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How To Underwrite Loans to Non-U.S. Citizen Borrowers

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Learning Objectives

- To explain what Fannie Mae and Form 1003 require from lenders in underwriting non-U.S. citizen borrowers;
- To provide lenders with information on some of the different types of documents issued by the U.S. government to non-U.S. citizens who are lawfully present in this country



Learning Objectives (cont'd)

- To clarify how to document income and assets; and
- To explain how to order or assemble nontraditional credit reports for non-citizen borrowers



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Introduction



Why Lending to Immigrants Matters

- One of the fastest growing groups in U.S.
- Immigrants are helping to fuel the demand for homeownership
- Opportunity to increase your institution's market share and generate cross-selling revenue



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Guides

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About Single-Family Guides

Selling and Servicing Guides
 Fannie Mae's Single-Family Selling and Servicing Guides provide information about our policies and procedures related to mortgages secured by one- to four-family properties. The Guides are updated periodically through the issuance of Lender Announcements and Lender Letters, which introduce policy revisions, address the need for interim operating procedures, and provide clarifications or special guidance. [Learn more about Selling & Servicing Guides](#)

Fannie Mae's New Selling Guide
 Fannie Mae released the authoritative version of the new Selling Guide on April 1, 2009. Details are available in Announcement 09-06: *New Selling Guide*. The new Selling Guide was restructured and rewritten to make it more concise and easier to understand and use.

- [Announcement 09-06: New Selling Guide](#)
- [Learn More: Visit the Selling and Servicing Guides page](#)

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Announcements and Lender Letters
 Stay informed with our Lender Announcements and Letters on eFannieMae.com

Select a Recent Year

- [2009](#)
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Additional Information
 Check out our supporting materials related to mortgages secured by one- to four-family properties



What the Selling Guide Says

- Fannie Mae will purchase or securitize mortgages made to non-citizens who are lawful permanent or nonpermanent residents of the U.S.
- We purchase these loans under the same terms that are available with respect to loans to U.S. citizens
- Before delivering a mortgage to Fannie Mae, a lender needs to ascertain that the borrower is lawfully present in the U.S.



Loan Application (Form 1003)

VIII. DECLARATIONS

If you answer "Yes" to any questions a through i, please use continuation sheet for explanation.

	Borrower		Co-Borrower	
	Yes	No	Yes	No
f. Are you presently delinquent or in default on any Federal debt or any other loan, mortgage, financial obligation, bond, or loan guarantee? If "Yes," give details as described in the preceding question.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Are you obligated to pay alimony, child support, or separate maintenance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Is any part of the down payment borrowed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Are you a co-maker or endorser on a note?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Are you a U.S. citizen?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Are you a permanent resident alien?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



What the Lender Needs To Focus On

- If borrowers indicate that they are not U.S. citizens, you do not need to focus on why they are in the country or where they are in the immigration process
- INSTEAD, focus on the documentation they present as evidence of lawful presence in the U.S., income generation, and financial responsibility



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Documents Issued by the Government to Non-citizens



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Individual Taxpayer Identification Number (ITIN)



Department of the Treasury
Internal Revenue Service

IRS Individual Taxpayer Identification Number

900-80-0000

This number has been established for

Jose Gonzalez

To be used for tax purposes only

Jose Gonzalez

Signature



ITINs

- A nine-digit number issued to individuals who must have U.S. taxpayer IDs, but who are not eligible at time of application for Social Security numbers
- Issued for tax purposes only, but ITINs are being used in other ways (e.g., to open bank accounts, get driver's licenses)



ITINs (cont'd)

- By itself, an ITIN is not evidence that the holder either is, or is not, lawfully present in U.S.



A Word about ITINs and DO/DU

- If you want to use DO[®]/DU[®] to underwrite a non-citizen borrower who does not have a Social Security number, put his/her ITIN number in the Social Security field
- A red flag will alert you to verify that the borrower is a legal resident of the U.S.



Two Other Cards You May See

- Border crossing cards (“Laser Visas”) – issued by both the U.S. and Mexican governments
- *Matricula Consular* – issued by the Mexican government

Note: These cards do not indicate whether bearers are or are not legal residents of the U.S.

Social Security Card





Social Security Number

- Any individual who is properly issued a work permit can obtain a social security number
- Social Security Numbers are now being used for employment purposes only

Note: Fannie Mae does not require a Social Security Number.

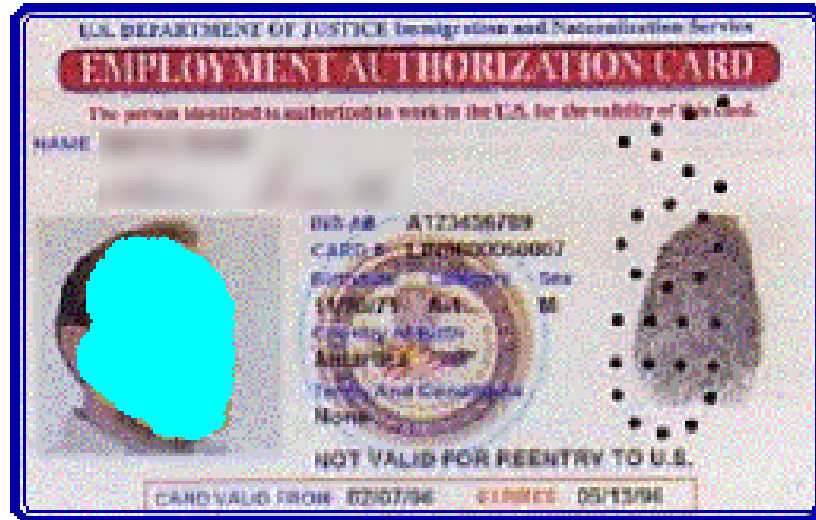


Permanent Resident Card

- Issued to individuals who have become lawful permanent residents
- Authorizes the holder to work in the U.S.
- Commonly referred to as a “green card”



Employment Authorization Document (EAD)





Employment Authorization Document

- Provided to individuals authorized to work in U.S. without restrictions
- Issued by U.S. Citizenship & Immigration Service (USCIS) to 25 different categories of non-citizens



Nonimmigrant Visa

- Document issued by U.S. Department of State that allows person to enter the country legally
- Most common types of visas are tied to a sponsoring institution or employer



I-551 Stamp in Passport



← **“Processed for I-551 temporary evidence of lawful admission for permanent residence.”**



Fake or Fraudulent Documents

- False documentation includes cards or stamps that are counterfeit or belong to someone other than individuals presenting them
- Important for lender to check to see document appears to relate to name and photograph of person who is presenting it



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Documenting Income and Assets for Non-citizen Borrowers



Stability & Continuity of Income

- Need to determine borrower's income is stable, predictable, and likely to continue
- If borrower has been generating income steadily for two or more years, lender doesn't need to look at extended income history
- Underwriting decision can be based on current income



Borrowers with Less Predictable Sources of Income

- Need more information to demonstrate likelihood of continuation
- Fannie Mae generally requires history of at least two years of steady income
- If lender is able to define and document income as stable, predictable and likely to continue, less than two years is acceptable



Part-time or Multiple-job Income

- Acceptable as stable income if it can be verified as having been uninterrupted for two years and has strong likelihood of continuation
- Verification must be supported by W-2s
- Some flexibility allowed for less than two years, but 12-month history required



Part-time or Multiple-job Income (cont'd)

- Presence of multiple borrowers with or without income reduces risk
- Need assurance employment status will continue (e.g., if borrower has new primary job but continues with old job, there is no history of ability to handle two jobs successfully)



Seasonal Job Income

- Can be considered stable income if borrower has worked at same job—or line of work—for past two years and employer indicates reasonable expectation for continuation
- Seasonal unemployment income can be used to qualify only if it is documented, reported and associated with seasonal layoffs



Boarder Income

- Boarder income from relatives or non-relatives is permitted on Community Lending mortgages up to 30% of qualifying income if it can be documented for 12 months
- Evidence needed of shared address and rental payments



Cash-on-hand

- These funds may be used for down payment and closing costs, subject to specific criteria
- Cannot be used to calculate reserves
- DU uses “cash-on-hand” amount to calculate available funds to close



Cash-on-hand (cont'd)

Lender must verify/document:

- Borrower customarily uses cash for expenses, i.e., usage is consistent with previous payment practices
- Credit report indicates limited (or no) use of credit
- No depository relationships



Cash-on-hand (cont'd)

- Borrower must provide signed statement disclosing source of funds and that they were not borrowed
- Borrower must deposit with a financial institution at time of application or no less than 30 days before closing, funds sufficient for down payment and closing costs



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Nontraditional Credit Reports



When These Reports are Necessary

- Borrower does not have types of credit that would appear on traditional credit report, i.e., someone who does not use credit cards for purchases but pays with cash, check, or debit card
- Many potentially eligible borrowers have no credit files or insufficient files with major credit reporting agencies



When NOT To Use This Type of Report

- When a credit score can be obtained despite borrower's limited use of credit and that score is acceptable
- As a means to offset derogatory references found in borrower's traditional credit history
- To artificially create credit report for a borrower with no credit history



Who Should Create This Type of Report

- Generally nontraditional credit reports are prepared by consumer reporting agencies
- Some lenders prepare reports in-house
- Borrower must provide list of credit sources for regular, periodic payments made



Sources of Nontraditional Credit

Tier 1: Housing-related payments, including rent, utilities, phone, and cable TV service

Tier 2: Insurance-related payments (excluding payroll deductions), including coverage for medical, automobile and life insurance



Sources of Nontraditional Credit (cont'd)

Tier 3: Remittances to merchants, health and child-care providers, and for tuition and car loans obtained

Regular deposits into a savings account may also be considered



Verifying Information

- All information provided must be verified with a 12-month payment history
- Four tradelines are needed, starting with housing-related payments
- If rent payments include utilities, lender needs only three tradelines
- Some products may require fewer nontraditional credit sources



Credit Sources

- All credit references must be included in report
- Contact sources until four to six references are obtained
- If consumer reporting agency is used, it should pass on to lender all information collected and specify in report whether criteria for nontraditional credit are met



Credit Sources (cont'd)

If non-citizen borrower does not have enough tradeline references in the United States to satisfy Fannie Mae requirements, lender must obtain credit references from country of origin



Needed Credit Information

- Creditor's name
- Date account was opened
- Amount of highest credit
- Current status of account
- Required payment amount
- Unpaid balance
- Payment history, including historical status of accounts in "number of payments past due" format



Other Ways to Obtain Nontraditional Credit Verifications

- We permit lenders to develop credit histories by using a combination of—
 - individual written credit references
 - provided directly by creditors; and
 - borrower’s bank statements
- Written credit references can also be requested directly from borrower’s creditors



Terms To Avoid

Value statements on written credit references are not acceptable by themselves. Such statements include:

- Current
- Satisfactory
- Pays as agreed



Documentation

- Should describe terms of debt repayment or contract
- 12 consecutive months of borrower's cancelled checks or copies of bills marked "paid" can be used to reflect timeliness of borrower's payment history
- Bank statements can be used to validate information from other sources



Acceptable Non-traditional Credit Profile

- Minimum of four sources of nontraditional credit that have been active for at least 12 months
- No history of delinquency on rental housing payments
- No more than one 30-day delinquency on payments due to any other sources



Summary

- Fannie Mae buys loans made to non-citizen borrowers who are lawfully present in U.S.
- You should not deliver loans to us unless you are comfortable representing and warranting that borrower is lawfully present in U.S.



Summary (cont'd)

- A number of government documents can—alone or in combination—show that the holder is lawfully present in U.S.
- Mere existence of these documents may not be enough
- You must assure yourself that document appears to be genuine



Summary (cont'd)

Documents that may show the holder is lawfully present include:

- Social Security card
- Permanent Resident (“green”) card
- Employment Authorization Document card
- Visa with entry stamp



Summary (cont'd)

- Lenders need to document non-citizen borrower's income is stable, predictable and likely to continue
- Part-time, multiple-job, seasonal and boarder income can be used
- A minimum of four sources of nontraditional credit—active for at least 12 months—are required



Additional Resources

- [Printout of this course](#)
- U.S. Citizenship & Immigration Services: www.uscis.gov
- Call Fannie Mae at 1-888-326-6438 and select option 1 for underwriting assistance
- eFannieMae.com/training & education



Thank you for your participation in this web seminar.

While every effort has been made to ensure the reliability of the content of this web seminar, Fannie Mae's Selling and Servicing Guides and their updates are the official statement of Fannie Mae's policies and procedures. These documents should be adhered to the event of discrepancies between this information and what is in the guides.

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