htm) for additional guidance.

**Interested Third Party Contributions**

**Overview**

Interested third party contributions are the cost of items normally paid by the borrower but which are paid instead by the seller or another interested third party to the transaction.

Interested third party contributions are classified as:

* Sales contributions (a.k.a. financing contributions)
* Sales concessions
* Sales abatements
* Sales allowances

Interested parties include, but are not limited to, the:

* Builder
* Developer
* Seller of the property
* Real estate agent

Unless they are affiliated with an interested party as described above, Mortgage Banking does not consider a contribution originating from any of the following to be an interested third party contribution:

* Chase
* The originating lender
* A person related to the borrower(s)
* Employer
* Municipality
* Nonprofit organization

All interested party contributions must be:

* Disclosed in the sales contract
* Documented in the mortgage file
* Clearly shown on the HUD-1 form or settlement statements, and
* Paid to the appropriate vendor by the title insurance company or closing attorney

**Determining Collateral Value**

See [Determining Collateral Value](http://mbpp.jpmchase.net:8090/Collateral/Collateral_General_Requirements.htm#Determining_Collateral_Value) in the [Collateral General Requirements](http://mbpp.jpmchase.net:8090/Collateral/Collateral_General_Requirements.htm) topic for calculating transactions with sales concessions/ sales contributions.

**Sales Contributions (a.k.a. Financing Contributions)**

Funds originating from an interested third party paid to the appropriate vendor are acceptable when they are used to:

* Permanently reduce the interest rate on the mortgage
* Fund a buy down plan to temporarily subsidize the borrower's monthly payment on the mortgage
* Pay related mortgage financing costs, closing costs, required pre-paids, and escrow costs

Sales contributions are limited by each product guide based upon occupancy, CLTV or loan amount. See specific product or program guidelines for standards.

**Sales Concessions**

Items that do not qualify as a sales contribution are sales concessions. Examples include, but not limited to:

* Payment (either directly or in a reserve account) of homeowners' association (HOA) fees greater than what is normally pre-paid at loan closing
* Payment of hazard insurance premiums greater than what is normally pre-paid at loan
* HOA fees waived by the builder/developer
* Vacations
* Furniture
* Automobiles
* Securities
* Other non-property related giveaways
* Short sale processing fees – used to reimburse the borrower for payment of fees charged to process or negotiate a short sale (short sale negotiation fees, buyer discount fees, short sale buyer fees, etc)

**Note:** Sales concession must be deducted from the sales price before determining the LTV or CLTV.

**Sales Allowances**

A sales allowance is a credit given by the seller to the buyer as an inducement to purchase the property.

An acceptable sales allowance must be property related and for items permanently attached to the property, such as:

* Needed repairs
* Upgrades
* Decorations

In order to be included in the sales price, the sales allowance items are either:

* Completed
* A completion escrow established to ensure completion

**Note**: Uncompleted or non-escrowed items are deducted from the sales price.

Non-acceptable sales allowances include:

* Personal property items
* Giveaways

**Note**: These types of sales allowances are considered to be a sales concession and must be deducted from the sales price. See the [Sales Concessions](http://mbpp.jpmchase.net:8090/Collateral/Interested_Third_Party_Contributions.htm#Sales_Concessions) section above.

**Sales Abatements**

Loans with any abatement are not acceptable. Abatements are funds provided to a lender or third party by an interested party to pay or reimburse in whole or in part a certain number of monthly  mortgage payments of principal, interest, taxes, insurance and assessments on the borrower’s behalf in excess of pre-paids/escrows associated with the mortgage closing.

**Personal Property**

The appraised value should represent the value of the real property and exclude all personal property. All personal property transferring in a purchase transaction, if known by the appraiser, must be analyzed by the appraiser in the appraisal report, even if it is not listed in the sales contract. The appraiser does not have to list the personal items in his comments as long as the personal items are listed in the sales contract. Both the appraisal and purchase contract should be reviewed by the underwriter to determine if personal property is included in a transaction. When personal property is included in a sale, the appraiser must demonstrate that the personal property was not included in the valuation of the real property. The appraiser's comments only have to be that he considered the personal items and whether they affected the sales price. In addition the appraiser should use comparable sales that sold without furnishings or other personal property when possible. The appraiser should comment when a comparable sale has personal property. When sales are not available without personal property, (typically common in resort areas) the appraiser should make negative adjustments to the comparable sales for the value of the items included in each sale. If the personal property has value to the typical purchaser, the appraised value should be reconciled below the actual sale price. It is not acceptable for appraisers to state common for the area on fully furnished units without adjusting for the personal property unless he provides comparable sales of unfurnished units to support his conclusion that the furnishings have no affect on value.

Even when the appraiser states that the personal property has no impact on the appraised value or that the items left behind are of negligible value, the underwriter must review the list of personal items and make a decision as to whether the items identified have significant value and provide an inducement for the buyer to purchase the home. The underwriter should not be placing a value on the personal items, but reviewing how the appraiser analyzed their effect on value and that he supported his value conclusion with comparable sales without similar personal items.

The sales contract may contain an addendum that places a value on the personal items. If so, the lesser of the appraised value or the sales price reduced by the value of the personal items should be used to calculate the loan to value.

The sales contract may contain an addendum that list the items left behind by the seller and states that the items were left behind at the convenience of the seller. This is acceptable if the appraiser provides comparable sales without personal property that supports his conclusion that the furnishings have no affect on value.

Example of acceptable items if no value is assigned:

* Market-appropriate items customarily sold with real property such as refrigerator, stove, dishwasher, washer, and dryer.
* Used items left behind at the convenience of the seller such as a used above ground pool, a used swing set, a used hot tub, a used flat screen TV, a used book shelf, a used generator, a used shed, used furniture, etc.

**Miscellaneous Third Party Payoffs, Credits, or Payouts**

A miscellaneous third party payoff, credit, or payout is any seller cost listed on the HUD-1 Settlement Statement that is being paid to an undisclosed third party on behalf of the seller.

Payoffs should only be made to parties noted as a lien holder on the title commitment. Other payouts or credits paid to an undisclosed third party must be investigated to determine their legitimacy to the transaction. When undisclosed payouts, credits, or payoffs appear on the HUD-1 and are not items listed on the title, the loan should be returned to Underwriting for review.

These types of miscellaneous non-lien payoffs, credits, or payouts paid on behalf of the seller are considered as sales contribution, sales concession, sales allowance, or sales incentive as described in the appropriate section above and must be underwritten accordingly.

**Property Type**

**Eligible Residential Property Types**

Mortgage Banking classifies eligible residential properties into five (5) major categories; this table lists eligible occupancies for each property type category:

|  |  |
| --- | --- |
| **Property Type** | **Eligible Occupancy** |
| * Single-family * Condominium**1** * PUD | * Primary residence * Second home * Investment |
| Co-op unit**1** | * Primary residence * Second home |
| 2-4 unit**1** | * Primary residence * Investment |

**1** See the [Product Guides](http://mbpp.jpmchase.net:8090/Product_Guides/Product_Guides.htm) for additional eligibility information.

**Alert**: Mortgage Banking must adhere to specific policies and procedures governing Texas homestead properties. Non-compliance can result in severe penalties, including loss of lien position and forfeiture of all principal and interest. The specific policies and procedures apply to these Texas homestead transactions:

* Cash-out
* Rate and term refinance of a current 50(a)(6) lien

See the channel-specific operations manual in the [Product Guide](http://mbpp.jpmchase.net:8090/Product_Guides/Product_Guides.htm) for more information.

**Ineligible Residential Property Types**

These property types and categories are not eligible:

* Builder model homes (owner-occupied purchases, where the borrower will not occupy the property within 60 days of closing)
* Structures containing more than four (4) units
* Time sharing units
* Units managed in rental pools
* Properties in communities where Mortgage Banking may not be able to perfect the lien (except when specific loan programs address the lien perfection issue)
* Hawaii properties located in lava zones 1 and 2

See these policies for ineligible project characteristics:

* [Ineligible Condominiums and Ineligibe Characteristics for Condominiums](http://mbpp.jpmchase.net:8090/Collateral/Ineligible_Characteristics_for_Condominiums.htm)
* [Ineligible Characteristics for Cooperatives](http://mbpp.jpmchase.net:8090/Collateral/Ineligible_Characteristics_for_Cooperatives.htm)
* [Ineligible Characteristics for PUDs - Attached](http://mbpp.jpmchase.net:8090/Collateral/Ineligible_Characteristics_for_PUDs.htm)

**Condominium Project**

**Definition**

A condominium is a real estate project formed according to state condominium statutes, a recorded declaration, and other constituent documents, and has these features:

* The structure is generally of two or more units.
* Interior space of the units is individually owned.
* The balance of the property (both land and buildings) is owned in common by the owners of the individual units.
* A homeowners' association (HOA) administers and maintains the common areas by levying a monthly maintenance charge against each unit owner.

**Approval Requirements**

The Project Approval Group (PAG) underwriter must assess the condominium project for marketability and long-term stability, and determine that the condominium is sound and meets intended end investor requirements. Loans originated within a condominium project require varying levels of project analysis based upon the overall risk of the transaction, the construction and conversion status of the project, and Mortgage Banking and investor acceptance standards for condominium projects.

For specific standard requirements, see [Condo Project Approval Guidelines](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/Condo_Project_Approval_Guidelines.htm).

**Cooperative Units (Co-op)**

**Definition**

A co-op is a multi-family residential building with these features:

* A corporation holds title to the property.
* Individual units are conveyed to owners by issuing shares of stock.
* A proprietary lease agreement details the right of the tenant-shareholder to occupy the unit.

**Alert**: In order to secure the cooperative share loan, Mortgage Banking assigns the Proprietary Lease agreement and files a Uniform Commercial Code (UCC)-1 Financing Statement (which places a lien on the stock).

**Approval Requirements**

A review of the cooperative project must confirm the following:

* The corporation is well-managed.
* The corporation has sufficient assets to maintain a favorable equity position in the real estate.
* The corporation has sufficient operating income to meet expenses.
* The corporation does not have a history of delinquency.
* The corporation does not have excessive liens against the building.
* The building does not have existing adverse structural or hazardous conditions.

Mortgage Banking lends on projects the co-op admin approves. See the [Project Approval Database](http://rlp.finone.bankone.net:7778/pls/apex/f?p=278:1:0) for co-op project eligibility.

For specific standard requirements, see [General Cooperative Project Requirements](http://mbpp.jpmchase.net:8090/Collateral/General_Cooperative_Project_Requirements.htm).

**Alert**: Product or program guidelines may further limit eligibility and may supersede some of the guidelines found here. See the [Product Guides](http://mbpp.jpmchase.net:8090/Product_Guides/Product_Guides.htm) for specifics.

**Factory-built Housing**

Mortgage Banking finances certain factory-built housing units if they are classified as real estate under specific conditions.

**Eligible Types**

Factory-built housing must assume the characteristics of site-built housing and meet local building codes. Generally, these types of factory-built housing meet those requirements:

* Modular
* Prefabricated panelized
* Kit housing (including some log homes)
* Sectional housing

**Ineligible Types**

Any evidence that the collateral is manufactured housing (mobile home) in whole or in part (such as a mobile home with stick-built additions) renders the collateral ineligible**1**. Characteristics of manufactured (mobile home) housing include these properties:

* Are constructed away from the property site
* May include its own chassis
* May include towing hitch, wheels, and axles (these may be non-viewable or have been removed)
* May be considered single-wide, double-side, or triple-wide
* Have a HUD label and a HUD Data Plate
* May be permanently affixed to a permanent foundation in accordance with the manufacturer's requirements for anchoring, support, stability and maintenance

**1** Unless specifically permitted by the product guide and housing meets all appropriate agency, legal and compliance guidelines for manufactured housing.

**Leasehold Properties**

**Definition**

**Leasehold Estate -** A way of holding title to a property wherein the borrower does not actually own the property but rather has a recorded long-term lease on it.

**Lease -** A written agreement between the property owner and a tenant that stipulates the conditions under which the tenant may possess the real estate for a specified period of time and rent.

**Lender Considerations**

Given the dependence on the maintenance of a contractual leasehold agreement with a third party, Mortgage Banking considers leaseholds to have more legal implications than properties owned outright, regardless of the stated length of the lease.

Due to the complexity of the lease, the underwriter must obtain and review a copy of the underlying lease (and sublease if applicable) and engage Mortgage Banking legal counsel as needed.

**General Requirements**

The leasehold property must meet these general requirements:

* All rents are current.
* The mortgage lien is insurable by an ALTA leasehold title insurance policy.
* The property improvements have adequate hazard and flood (if needed) insurance coverage.
* The borrower's housing payment and debt-to-income ratio factors in any potential increase in rent payments.

**Appraisal Requirements**

The leasehold property appraisal must meet these requirements:

* It must indicate the leasehold is an acceptable property type in the market place.
* It must references the nature of the leasehold.
* The appraiser must develop a detailed description of the terms, conditions, and restrictions of the ground lease.
* The appraiser must assess the impact of any increase in rent payments on the future marketability of the property.
* The appraiser must consider and reports on any affect that the terms of the lease have on the value and marketability of the mortgaged premises.
* The appraiser must use sales of similar properties that have the same lease terms as comparable sales. If no comparable sales of leasehold properties are available, the appraiser must use sales of similar properties owned in fee simple as comparable sales.

**Lease Requirements**

The lease must meet these minimum investor requirements:

* The leasehold and improvements must be real property.
* The leasehold must run five years beyond the maturity date of the mortgage; Mortgage Banking waives this requirement if fee simple title will vest in the borrower, an HOA, or a cooperative housing corporation at an earlier date.
* The lease must be executed by all parties and recorded in public land records.
* The lease must provide that the borrower will retain voting rights in any HOA.
* The lease must provide that the leasehold can be transferred, mortgaged, assigned and sublet an unlimited number of times.
* The lease must have a provision to protect a mortgagee's interest in the event of condemnation.
* The lease must indicate that the borrower will pay taxes, insurance, and HOA dues relative to the land, in addition to those being paid on the improvements.
* The lease must be valid, in good standing, and in full force and effect.
* The lease must provide for a no fault provision, except for non-payment of lease rents, or failure to adhere to typical covenants and restrictions.
* The lease must provide for notification to the lender, in the event of default by the borrower, and give the lender the option to cure the default or take over the borrower's rights to the lease.
* If the lease has an option for the borrower to purchase the fee interest in the land, the option must be the borrower's sole option and must be assignable. If exercised, the mortgage must become a lien on the title in the same priority it had on the leasehold.

**Lease with Option to Purchase**

Leases with option to purchase are eligible for primary residences only, according to these restrictions:

* Use the lesser of the original lease/purchase agreement or appraised value to determine loan-to-value.
* Apply only the portion of the rental payment that exceeds the market rent toward the down payment (use the property appraisal to determine the market rent regardless of what is stated in the sales contract).
* Document the rental payments with copies of canceled checks or equivalent (e.g., copies of bank statements).
* The original lease/purchase option agreement must have had a minimum term of at least 12 months.
* The original purchase agreement portion of the contract must include the rent credit terms.

**Mixed-use Properties (Agency Products Only)**

Mortgage Banking finances properties modified to accommodate these types of small business:

* Day care facility
* Hair care salon
* Professional service office (e.g., medical or accounting)

To be eligible for single-family residential financing, the property must meet these criteria:

* It must be a one-unit dwelling occupied by the borrower as a primary residence.
* It cannot be a multiple family dwelling (i.e., a two-family, with a third unit used for a business).
* The occupant borrower must be the owner and operator of the small business.
* Property zoning must represent a legal, permissible use of the property under the local zoning requirements.
* Property must be residential in nature and must not be modified to such an extent that the elimination of the business would render the property unusable as a residence.
* Value must be based on the residential characteristics of the property, *not the business*, and be supported by comparable residential properties.
* Appraiser must address the business use, and compatibility with the neighborhood.
* The appraiser's opinion of the property's highest and best use is residential, *not commercial*.

**Group Homes**

Mortgage Banking finances group home properties with minor modifications to accommodate individuals with disabilities.

The property must meet these requirements:

* It must be a 1-4 unit dwelling.
* The borrower must be a natural person, not a legal entity.
* The borrower must meet all state and or locality licensing requirements for a group home provider, and locally manage the group home.
* Occupancy: See [Borrower's Intended Occupancy](http://mbpp.jpmchase.net:8090/Credit_Policy/Prime_First_Mortgage_Borrower/Borrowers_Intended_Occupancy_Prime.htm)
* The number of occupants must not exceed local zoning requirements.
* Property zoning must represent a legal, permissible use of the property under the local zoning requirements.
* Property must be residential in nature, and not modified to such an extent that the elimination of the group home would render the property unusable as a residence.
* Value must be based on the residential characteristics of the property, *not as a group home*, and be supported by comparable residential properties.
* Appraiser must address any functional obsolescence caused by the modification of the dwelling, to include the cost to cure.
* Appraiser must addresses the group home use, and compatibility with the neighborhood.
* The appraiser's opinion of the property's highest and best use must be residential, *not commercial*.

Resale restrictions are not permitted.

**Outbuildings**

Outbuildings are generally common to rural properties, although they may be present in urban or suburban properties. The appraisal report must comment on any consideration the appraiser gives for value.

|  |  |
| --- | --- |
| **Mortgage Banking typically accepts minimal outbuildings such as a...** | **PROVIDED both of these are true...** |
| * storage shed, * small barn, or * stable, | * Their contribution to the subject's value is relatively insignificant in relation to the total value of the property. * They are common and customarily accepted by the market. |

For **rural properties**, the existence of a significant building (regardless of whether or not the appraiser assigns a value) could indicate that the property is *agricultural in nature and therefore, ineligible*.

**Alert**: Review the appraisal carefully to ensure the property is primarily residential.

**Planned Unit Developments (PUD)**

**Definition**

A planned unit development (PUD) is a real estate development formed according to a recorded declaration and other constituent documents, with these characteristics:

* Each unit owner has title to a residential lot and dwelling and has certain legal rights to use the common areas.
* The common areas are administered, maintained, and owned by an HOA that levies monthly charges against lot owners for expenses.
* Membership in the association is mandatory, and transferred with the transfer of title to the individual units.

**Lender Considerations**

Mortgage Banking lends on PUD projects that demonstrate market acceptance. The Project Approval Group (PAG) must review and approve attached PUD projects, while the loan underwriter reviews detached PUD projects.

**Insurance Requirements**

PUD projects must have adequate insurance (fire, hazard, flood, etc.) based upon whether units are attached or detached PAG reviews insurance policies for attached PUD projects, while the loan underwriter reviews insurance policies for detached PUD projects.

**Alert**: Product or program guidelines may further limit eligibility; see the [Product Guides](http://mbpp.jpmchase.net:8090/Product_Guides/Product_Guides.htm) for specifics.

**Rural Properties**

Mortgage Banking finances properties that are residential in nature, regardless of whether the property is urban, suburban, or rural.

If a property is rural and contains considerable land, it may actually be residential, and used only for residential purposes.

Mortgage Banking does not impose limits on acreage or the percentage of the value to which the excess land is attributed when the property meets these conditions:

* The property is common and customary to the market, and supported by comparable sales.
* The property *is not* a Texas Homestead 50(a)(6) property
* The property is residential in nature
* The property *is not* used for income producing purposes; the appraiser must comment fully on the excess land and compare it to properties with like characteristics
* The property must be serviced by adequate utilities and roads which meet local standards
* The property must be accessible for year-round use.

**Note**: Mortgage Banking must adhere to specific policies and procedures governing Texas homestead properties. Non-compliance can result in severe penalties, including loss of lien position and forfeiture of all principal and interest. The specific policies and procedures apply to these Texas homestead transactions:

* Cash-out
* Rate and term refinance of a current 50(a)(6) lien

See the channel-specific operations manual in the [Product Guides](http://mbpp.jpmchase.net:8090/Product_Guides/Product_Guides.htm) for more information.

**Ineligible Rural Properties**

Ineligible rural properties include properties with these characteristics:

* Secured by agriculture type land (i.e., farms, orchards or ranches)
* Undeveloped land
* Secured for land development purposes

**Single-family Residences with Fee Simple Property Rights**

A fee simple single-family residence (SFR) is designed for occupancy by one family, and has these characteristics:

* Generally, the dwelling will not have common exterior walls with another residence.
* In some cases a fee simple SFR may be attached and not be classified as either a condominium or PUD.
* The dwelling may be located on an individual lot, in subdivision or in a project.

**2-4 Unit Residences**

**Definition**

2-4 unit residences generally are attached units, with one blanket mortgage, designed to be occupied by two, three, or four families (one family for each unit), for the purpose of producing income for the owner.

The dwellings may be on an individual lot, in a subdivision or PUD, and have any of these configurations:

* Duplex
* Tri-plex
* Four-plex

**Lender Considerations**

Multi-family residences generally have higher default rates than SFRs since they involve an element of rental income that assists the borrower in meeting the mortgage commitment. Thus, these properties generally carry lower LTV maximums.

**Occupancy**

If the borrower does not reside in one of the units, Mortgage Banking considers the property as an investment property.

**Property Flipping and Assignment of Sales Contract**

**Overview**

Property flipping is a process of purchasing existing or proposed construction properties with the intention of reselling the properties for a profit. Individuals that flip properties employ a variety of different approaches to reach their objective.

Some individuals:

* Briefly hold title (months or days)
* Assign or sell their interest in a contract to a third party

For example, two primary scenarios apply:

* An individual purchases a property at a discounted price, represents his intention to occupy, then resells the property shortly after closing for a profit.
* An individual identifies a property that can be acquired at a discounted price then assigns the sales contract to an unsuspecting buyer for a profit with an inflated appraisal.

Property flipping is illegal or predatory when an immediate resale is accompanied by acts of occupancy misrepresentation, including obtaining appraisals with inflated property values and other misleading documentation. The victim is an uninformed homebuyer who may have paid too much for a property or a lender who only services the property for a short period of time.

Property flipping through assignment of contract, combined with misrepresentation of occupancy at the time of the original contract commitment, can artificially inflate the value of the property and result in losses for the owner and the lender.

See the [LIO Loan Referral Form](http://sharepoint.jpmchase.net/Sites1/SPggxlfh/Fraud%20Forms%20and%20Job%20Aids/LIO%20Loan%20Referral%20Form.docx).

**Policy**

Generally, only owners of record can sell properties that are financed by Mortgage Banking. The seller does not have to be the owner of record when their interest in the subject property is held per a sales agreement executed at least 12 months prior to the assignment of the contract.

Generally, any resale of a property may not occur 90 or fewer days from the last sale. However, the underwriter may consider a situation when the transaction entails one of the following:

* Properties acquired by an employer/relocation agency in connection with the relocation of an employee.
* Resale by a lender when the property is obtained through foreclosure or a deed in lieu of foreclosure.
* Resale of a property obtained through inheritance, acquired from a family member, or as part of the property settlement in a divorce agreement.
* Properties acquired for the purpose of rehab or upgrading.

For a resale that occurs between 91 days and 12 months, the underwriter should use discretion when decisioning the loan and determine if:

* The timeline and percentage of increase in the sales price is reasonable
* There is an unrealistic percentage of increase based upon the local market
* The underwriter should also use discretion, when one of the above situations is present, in:
  + Requiring a second appraisal
  + Requiring a review appraisal
  + Approving the loan

**Variances to Policy**

Any variance to the policy above may be submitted to an Underwriting manager for review and decisioning.

# Termite, Well, Septic and Radon Policy

Certain certifications (for example, pest, well, septic and radon) help to eliminate the credit risk presented by potentially negative impacts on the property. Mortgage Banking requires such certifications in these situations:

* The appraisal lists them as a condition of satisfactory appraisal.
* The local market area typically requires them.
* The specific product or program requires them; see the specific product or program guide.

## Termite

Mortgage Banking requires a termite inspection if the appraisal lists it as a condition of satisfactory appraisal, or if it is typical for the local market area. The termite certification must be on an acceptable form as per agency, investor, and/or state requirements.

### All loans

A certified or licensed pest inspector must conduct the inspection.

The inspection report must evidence that the property is clear of both of these:

* Active infestation
* Visual damage resulting from previous infestation

|  |  |
| --- | --- |
| **IF...** | **THEN...** |
| inspection reveals a previous infestation, | the inspector must determine if the damage is cosmetic or structural. |
| damage is observed, and it is not extensive, | the underwriter must determine whether correction is necessary. |
| damage is structural, | a licensed inspector must perform an inspection. The inspection must state the nature of the damage and repairs needed. For FHA loans, the branch must call for an architectural inspection by FHA. |
| appraiser notes evidence of termites or other wood-destroying insects, | obtain evidence that the condition does not pose a structural threat to the property.   |  |  | | --- | --- | | **IF damage is...** | **THEN...** | | extensive, | obtain a professionally prepared report indicating the damage is not structural. | | not extensive, | the underwriter must determine whether correction is necessary. | |

### Conventional Loans

A licensed inspector must conduct the inspection, which must meet local custom and state-specific format requirements.

These requirements apply when the pest inspection report does not reflect an expiration date:

|  |  |
| --- | --- |
| **IF the property is...** | **THEN the report expires after...** |
| existing, | 120 days. |
| new construction, | 180 days. |

### Government Loans for Existing Construction, Purchase, Regular No Cash Out and Cash Out Refinance

The purpose of the inspection is to provide reasonable assurance that termites, or other wood-destroying insects, do not threaten or damage the physical security of the property improvements. For existing properties, a state-licensed pesticide business (registered pest control technician or licensed pesticide applicator) must perform the inspection.

**Alert**: An inspection firm that does not have a properly registered pest-control license cannot perform the inspection.

The borrower must have any active infestations treated, and all related damage properly corrected.

#### Documentation Requirements

Use form NPMA-33 unless the property is in a state that requires another form recognized by the HUD regional or field offices.

* Obtain the form after the date of the contract of sale by calling the National Pest Control Association at 703-573-8330. Their address is:  
    
  National Pest Control Association  
  8100 Oak Street  
  Dun Loring, VA 22027
* In all states that require a pest inspection, a licensed pest inspector must sign and date the form.
* The buyer must sign the form.
* The form is valid for 90 days from the date of inspection.

### Streamline Refinances for Existing Construction

FHA Streamline Refinances do not require a termite inspection report unless the appraiser specifically mentions an active infestation, or evidence of a previous infestation.

Appraisers may add the termite report as a condition of satisfactory appraisal, but the DE underwriter does not need to condition for it unless the appraisal notes it on the URAR. If a concern still exists, the underwriter can discuss with the appraiser the reason why the appraiser added the condition.

Repair to termite-damaged wood is not necessary unless it poses a health or safety hazard.

### New Construction, Proposed Construction, Under Construction, and Existing Construction Less than 1 Year Old

The file must include evidence that the property has had satisfactory termite abatement procedures performed. The builder must provide a fully completed and executed copy of form NCPA-99a.

|  |  |
| --- | --- |
| **IF...** | **THEN...** |
| builder used termiticide chemicals, | a licensed pest control company must also provide a fully completed and executed copy of form NCPA-99b. |
| builder used pressure-treated wood, | form NPCA-99 must include:   * Under the **Type of Treatment** section, a checkmark in the box next to "Wood" * This statement:   Complies with Mortgagee Letter 2001-04 for use of preservatively-treated wood. |
| the building does not require termite protection (because the locations identified in Mortgagee Letter 2001-04 are entirely built from steel, masonry or concrete), | form NPCA-99, **Type of Treatment** section, must include this statement in the space to the right of "Soil":  Masonry [steel, or concrete] construction, no treatment needed. Complies with Mortgagee Letter 2001-04. |

**Alert**: The pest certification fee is an allowable closing cost for cash out refinances. Do not charge the fee to the borrower for VA loans that are purchase transactions.

## Well and Septic

Private well and septic tanks are acceptable. Mortgage Banking requires a certification inspection when the appraisal lists it as a condition of satisfactory appraisal, or if it is typical for the local market area. The program or underwriter typically requires a well, septic, water or bacteriological test; see the specific product or program guide for requirements.

Except for existing properties in Michigan that are covered by the general waiver issued in "Philadelphia HOC Letter 00-02," a domestic well must be a minimum of 50 feet from a septic tank, 100 feet from the septic tank's drain field, and 10 feet from any property line.

## Radon

Mortgage Banking requires a radon test if the sales contract or appraiser recommends one. See the specific product or program guide for requirements.

# Insurance

This topic provides hazard and flood insurance requirements.

## 1-4 Unit, PUD (Attached or Detached) or Condo (Detached)

In addition to the hazard insurance requirements outlined in the table below, Mortgage Banking may also require master or blanket coverage at the project level:

|  |  |
| --- | --- |
| **Hazard Insurance Coverage - Individual Homeowner** | |
| **Policy Requirements** | A hazard insurance policy must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. A hazard insurance policy cannot limit or exclude from coverage windstorm, hurricane, hail damages, or any other peril normally included under an extended coverage endorsement, unless a separate policy or endorsement is obtained that provides adequate coverage of the limited or excluded peril. This separate coverage may come from an insurance pool established by the state to cover the limitations or exclusions.  Mortgage Banking requires homeowners or master casualty insurance policy in force at the time of closing through an insurance company that has an acceptable rating by any of these:   * A.M. Best Company * Standard and Poor's, Inc. * Demotech, Inc.   Refer to the [Ratings Comparison Table](http://mbpp.jpmchase.net:8090/Collateral/Insurance.htm#Ratings_Comparison_Table__Individual_and_Blanket_Policies_) below for ratings information.  **Note**: For all property types *except co-op*, Mortgage Banking accepts hazard insurance policies underwritten by Lloyd's of London or Hawaiian Insurance and Guaranty Company even though they are not rated by one of the acceptable rating agencies. In addition, coverage obtained through state insurance plans is acceptable, if that is the only coverage available. |
| **Amount of Deductible** | The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) to secure a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement) require deductible no greater than 5% of the face amount of the policy. |
| **Amount of Coverage** | * Guaranteed replacement cost coverage or similar verbiage as stated in the declarations page (e.g. dwelling replacement coverage, extended replacement cost) or * 100% of the insurable value of the improvements as established by the insurer. If this is not shown on the HOI, see [Coverage Limits](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/hazard_homeowners_insurance_requirements.htm#Coverage_Limits_-_Single_Family__1-4_Unit__PUD__Attached_Detached__or_Condo__Detached_) in the Hazard Homeowners Insurance Procedures topic. |
| **Named Insured** | The named insured is:   * Borrower   **Note**: The policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured when a condominium's legal documents allows. |

See [Hazard Homeowners Insurance Procedures](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/hazard_homeowners_insurance_requirements.htm) for additional guidance.

|  |  |
| --- | --- |
| **Flood Insurance Coverage - Individual Homeowner** | |
| **Policy Requirements** | Under the National Flood Insurance Reform Act of 1994, Mortgage Banking does not make, increase, extend, or renew any loan or line of credit secured by improved real estate (including manufactured and mobile homes) that is located or will be located in an area identified as a special flood hazard area (SFHA) unless the property is covered by flood insurance. Require an in-force flood insurance policy on the individual unit at the time of closing.  The Flood Insurance Rate Maps (FIRM) identifies the SFHAs with zones that begin with "A" or "V." Since federal law mandates flood insurance, do not waive under any circumstances.  When the property is located in a SFHA, but the dwelling is not in a SFHA, requires no flood insurance. However, if *any* part of the principal dwelling is located in an SFHA, then obtain flood insurance. |
| **Amount of Deductible** | The maximum deductible for an individual flood policy is $5,000. |
| **Amount of Coverage** | The minimum amount of flood insurance required is the lower of:   * + The maximum amount of flood insurance available through the NFIP currently $250,000 per unit or   + The replacement cost of the insurable improvements. Mortgage Banking will defer to the insurance company's determination/definition of replacement cost and/or insurable value of the improvements (i.e., 100% replacement cost, guaranteed replacement cost, full insurable value, replacement cost, similar verbiage insuring the cost of the dwelling, insurable improvements, etc.), or   + The outstanding principal balance of the first lien loan, plus (1) the unpaid principal balance of any other loan and (2) the total line of credit amount for any line of credit secured by the same property. * The policy or declaration's page should state the type, amount and effective date of the coverage. * Mortgage Banking will not require flood insurance coverage in excess of the maximum coverage available for the type of property insured under the applicable National Flood Insurance Administration (NFIA) program. |
| **Escrows** | The National Flood Insurance Reform Act of 1994 prohibits a lender from waiving flood insurance escrows if the lender establishes an escrow account for the payment any of these:   * Taxes * Hazard insurance * Mortgage insurance * Special assessments or other similar items   When Mortgage Banking waives the escrow or impound account for these items at the borrower's request, an escrow for flood insurance is not required. However, if an escrow account is established for the payment of any of these items, then you must escrow flood insurance. In these cases, do not permit waiver of flood insurance escrow. |

See [Flood Insurance Coverage Calculation](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/Flood_Insurance_Coverage_Calculation.htm) for additional guidance.

## PUD (Attached/Detached) or Condo (Attached/Detached), Co-op

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| **Hazard Insurance Coverage - Master/Blanket Coverage** | |
| **Policy Requirements** | **PUD (Attached/Detached) or Condo (Attached/Detached)** |
| A hazard insurance policy must protect against loss or damage from fire and other hazards covered by the standard extended coverage endorsement. A hazard insurance policy cannot limit or exclude from coverage windstorm, hurricane, hail damages, or any other peril normally included under an extended coverage endorsement, unless a separate policy or endorsement is obtained that provides adequate coverage of the limited or excluded peril. This separate coverage may come from an insurance pool established by the state to cover the limitations or exclusions.  Mortgage Banking requires a homeowners or master casualty insurance policy in force at the time of closing through an insurance company that has an acceptable rating by any of these:   * A.M. Best Company * Standard and Poor's, Inc. * Demotech, Inc.   Refer to the [Ratings Comparison Table](http://mbpp.jpmchase.net:8090/Collateral/Insurance.htm#Ratings_Comparison_Table__Individual_and_Blanket_Policies_) below for ratings information.  The number of condominium or attached PUD units insured must reflect on the master hazard insurance policy declarations page or as an addendum to the policy. When the number of units are not clearly listed on the policy, Mortgage Banking accepts an endorsement from the insurance company or HOA that states the number of units covered by the policy.  **Notes**:   * Detached PUD projects do not require verification of hazard insurance for the common elements. * For HARP Refi Plus and Relief Refi transactions verification of master hazard insurance coverage for common areas is not required. |
| **Co-op** |
| Mortgage Banking requires a commercial insurance policy in force at the time of application through an insurance company that has an acceptable rating by any of these:   * A.M. Best Company * Standard and Poor's, Inc. * Demotech, Inc.   Refer to the [Ratings Comparison Table](http://mbpp.jpmchase.net:8090/Collateral/Insurance.htm#Ratings_Comparison_Table__Individual_and_Blanket_Policies_) below for ratings information.  **Notes**:   * When the borrower's application date precedes the expiration date of the project's insurance, as shown in the [Project Approval Database](http://rlp.finone.bankone.net:7778/pls/apex/f?p=278:1:0), you do not need to obtain an update provided that the loan closes within the credit expiration date of the original loan approval. * For HARP Refi Plus and Relief Refi transactions verification of master hazard insurance coverage for common areas is not required. |
| **Requirements** | **PUD (Attached/Detached) or Condo (Attached/Detached)** |
| The HOA must maintain a policy that covers all of the common elements except for those that are normally excluded such as land, foundation or excavations.  Common elements include these:   * Fixtures * Building service equipment * Common personal property and supplies   The following is not permitted:   * A self-insurance arrangement whereby the owners association is self-insured or has banded together with other unaffiliated associations to self-insure all of the general and limited common elements of the various associations. * Master or blanket insurance for unaffiliated condo associations or project:   + PAG may approve master or blanket insurance policies that cover multiple unaffiliated condo associations or projects.   + A master or blanket insurance policy is defined as covering multiple condo projects that are not under the same master association and do not share the use of common facilities. * A master or blanket hazard insurance policy that covers multiple unaffiliated condo projects must meet all the following:   + The coverage limits must be the higher of:     - > 50% of the total insurance replacement value for all condo projects insured, or     - > 150% of the total insurable replacement value for the single largest condo project under the policy, but not more than 100% of the total insurable value for all condo projects insured.   + The policy endorsement must:     - State that insurance is being provided under a master or blanket insurance policy that combines insurance coverage for multiple unaffiliated condo projects;     - State that loss limits apply per occurrence and loss claims will be paid per occurrence;     - Reinstate the original per occurrence coverage limit after each loss occurrence or claim so that the full original per occurrence limit is immediately available for any subsequent loss for any perils;     - Include a Coinsurance Waiver; and     - State that each condo project is a named insured.   + The policy or endorsements cannot contain an aggregate (or policy term) loss limit for any perils that require coverage.   Accept an individual insurance policy in lieu of a master policy for these property types:   * Eligible 2-4 unit condominiums * Detached PUDs with common areas * Detached PUDs and Detached Condo projects with these:   + No common areas (verify through the appraisal report or directly with the HOA)   + Elements   + Public ways (private streets, sidewalks, pathways, etc),   + Commercial spaces or other areas under the supervision of the HOA   **Note**: Detached PUD Projects do not require verification of master hazard insurance for the common elements. |
| **Co-op** |
| The cooperative corporation must maintain a policy that provides for at least fire, and has an extended coverage endorsement. The policy must cover the entire project, including the individual units.  Do not permit either of these:   * A blanket policy that covers multiple unaffiliated co-op associations or projects. * A self insurance arrangement whereby the HOA is self insured or has banded together with other unaffiliated associations to self insure all of the general and limited common elements of the various associations |
| **Amount of Deductible** | The maximum allowable deductible for insurance covering a property (including common elements in a PUD, condo, or co-op project) to secure a first mortgage loan is 5% of the face amount of the policy. When a policy provides for a separate wind-loss deductible (either in the policy itself or in a separate endorsement), then require deductible no greater than 5% of the face amount of the policy. |
| **Amount of Coverage** | Insurance should cover replacement cost of the project improvements, including the individual unit. Coverage does not need to include these:   * Land * Foundations * Excavations or other items that are usually excluded from insurance coverage   When the policy includes a coinsurance clause, require an "*Agreed Amount Endorsement*" to waive the requirement for coinsurance.  An insurance policy that includes either of these endorsements ensures full insurable value replacement cost coverage:   * "*Replacement Cost Endorsement*," under which the insurer agrees to pay up to, but no more than, 100% of the property's insurable replacement cost or * "*Replacement Cost Endorsement*," under which the insurer agrees to replace the property up to a specified percentage over the policy limit, or agrees to replace the property regardless of the cost.   The policy or declaration's page should state the type, amount and effective date of the coverage. |
| **Operating Reserve Accounts** | The operating reserve accounts must include funds to cover the deductible amounts for the HOA or cooperative corporation. |
| **Named Insured** | **PUD (Attached/Detached) or Condo (Attached/Detached)** |
| Homeowners' Association or the project name  **Note**: When a condominium's legal documents permit it, the policy can specify an authorized representative of the HOA, including its insurance trustee, as the named insured. |
| **Co-op** |
| The Cooperative Corporation |

See [Hazard Homeowner Insurance - Condo/Co-op Procedures](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/Hazard_Homeowner_Insurance_-_Condo_Co-op_Requirements.htm) for additional guidance.

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| **Flood Insurance Coverage - Master/Blanket Coverage** | |
| **Policy Requirements** | Under the National Flood Insurance Reform Act of 1994, Mortgage Banking does not make, increase, extend, or renew any loan or line of credit secured by improved real estate (including manufactured and mobile homes) that is located or will be located in an area that has been identified as a special flood hazard area (SFHA) unless the property is covered by flood insurance.  The Flood Insurance Rate Maps (FIRM) identifies the SFHAs as flood zones that begin with "A" or "V." Since federal law mandates flood insurance, you cannot waive under any circumstances.  **Note**: Detached PUD projects do not require verification of flood insurance for the common elements. |
| **Specific Policy Requirements** | **Attached/Detached PUD or Attached/Detached Condo** |
| When any parts of a PUD or condominium project's improvements are in a SFHA, the HOA must:   * Condo - Maintain a Residential Condominium Building Association Policy (RCBAP) for flood insurance * Attached PUD - Maintain a master policy general form issued by FEMA * Provide that premiums are paid as a part of the common expenses   When a condominium project consists of high-rise or other vertical buildings, Mortgage Banking requires the HOA to obtain the policy for each building that is located in a SFHA.  Reflect the number of condominium or attached PUD units insured on the master flood insurance policy declarations page or as an addendum to the policy (when flood insurance is required). When the number of units is not clearly listed on the policy, Mortgage Banking accepts an endorsement from the insurance company stating how many units are covered by the policy.  **Notes**:y   * PAG approval of the master flood insurance is required. * Detached PUD projects do not require verification of flood insurance for the common elements. * For HARP Refi Plus and Relief Refi transactions an individual flood insurance policy is allowed to provide the necessary flood insurance coverage or to close a gap in the master policy coverage; or to provide full coverage if the condo project does not maintain a RCBAP. |
| **Co-op** |
| When any parts of a cooperative project's common ownership improvements are in a SFHA, the cooperative must maintain building coverage through a "*General Property Policy Form*."  Loans secured by individual cooperative units are not covered under the Flood Disaster Protection Act. These loans are secured by stock share, not real estate. |
| **Amount of Deductible** | **Attached/Detached PUD or Attached/Detached Condo** |
| **Individual Unit Policy**: Maximum deductible for an individual flood policy is $5,000.  **Master Policy**: Maximum deductible for master policy is $25,000. Individual polices are not permitted at origination. |
| **Co-op** |
| Maximum deductible is $25,000 per building. |
| **Amount of Coverage** | **Attached/Detached PUD or Attached/Detached Condo** |
| For condominium projects, require the minimum amount of coverage at the lower of:   * 100% replacement cost coverage of each insured building (including all common elements and property); or * Maximum coverage available under the NFIP, currently $250,000 per unit.   The policy or declaration’s page should state the type, amount and effective date of the coverage. |
| **Co-op** |
| For cooperative projects, require the minimum amount of coverage at the lower of:   * 100% replacement cost coverage of each insured building (including all common elements and property); or * Maximum coverage available under the NFIP, currently $250,000 per building.   The policy or declaration's page should state the type, amount and effective date of the coverage. |
| **Master or Blanket Policy** | A master or blanket policy must provide coverage for all of the common elements and property, as well as for each of the individual units in the building. |
| **Escrows** | **Attached/Detached PUD or Attached/Detached Condo** |
| The National Flood Insurance Reform Act of 1994 prohibits a lender from waiving flood insurance escrows if the lender establishes an escrow account for the payment of these:   * Taxes * Hazard insurance * Mortgage insurance * Special assessments or other similar items   When Mortgage Banking waives the escrow or impound account for these items at the borrower's request, requires no escrow for flood insurance. However, if an escrow account is established for the payment of any of these items, then you must escrow for flood insurance. In these cases, do not permit a waiver of flood insurance escrow. |
| **Co-op** |
| Not applicable |
| **Simultaneous Closing Coverage Requirements** | **Attached/Detached PUD or Attached/Detached Condo** |
| Where there is a simultaneous closing of a first mortgage loan and a home equity loan or line, require flood insurance coverage in an amount sufficient to cover both Mortgage Banking loans provided it does not exceed the maximum permitted by law. |
| **Co-op** |
| Not applicable |

See [Flood Insurance Coverage Calculation](http://mbpp.jpmchase.net:8090/Retail_Policies_and_Procedures/Flood_Insurance_Coverage_Calculation.htm) for additional guidance.

## Condo (Attached) and PUD (Attached)

**Note:** For an attached PUD the "walls-in" coverage can be provided by either an individual insurance policy provided by the homeowner or the master policy provided by the HOA.

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| **HO-6 "Walls In" Individual Homeowner and Master Insurance** | |
| **Policy Requirements** | Require a homeowners or HO-6 casualty insurance policy in force at the time of closing through an insurance company that has an acceptable rating by any of these:   * A.M. Best Company * Standard and Poor's, Inc. * Demotech, Inc.   Refer to the [Ratings Comparison Table](http://mbpp.jpmchase.net:8090/Collateral/Insurance.htm#Ratings_Comparison_Table__Individual_and_Blanket_Policies_) below for ratings information. |
| **HO-6 Insurance Policy Requirements** | The homeowners must maintain a policy of HO6 "Walls In" insurance if the master insurance policy for the project does not provide coverage. The policy must cover all of the individually owned interior structural parts of the building and the interior finish (including fixtures and appliances).  The policy must protect against all these perils:   * Fire and lightning * Windstorm or hail * Explosion * Civil commotion or riot * Damage caused by:   + Aircraft   + Vehicle   + Smoke   + Vandalism or malicious mischief   + Theft   + Volcanic eruption |
| **Amount of Deductible** | The maximum allowable deductible is 5%. |
| **Minimum Coverage** | The minimum HO-6 coverage, as determined by the insurer, must be sufficient to repair the unit to its condition prior to a loss claim event. Policy must reflect "Replacement Cost Coverage," or similar language.  An insurance policy that includes either of these endorsements ensures full insurable value replacement cost coverage:   1. "*Replacement Cost Endorsement*," under which the insurer agrees to pay up to, but no more than, 100% of the property's insurable replacement cost **or** 2. "*Replacement Cost Endorsement*," under which the insurer agrees to replace the property up to a specified percentage over the policy limit, or agrees to replace the property regardless of the cost.   The policy or declaration's page should state the type, amount and effective date of the coverage. |

## Ratings Comparison Table (Individual and Blanket Policies)

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| **Ratings Comparison Table Based on Agency Policies** | | | |
| **Ratings Agency** | **Agency (GSE)** | **All Property Types (Except Co-op)** | **Co-op** |
| [A.M. Best](http://www.ambest.com/) | Fannie Mae | "B" or better financial strength rating | "B" or better financial strength rating |
| Freddie Mac | * "B/III," *or*, * for a non-US insurer, "A/VIII" | "A-" or better |
| [Demotech, Inc.](http://www.demotech.com/) | Fannie Mae | "A" | Not applicable |
| Freddie Mac | "A" | Not applicable |
| [Standard and Poor's, Inc.](http://www.standardandpoors.com/home/en/us) | Fannie Mae | "BBB" | Not applicable |
| Freddie Mac | "BBB" | "A" |

### PUD (Attached), Condominium (Attached/Detached) or Co-op - Liability Insurance

Mortgage Banking must verify liability coverage as part of its review of a project. These property types are exempt from this requirement:

* Attached PUDs - Type E (Established)1
* Detached PUDs - Type E (Established) and Type F (New)

Require that the owners' association for a PUD or condominium or cooperative corporation for a cooperative project maintain a comprehensive commercial general liability (CGL) insurance policy to cover the entire project. The policy must also cover these:

* All common areas and elements
* Public ways (private streets, sidewalks, pathways, etc)
* Any other areas that are under the supervision of the homeowners' association
* Commercial spaces that are owned by the homeowners' association (or cooperative corporation), even if they are leased to others

The CGL insurance policy should provide coverage for bodily injury and property damage that result from the operation, maintenance or use of the project's common areas and elements.

When not already included in the terms of the CGL coverage, there must be a "severability of interest" endorsement that precludes the insurer's denial of a unit owner's claim because of negligent acts by the association, the fee simple landowner or lessor or other unit owners.

Require the amount of the coverage for at least $1 million for bodily injury and property damage and that it provides for claim settlements on an occurrence basis.

**Note**: For HARP Refi Plus and Relief Refi transactions verification of master liability insurance coverage for common areas is not required.

### Co-ops with Elevators (Agency transactions)

Require the amount of the coverage at least $3 million for bodily injury and property damage for any single occurrence. Any combination of primary and umbrella excess (per occurrence and aggregate limits) may satisfy this requirement.

### Condominium (Attached/Detached) or Co-op - Fidelity Bond Insurance

Require fidelity insurance for all condominiums and co-ops except projects that consist of 20 or less units.

When required, the HOA or cooperative corporation must have blanket fidelity bonds for anyone who either handles or is responsible for funds that it holds as administrators, whether or not the administrator receives compensation for services. Require the following:

* The bonds name the HOA or cooperative corporation as the insured.
* The premiums are paid as a common expense by the association or corporation.
* The amount of fidelity coverage must equal no less than the maximum amount of funds in the custody of the HOA/cooperative corporation or its management firm at any one time or coverage that meets the state's statutory fidelity bond requirements if documented.
* A management agent that handles funds for the HOA or cooperative corporation should be covered by its own fidelity insurance policy which must provide the same coverage required of the HOA or cooperative corporation.
* If the HOA/cooperative corporation or management firm adheres to at least one of the following controls, then the amount of fidelity insurance coverage can be reduced to equal at least 3 months of assessments on all units in the project:
  + Maintains separate accounts for the operating budget and the reserve fund with copies of the monthly statements sent directly from the bank to the HOA or cooperative corporation, or
  + Two or more board members must sign any check drawn on the reserve fund account, or
  + Separate records and accounts are maintained for each HOA or cooperative corporation using the management firm’s services and the management firm does not have the authority to draw checks or transfer funds from the HOA or cooperative corporation reserve account.

**Note**:

* Verification of master fidelity insurance coverage is not required:
  + For HARP Refi Plus, DU Refi Plus and Relief Refi transactions (Required for LP Open Access).
  + If required amount of coverage is $5,000 or less. (This flexibility is only available for Non-Agency loans or loans sold to FNMA)..

### Condominium (attached), PUD (attached) or Co-op – Special Endorsements

For a multi-unit building where the heating and cooling system is centrally located a policy or policy endorsement is required for adequate protection against mechanical breakdown and equipment failure.

The master policy should have an endorsement that provides the lesser of $2 million, or the insurable value of the building(s) housing the boiler or machinery.  In lieu of an endorsement, the project may purchase separate standalone boiler or machinery coverage. If a higher limit is required by private Mortgage Investors for projects similar in construction, location and use the project must maintain the higher insurance limit. An inflation guard endorsement is required, when it can be obtained.

The master policy must also include a building ordinance or law endorsement.

### PUD or Condominium - Earthquake Insurance

Condominiums and PUDs do not require earthquake insurance.

## Allowable Investment Properties

### Rent Loss Insurance

When you use rental income to qualify the borrower(s), require rent loss insurance coverage for at least six (6) months for these:

* Investment properties
* 2-4 unit owner-occupied properties

Generally, rent loss insurance pays the insured homeowner (policyholder) for any of these:

* Lost rental income due to the insured property rendered non-rentable by direct physical loss caused by a peril such as:
  + Fire
  + Lightning
  + windstorm
  + Hail
* Time needed to repair or replace the property or 12 months, whichever is shorter

## Cooperatives - Rent Loss Insurance or Business Income Insurance

The cooperative corporation must maintain rent loss insurance whenever there are co-op owned units not occupied by tenant or shareholders. Units occupied by the superintendent or maintenance personnel are not subject to the rent loss insurance requirement.

The cooperative corporation must maintain business income insurance to cover 12 months of the cooperative unit maintenance fees lost due to a cause of loss identified in the "*Insurance Services Office's (ISO) Commercial Property Causes of Loss - Special Form*" endorsement.

## Title Insurance Underwriters

Underwriting title insurance companies must maintain a FNMA-acceptable financial rating from either one (1) of two (2) vendors, LACE or Demotech. When the underwriting title company is unrated, or their rating is not FNMA-acceptable, require an "*Assumption of Liability*" endorsement (Fannie Mae form 858 or equivalent) for each title policy.

Vendor Management periodically prepares LACE (and) Demotech-rated title insurance underwriter lists for distribution, but does not maintain a list of "approved" title companies.