

CONVERSION OF PRIMARY RESIDENCE POLICY

NOTE: This is not a DU/LP Overlay

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.

All Intended Uses of the Current Primary Home

- The borrower must qualify using both the current PITI payment as a debt and the new PITI payment for the new property.
- The borrower must have six months' verified PITI reserves for both properties.
- The current residence has been owned for a minimum twelve months, with no cash out transactions within the prior six months.
- If the current residence is a pending sale, but the sale will not be completed prior to the new property closing, the reserves can be reduced to two months provided there is a documented minimum of 30% equity in the property and the executed contract is provided.

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 are permitted 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.
- Six months' PITI for both properties is required to be verified in reserves. Reduced reserves of no less than two months for both properties are permitted if there is documented evidence (via an appraisal, AVM or BPO) of at least 30% equity in the existing property.

- 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' PITI for **BOTH** properties is required to be verified in reserves.

These guidelines are applicable to manually underwritten loans not approved through DU® or LP.

Properties Not Eligible to be Converted:

- If the borrower indicates that the primary residence was previously listed for sale within the past 90 days, and now indicates that it will be a rental or second home, this could be considered a red flag; therefore, PMI will not offer insurance on the new property.
- If the borrower has not owned their current residence for 12 months and is purchasing a new home in the same town with a same or lesser value than their existing home, and indicate the existing home will be a rental or second home, this could be considered a red flag; therefore, PMI will not offer insurance on the new property.
- If there is documented evidence of a job transfer, the 90-day listing and ownership of 12-months restrictions will not apply.

Additional Issues:

- If the borrower's current residence is owned free and clear, appropriate documentation for the state should be provided to document there are no liens and to document the current taxes and insurance costs. The TI would be used to qualify the borrower.
- Common sense should be utilized when the borrower is purchasing a new residence but has not owned their current residence for more than twelve months; the borrower may have genuine reasons for the move, such as living in a duplex and moving to a single-family, or living in a condo and purchasing a single-family. These situations must be considered on a case-by-case basis.



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