



Underwriting FAQs

This document highlights frequently asked questions about policies that are covered in the *Selling Guide*, and provides direct links to the relevant *Selling Guide* topic and other resources. The document is updated periodically to align with policy changes.

#	Question	Answer
1	Can the amount of distributions reported on IRS Schedule K-1 be used as income to qualify the borrower?	No, distributions are not an additional or secondary source of income for qualifying purposes and cannot be used in the absence of business earnings for qualifying purposes. A documented history of distributions demonstrates that business income has been received by the borrower. When the borrower cannot document a history of distributions consistent with the amount of business income used to qualify, the lender can alternatively confirm the business has adequate liquidity to support the withdrawal of earnings.
2	How is the minimum replacement reserve allocation for HOA budgets calculated?	To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, divide the annual budgeted replacement reserve allocation by the association's annual budgeted assessment income. Certain types of income may be excluded from the reserve calculation. Additional information can be found in B4-2.2-02: Full Review Process .
3	Are lenders permitted to use a reserve study in lieu of calculating the replacement reserve?	Yes. The lender may use a reserve study in lieu of calculating a replacement reserve of 10% provided the following conditions are met: <ul style="list-style-type: none"> • The lender obtains a copy of an acceptable reserve study and retains the study and the lender's analysis of the study in the project approval file; • The study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to Fannie Mae's standard reserve requirements; and • The study demonstrates that the project's funded reserves meet or exceed the recommendation made in the study. Additional requirements for reserve studies can be found in B4-2.2-02: Full Review Process .
4	Do employee business expenses reported on IRS Form 2106 always need to be deducted from the borrower's income?	No. If the borrower is qualified using base, bonus, and overtime pay, and commission income is less than 25% of the borrower's annual employment income, unreimbursed employee business expenses are not required to be analyzed or deducted from qualifying income or added to the monthly liabilities. See B3-3.1-04: Commission Income and B3-3.2.1-03: Deductions Reported on IRS Form 2106 .
5	When a borrower has a bankruptcy and a foreclosure, what event is used to determine the waiting period?	If a mortgage was discharged through a bankruptcy (and documented by the lender), the bankruptcy waiting periods may be applied. Otherwise, the greater of the bankruptcy or foreclosure waiting periods must be applied. See B3-5.3-07: Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit
6	Can gift funds come from trust or estate accounts?	No. Gifts must come from individuals related to the borrower. Trusts and estates do not meet the gift donor requirements. See B3-4.3-04: Personal Gifts
7	Does Fannie Mae require borrower signatures in conjunction with the Closing Disclosure?	No. As stated in the Selling Guide A2-5.1-02: Individual Mortgage Loan Files , Fannie Mae is not currently requiring that the borrower and seller (if applicable) sign the Closing Disclosure. Although these signatures are not



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		required, lenders may obtain borrower and seller signatures, which Fannie Mae supports as a best practice.
8	Does Fannie Mae require the alternate form of the Closing Disclosure for refinances?	Fannie Mae encourages lenders to use the alternate form for refinance transactions now, but will accept the regular Closing Disclosure form for refinance transactions until the Uniform Closing Dataset (UCD) is required later in 2016.