

# CONVERSION OF PRIMARY RESIDENCE POLICY

Effective September 1, 2008

Effective September 1, 2008, PMI will require the following when a borrower is purchasing a new home that requires insurance and has an existing primary residence that will be converted to a second home or investment property instead of being sold.

The borrower must have sufficient equity and/or reserves verified to support both the existing financing and the new mortgage being originated.

## Primary Home Converts to a Second Home

- Both the current and proposed mortgage payment must be used to qualify the borrower for the new transaction; and
- Six months PITI for both properties is required to be verified in reserves. Reduced reserves of no less than two months for both properties may be considered if there is documented evidence (via an appraisal, AVM or BPO) of at least 30% equity in the existing property.
- Normal second home requirements must be met, e.g., property is in a resort-like area, etc. The home cannot be considered a second home just because the borrower decides to purchase a new primary residence. If the existing primary home location does not meet second home guidelines, it can be considered using the investment property guidelines stated below.

## Primary Home Converts to an Investment Property

- Up to 75% of rental income can be used to offset the mortgage payment **IF** there is documented evidence (via an appraisal, AVM or BPO) of 30% equity in the existing property.
- The rental income must be documented with:
  - A copy of the fully executed lease agreement; and
  - The receipt of a security deposit from the tenant **AND** verification of deposit into the borrower's account.
- If 30% equity in the property cannot be documented, rental income may not be used to offset the mortgage payments.
  - Both the current and proposed mortgage payments must be used to qualify the borrower for the new transaction; and
  - Six months of PITI for **BOTH** properties is required to be verified in reserves.

These guidelines are applicable to manually underwritten and DU®/LP loans, except we will allow the reserve requirement to be determined by the DU/LP findings when DU/LP are utilized to underwrite the loan.

## Properties not eligible to be converted:

- If the primary residence to be converted has been listed for sale in the past 90 days, the new transaction is not eligible.
- Properties that have been owned less than 12 months will not be considered eligible to convert to second home or investment.
- If there is documented evidence of a job transfer, the 90-day listing and 12-month ownership restrictions will not apply.



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