first community mortgage

##  <br> FCM NMLS ID 629700

# Non-Conforming <br> Elite Jumbo (AUS) <br> Guidelines 

## Primary Residence

Purchase, Rate \& Term Refinance

| Property Type | LTV/CLTV/HCLTV | Maximum Loan Amount | Minimum Credit Score | Months Reserves | Max DTI |
| :---: | :---: | :---: | :---: | :---: | :---: |
| SFR, Condo | 89.99\% | \$1,500,000 | 740 | 15 months | 36\% |
|  | 85\% | \$1,500,000 | 720 | 15 months | 36\% |
|  | 80\% | \$1,500,000 | 700 | 9 months | 36\% |
|  | 75\% | \$2,000,000 | 720 | 12 months | 45\% |
|  | 70\% | \$2,500,000 | 720 | 24 months | 45\% |
|  | 60\% | \$1,000,000 | 680 | 6 months | 45\% |
| 2-4 Unit | 65\% | \$1,000,000 | 700 | 6 months* | 45\% |
| 2-4 Unit | 60\% | \$1,500,000 | 720 | 9 months* | 45\% |
| Cash-Out Refinance |  |  |  |  |  |
| SFR, Condo | 75\% | \$1,000,000 | 700 | 6 months | 45\% |
|  | 70\% | \$1,500,000 | 720 | 9 months | 45\% |
|  | 60\% | \$2,000,000 | 720 | 12 months | 45\% |
|  | 50\% | \$2,500,000 | 720 | 24 months | 45\% |
| 2 Unit | 60\% | \$1,000,000 | 700 | 6 months* | 45\% |
|  |  |  |  |  |  |
| Second Home |  |  |  |  |  |
| Purchase |  |  |  |  |  |
| Property Type | LTV/CLTV/HCLTV | Maximum Loan Amount | Minimum Credit Score | Months Reserves | Max DTI |
| SFR, Condo | 80\% | \$1,000,000 | 720 | 12 months | 36\% |
|  | 70\% | \$1,500,000 | 720 | 18 months | 45\% |
|  | 65\% | \$2,000,000 | 720 | 24 months | 45\% |
|  | 50\% | \$2,500,000 | 720 | 36 months | 45\% |
| Rate/Term Refinance |  |  |  |  |  |
| SFR, Condo | 75\% | \$1,000,000 | 720 | 12 months | 45\% |
|  | 70\% | \$1,500,000 | 720 | 18 months | 45\% |
|  | 65\% | \$2,000,000 | 720 | 24 months | 45\% |
|  | 50\% | \$2,500,000 | 720 | 36 months | 45\% |
| Cash-Out Refinance |  |  |  |  |  |
| SFR, Condo | 60\% | \$1,500,000 | 740 | 18 months | 45\% |
|  | 50\% | \$2,000,000 | 740 | 24 months | 45\% |
|  |  |  |  |  |  |
| Investment |  |  |  |  |  |
| Purchase |  |  |  |  |  |
| Property Type | LTV/CLTV/HCLTV | Maximum Loan Amount | Minimum Credit Score | Months Reserves | Max DTI |
| SFR, Condo, 2-4 Unit | 70\% | \$1,500,000 | 740 | 24 months* | 45\% |
| Rate/Term Refinance |  |  |  |  |  |
| SFR, Condo, 2-4 Unit | 70\% | \$1,500,000 | 740 | 24 months* | 45\% |
| Cash-Out Refinance |  |  |  |  |  |
| SFR, Condo, 2-4 Unit | 60\% | \$1,500,000 | 740 | 24 months* | 45\% |

*Additional six (6) months reserves PITIA for each property is required based on the PITIA of the additional REO. If eligible to be excluded from the count of multiple financed properties, reserves are not required.
See Declining Market Section for LTV/CLTV reductions
Minimum loan amount, \$1 above the Conforming loan limits
11.2022

NMLS 629700

## Loan Purpose

## Purchase

A purchase money transaction is one in which the proceeds are used to finance the acquisition of a property. The proceeds from the transaction must be used to:

- Finance the acquisition of the Mortgaged Property.
- Convert an interim construction loan or term note into permanent financing; or
- Payoff the outstanding balance on the installment land contract or contract for deed.

Purchase transactions do not allow for cash back to the Borrower at closing other than an amount representing:

- A reimbursement for the Borrower's overpayment of fees'
- Costs paid by the Borrower in advance (e.g., earnest money deposit, appraisal, and credit report fees); and
- A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Mortgage Loan Program.
Within limitations imposed by applicable state laws, closing costs may not be financed as part of a purchase transaction.
Complete purchase agreements, including all addendums, are required for all purchase transactions. All purchase agreement terms must be considered in the underwriting decision. Any evidence of undisclosed conditions of the transaction must be investigated. Examples of undisclosed conditions are evidence of straw buyers (changes in purchaser on the purchase agreement) or possible undisclosed seller concessions, such as making mortgage payments on behalf of the Borrower for the first few months of the Mortgage Loan. Mortgage Loans where the purchase agreement has been assigned are not eligible.
- Owner of Record and Chain of Title
- The seller must be the owner of record.
- Proof the property seller has owned the property for 12 months or a chain of title for the last 12 months is required. Acceptable sources for the chain of title include copies of recorded deeds, tax statements, or a 12-month chain of title on the title commitment.
- A transaction where the property has been sold within the last 12 months requires scrutiny to ensure the transaction is legitimate. Some characteristics of fraudulent transactions include but are not limited to foreclosure bailouts, distressed sales, and inflated values due to stated improvements that are unsupported.
- Where the seller is not the current owner, all intervening purchase agreements must be submitted and carefully reviewed to ensure any price increases are supported by data. Where the seller is the current owner, ensure the sales history of the subject is adequately disclosed on the appraisal and any price increases are supported.
- If the seller is a corporation, partnership, or any other business entity, ensure the Borrower is not an owner of the business entity selling the subject property.
- Auctioneer's Fees

The auctioneer's fee may be added to the accepted bid to determine the total purchase price when a property is purchased at auction and may be used to determine LTV/CLTV/LTC. There must be the final written purchase contract for the subject property that includes all applicable information for the transaction, including but not limited to:

- Final bid price by the purchaser
- Auctioneer fee ( $a / k / a$ buyer's premium); and
- Total purchase price which includes the final bid amount and the auctioneer fee.

All of the documentation for the transaction should reflect the total purchase price as referenced in the written purchase contract, including the HUD-1 settlement statement, any legal documents filed in conjunction with the transaction and the sales price referenced on the appraisal.

## First-Time Homebuyer-Purchase

First-Time Homebuyer is defined as a borrower who has not owned a home in the last three (3) years. For loans with more than one (1) borrower, where at least one (1) borrower has owned a home in the last three (3) years, First-Time Homebuyer requirements do not apply.

- Verification of rental history is not required
- Maximum loan amount of $\$ 1,500,000$
- Not allowed on investment property transactions
- Minimum FICO 740
- See Reserve Section for additional requirements


## Refinance

If the existing Mortgage Loan was a purchase money first or a rate and term refinance not subject to Section 50 , the new Mortgage Loan will be considered a standard refinance loan.

- New loan is less than or equal to the existing UPB.
- New loan equals UPN plus prepaids and closing costs.
- New loan pays down or pays off a purchase money second.
- New loan pays down or pays off an existing Secured Home improvement Loan (mechanics lien)*
- New loan provides funds necessary to satisfy a court ordered divorce equity buyout.
*A transaction may be considered rate and term under Texas regulatory law but may be considered a cash out refinance.


## Rate/Term Refinance Transactions

The new loan amount is limited to pay off the current first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepaid items.

- If the first mortgage is a HELOC, evidence it was a purchase money HELOC or it is a seasoned HELOC that has been in place for twelve (12) months and total draws do not exceed $\$ 2000$ in the most recent twelve (12) months.
- A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for twelve (12) months.
- A seasoned equity line is defined as not having draws totaling over $\$ 2000$ in the most recent twelve (12) months. Withdrawal activity must be documented with a transaction history.
- Max cash back at closing is limited to $1 \%$ of the new loan amount.

If subject property is owned more than twelve (12) months, the LTV/CLTV/HCLTV is based on the current appraised value. The twelve (12) month time frame may be based on subject transaction Note date.
If subject property is owned less than twelve (12) months, the LTV/CLTV/HCLTV is based on the lesser of the original purchase price plus documented improvements made after the purchase of the property, or the appraised value. Documented improvements must be supported with receipts. The twelve (12) month time frame may be based on subject transaction Note date.

When individuals wish to refinance their property recently owned by an individual with whom they have an Established Relationship, if the Borrower has been on title less than six months from date of application, the payoff demand from the purchase transaction must reflect that the mortgage was current at the time the Borrower purchased the property.

- Buyout of a Co-owner

A refinance transaction that results in a buyout of the other party's interest in his or her primary residence is considered a Rate and Term Refinance (e.g., divorce settlement, or buyout of a sibling). Refinance to buyout a co-owner or ex-spouse is permitted subject to the following:

- All parties must have jointly owned the Mortgaged Property for 12 months proceeding the date of the Mortgage Loan application. Parties who inherit an interest in the Mortgaged Property do not have to satisfy this requirement.
- All parties must be able to demonstrate they occupied the Mortgaged Property as their primary residence (e.g., driver's license, bank statement, credit card bill or utility bill, mailed to the individual at the Mortgaged Property). Parties who inherit an interest in the Mortgaged Property do not have to satisfy this requirement.
- All parties must provide a signed, written agreement that states the terms of the property transfer and the disposition of the proceeds (e.g., divorce decree or separation agreement, buy-out agreement).
- The Borrower who acquires sold ownership of the Mortgaged Property may receive no cash-out from the proceeds of the refinance.
- The party who is buying out the other party's interest must be able to qualify for the Mortgage Loan.


## Cash-Out Transactions

Cash-Out refinance transactions are Mortgage Loans used to remove equity from the subject property. Funds received from cash-out refinance loan is not limited to a specific purpose.
Requirements:

- Cash-out proceeds include all proceeds in excess of $1^{\text {st }}$ mortgage lien including:
- Unseasoned junior liens
- Payment of non-mortgage debts
- Cash in hand

No maximum cash-out limit
If subject property is owned more than twelve (12) months, the LTV/CLTV/HCLTV is based on the current appraised value. The twelve (12) month time frame may be based on subject transaction Note date.
If subject property is owned less than twelve (12) months, the LTV/CLTV/HCLTV is based on the lesser of the original purchase price plus documented improvements made after the purchase of the property, or the appraised value. Documented improvements must be supported with receipts. The twelve (12) month time frame may be based on subject transaction Note date.
Investment properties are ineligible

## Delayed Financing

Follow Fannie Mae Selling Guide requirements
LTV/CLTV/HCLTV for Rate and Term refinances must be met. The loan is treated as a Rate and Term refinance except for primary residence transactions in Texas.

## Ineligible Product Types

Higher-Priced Mortgage Loans
Non-Standard to Standard Refinance Transactions (ATR Exempt)
Higher-Priced Covered Transactions (HPCT QM-Rebuttable Presumption)
Balloons
Graduated Payments
Interest Only Products
Temporary Buydowns
Loans with Prepayment Penalties
Adjustable-Rate Terms
Texas Equity Loans

## Credit

## Credit Requirements

Non-traditional credit is not allowed.
All borrowers must have a minimum of two (2) credit scores
Disputed tradelines:

- All disputed tradelines must be included in the DTI if the account belongs to the borrower unless documentation can be provided that authenticates the dispute.
- Derogatory accounts must be considered in analyzing the borrower's willingness to repay. However, if a disputed account has a zero balance and no late payments, it can be disregarded.
- Frozen Credit: Follow Fannie Mae Selling Guide requirements except as noted below
- All borrowers must have a minimum of two (2) credit scores that are generated from the unfrozen bureaus.
- Rapid credit rescores are permitted. A rapid rescore is a process that can quickly update a borrower's credit score by submitting proof of positive account changes to the three major credit bureaus since the last reporting deadline in order to reflect the current credit status

When the credit report shows a victim statement under the FACT Act, must document in writing the steps taken to validate the Mortgage Loan application is not the result of identity theft. The actions must be reasonable and compliant with applicable laws.
Credit report alerts must be reasonably resolved with supporting documentation included in the mortgage Loan File.

## Credit Report Red Flags

When underwriting a credit report, the Borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information. The Borrower's address history must be examined for consistency with other file documentation. Discrepancies must be adequately explained, and questionable explanations researched.

## Credit Score

Select the credit score for each borrower by using one of the following methods:

- The lower score of two repositories; or
- The middle score of three repositories

If more than one Credit Score is supplied from the same repository, the lowest score will be used in all cases. For Loan Qualification Score, use the lowest selected credit score among all borrowers. All borrowers must meet the minimum credit score and all other credit evaluation requirements.

## Housing History

Mortgage history requirements:

- If the borrower(s) has a Mortgage in the most recent twenty-four (24) months, a mortgage rating must be obtained, reflecting $0 \times 30$ in the last twenty-four (24) months
- The mortgage rating may be on the credit report or a VOM
- Applicable to all borrowers on the loan
- Must review the borrower(s) credit report to determine status of all mortgage loans including verification mortgage is not subject to a loss mitigation program, repayment plan, loan modification or payment deferral plan. In addition to reviewing the credit report, must also apply due diligence for each mortgage loan on which a borrower is obligated, including co-signed mortgage loans and mortgage loans not related
to the subject transaction, to determine the loan payments are current as of the Note date of the subject transaction. Current means the borrower has made all payments due in the month prior to the Note date of the subject transaction and no later than the last business day of that month. Acceptable documentation includes one of the following:
- Loan payment history from the servicer or third-party verification service
- Payoff statement for loans being refinanced
- Current mortgage statement from the borrower
- Verification of mortgage (VOM)
- If the mortgage holder is party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory mortgage history is required.


## Significant Derogatory Credit

Bankruptcy, Chapter 7, 11, 13 - seven (7) years since discharge / dismissal date

- Foreclosure - seven (7) years since completion date
- Notice of Default - seven (7) years
- Short Sale/Deed-in-Lieu - seven (7) years since completion/sale date
- Forbearance resulting in subsequent loan modification - seven (7) years since exit from forbearance (See below Forbearance section for additional requirements)
- Mortgage accounts that were settled for less, negotiated, or short payoffs - seven (7) years since settlement date
- Loan modifications:
- Lender initiated modification will not be considered a derogatory credit event if the modification did not include debt forgiveness and was not due to hardship as evidenced by supporting documentation. No seasoning requirement would apply
- If the modification was due to hardship or included debt forgiveness - seven (7) years since modification
- Single loan variances for credit events will be considered on a case-by-case base between four (4) and seven (7) years with extenuating circumstances subject to the following:
- Extenuating circumstances are defined as non-recurring events that are beyond the borrower's control resulting in a sudden significant and prolonged reduction in income or catastrophic increase in financial obligations
- Examples would include death or major illness of a spouse or child but would not include divorce or job loss
- Documentation must be provided to support the claim of extenuating circumstances and confirm the nature of the event that led to the credit event and illustrate the borrower has no reasonable option other than to default on their obligations
- If the defaulted debt was assigned to an ex-spouse and the default occurred after the borrower was relieved of the obligation, the event may be considered on a single loan variance basis
- Multiple derogatory credit events not allowed, regardless if seasoned over seven (7) years
- A mortgage with a Notice of default filed that is subsequently modified is not considered a multiple event
- A mortgage with a Notice of Default filed that is subsequently foreclosed upon or sold as a short sale is not considered a multiple event
- Tax liens, judgments, charge-offs, and past-due accounts must be satisfied or brought current prior to or at closing.
- Cash-Out proceeds from the subject transaction may not be used to satisfy judgments, tax liens, charge-offs or past-due accounts
- Payment plans on prior year tax liens/liabilities are not allowed, must be paid in full


## Income

## Employment

A two-year employment history is generally required.
If the borrower(s) have less than a two-year employment and income history, the lender must provide a written analysis to justify the determination that the income used to qualify the borrower is stable.
Short-term rentals:

- All loans must be originated in accordance with federal, state and local regulations and restrictions pertaining to short-term rentals
- New York City short-term rental qualifying income not permitted

Declining Income:

- When the borrower has declining income, the most recent twelve (12) months should be used or the most conservative income calculation if the declining period is shorter than 12 months. Income must be stabilized and not subject to further decline in order to be considered for qualifying purposes.
The employer or the borrower should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying
- Borrower(s) must have a minimum of two (2) years employment and income history
- Tax transcripts for personal tax returns are required when tax returns are used to document borrower's income or any loss and must match the documentation in the loan file. Tax transcripts must be obtained directly from the IRS via a third party except as indicated below:
- In the instance where there is an indication of possible identity theft or fraud and the transcript request has been rejected by the IRS with a Code 10 indicating that "Due to limitations, the IRS is unable to process this request", online borrower obtained tax transcripts are permitted to validate income used for qualifying purposes. Evidence of the IRS transcript request rejection is required. Borrower obtained transcripts are not permitted due to IRS rejection because of missing, incomplete or altered information on the Form 4506-C (Codes 1-9)
- Social Security Income: Secondary validation is required when income is documented via either a Social Security Benefit Award Letter or a 1099. Acceptable validation can be in the form of tax transcripts/1099 transcripts or a bank statement showing evidence of the SSI deposit and dated within 30 days of the application date
- A 4506-C form is required to be signed at closing by all borrowers for all transactions
- Taxpayer consent form signed by all borrowers
- Verification of the existence of borrower's self-employment must be verified through a third-party source and no more than twenty (20) business days prior to the Note date. In addition, confirmation that the business is currently operating must be provided. Below are acceptable examples of documentation to confirm the business is currently operating:
- Evidence of current work (executed contracts or signed invoices) that indicate the business is operating on the day the lender verifies self-employment.
- Evidence of current business receipts within 10 days of the Note date (payment for services performed).
- Lender certification the business is open and operating (lender confirmed through a phone call or other means); or
- Business website demonstrating activity supporting current business operations (timely appointments for estimates or service can be scheduled)
- Aggregate secondary and separate sources of self-employment losses reporting on 1040 tax transcripts greater than $5 \%$ of borrower's total qualifying income must be deducted from qualifying income.
Additional self-employment documentation is not required
- K-1 losses where borrower owns less than $25 \%$ must be deducted from qualifying income when the aggregate loss is greater than $5 \%$ of borrowers total qualifying income
- Passive losses shown on K-1s, such as publicly traded companies or where ownership is under $5 \%$, can be excluded from income on a case-by-case basis. Any passive K-1 losses excluded will not count toward the aggregate secondary and separate sources of self-employment losses and the $5 \%$ threshold for deducting the loss from income


## Unacceptable Sources of Income

- Deferred compensation
- Retained earnings
- Education benefits
- Trailing spouse income
- New York City short-term rental qualifying income not permitted
- Any income that is not legal in accordance with all applicable federal, state, and local laws, rules and regulations. Federal law restricts the following activities and therefore the income from these sources are not allowed for qualifying:
- Foreign shell banks
- Medical marijuana dispensaries if borrower has any ownership
- Any income resulting from ownership in a business related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law.


## Salaried, Bonus \& Commission Income

Salaried Borrowers:

- Income and Employment must be documented per the DU findings and all income sources and methods of income calculation must meet the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, and the requirements below
- Secondary verification of the income documentation is required via W-2 transcripts or via Fannie Mae approved third party vendors (i.e., The Work Number) with separation of income types (base, bonus, OT, etc.). The number of years provided will be bases on the DU findings
- Manual verification of employment, even if through a $3^{\text {rd }}$ party are not permitted
- The IRS transcripts and the supporting income documentation must be consistent
- If 3rd party (i.e., The Work Number) is the source used to verify income, then W-2 transcripts are also required as the secondary verification of the income-see below table

| Income Documentation Source | Allowable Secondary Verification |
| :--- | :--- |
| Paystub and W-2(s) | W-2 transcript(s) or Fannie approved 3rd party vendor <br> (i.e., The Work Number) |
| Fannie approved 3rd party vendor (i.e., The Work <br> Number) | W-2 transcripts(s) |

Commission/Bonus Income:

- Follow requirements above for salaried borrowers, and
- Commission/Bonus income must be documented for the most recent 2 (two) years with a year-to-date paystub and W-2s


## Retirement Income

Existing distribution of assets from an IRA, $401(\mathrm{k})$ or similar retirement asset must be sufficient to continue for a minimum of three (3) years.
If any retirement income will cease within the first three (3) years of the loan, the income may not be used.

## Trust Income

Income from trusts may be used if guaranteed and regular payments will continue for at least three (3) years. Regular receipt of trust income for the past twelve (12) months must be documented.
Copy of trust agreement or trustee statement showing:

- Total amount of borrower designated trust funds
- Terms of payment
- Duration of trust
- Evidence the trust irrevocable

If trust fund assets are being used for down payment or closings costs, the loan file must contain adequate documentation to indicate the withdrawal of the assets will not negatively affect income.

## Restricted Stock and Stock Options

- May only be used as qualifying income if the income has been consistently received for two (2) years and is identified on the paystubs, $\mathrm{W}-2 \mathrm{~s}$ and tax returns as income and the vesting schedule indicates the income will continue for a minimum of two (2) years at a similar level as prior two (2) years. A two (2) year average of prior income received from RSUs or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the lower of the current stock price or the 52 -week average for the most recent twelve (12) months reporting at the time of application. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule.
- Additional awards must be similar to the qualifying income and awarded on a consistent basis.
- There must be no indication the borrower will not continue to receive future awards consistent with historical awards received.
- Borrower must be currently employed by the employer issuing the RSUs/stock options for the RSUs/stock options to be considered in qualifying income.
- Stock must be a publicly traded stock.
- Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify.
- Incentive sign on income and future RSU's are limited to $50 \%$ of total qualifying income. Income calculation results may be reduced to meet the $50 \%$ restriction.
- RSU income must be entered into DU as bonus income.


## Projected Income

Paystub (once borrower has started with new employer) must be provided prior to purchase of the loan.

## Self-Employment

Self-Employed borrowers are defined as having 25\% or greater ownership

- Minimum 720 FICO when any Self-Employment income is required for qualifying purposes. If the SelfEmployment income is not needed for qualifying purposes, then the 720 FICO minimum is not applicable.
- In order to use self-employment income for qualifying purposes, the underwriter must consider the impact of COVID-19 on the business and the stability of income.
- Aggregate secondary and separate sources of self-employment losses reporting on 1040 tax transcripts greater than $5 \%$ of borrower's total qualifying income must be deducted from qualifying income.
Additional self-employment documentation is not required
- K-1 losses where borrower owns less than $25 \%$ must be deducted from qualifying income when the aggregate loss is greater than $5 \%$ of borrowers total qualifying income
- Passive losses shown on K-1s, such as publicly traded companies or where ownership is under 5\%, can be excluded from income on a case-by-case basis. Any passive K-1 losses excluded will not count toward the aggregate secondary and separate sources of self-employment losses and the $5 \%$ threshold for deducting the loss from income

Documentation Requirements:
The requirements below apply for Self-Employed Borrowers with Self-Employment income used for qualifying:

- Follow the requirements per the DU findings and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020, except as detailed below:
- If DU returns a recommendation for one (1) year of tax returns, the most recent year's tax return must be provided. IRA extensions are not permitted.
- If borrower has filed an extension, the most recent prior two (2) years tax returns are required.
- YTD profit and loss statement (audited or unaudited) up to and including the most recent month preceding the loan application date. YTD profit and loss statement must not be more than 90 days aged prior to the Note date.
- Audited P\&L
- An audited year-to-date profit and loss statement reporting business revenue, expenses, and net income up or
- Unaudited P\&L
- An unaudited year-to-date profit and loss statement signed by the borrower reporting business revenue, expenses, and net income up
- If the borrower has filed an extension for the current tax year, the year-to-date profit and loss statement must be provided to cover the full year.
- If the year-to-date business income is less than the historically calculated income derived from the tax returns, the borrower may qualify by reducing the historical income to no more than the current level of stable monthly income using details from the year-to-date profit and loss statement.


## Alimony, Child Support and Maintenance Payments

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement, and those payments will continue for 10 months or more, the payments must be considered in the debt-to-income ratio. Alimony payments may be deducted from income rather than included as a liability in the DTI for divorces prior to $01 / 01 / 2019$. For borrowers with a
divorce on or after 01/01/2019, the alimony payment must be treated as a liability. Voluntary payments do not need to be taken into consideration.
One of the following is required to document the payment and the number of remaining payments:

- A copy of a written legal agreement or court decree describing the payment terms for the obligation, the amount of the award and the period of time over which it was received; or
- Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made.

Debt to Income
LTVs $\leq 80 \%-45 \%$
LTV $>80 \%-36 \%$

## Assets

## Assets/Reserves

Beyond the minimum reserve requirements and to fully document the borrower's ability to meet their obligations, borrowers should disclose all liquid assets.
Eligible assets must be held in a US account.
Large deposits inconsistent with monthly income or deposits must be verified if using for down payment, reserves or closing costs.
Lender is responsible for verifying large deposits did not result in any new undisclosed debt. Fannie Mae approved third party suppliers and distributors that generate asset verification reports are permitted for the purpose of verifying assets. Follow the DU and the requirements in B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 except as detailed below

- A written VOD as a stand-alone document is not acceptable
- A system generated automated VOD may be used as a stand-alone documentation if provided by a verifiable institutional bank
- Gift Funds
- Gift funds may be used once borrower has contributed 5\% of their own funds
- Not permitted for reserves
- LTVs greater than $80 \%$ - gift funds not permitted
- Business Funds
- Not permitted for reserves.
- Cash flow analysis required using most recent three (3) months business bank statements to determine no negative impact to business. Business bank statements must be no older than the latest three months represented on the year-to-date profit and lost statement.
- Business bank statements must not reflect any NSFs (non-sufficient funds) or overdrafts
- If borrower(s) ownership in the business is less than $100 \%$, the following requirements must be met:
- Borrower(s) must have majority ownership of $51 \%$ or greater.
- The other owners of the business must provide an access letter to the business funds.
- Borrower(s) \% of ownership must be applied to the balance of business funds for use by borrower(s)
- Retirement Accounts
- Eligibility Percentage to meet reserve requirements
- If borrower is $\geq 591 / 2$, then $70 \%$ of the vested value after the reduction of any outstanding loans.
- If borrower is < $591 / 2$, then $60 \%$ of the vested value after the reduction of any outstanding loans.
- Refer to Fannie Mae Selling Guide for liquidation of funds requirements
- Stocks, bonds and mutual funds do not require documentation of liquidation or of the borrower's actual receipt of funds when used for down payment or closing costs
- Virtual Currency is an ineligible asset type. Virtual currency must be exchanged into U.S. dollars to be acceptable for use as down payment, closing costs or reserves. Refer to Fannie Mae Selling Guide for additional details.

| Reserve Requirements (\# of Months of PITIA) |  |  |
| :---: | :---: | :---: |
| Occupancy | Loan Amount | \# of Months |
| Primary Residence | $\leq \$ 1,000,000$ with LTV $\leq 80 \%$ | 6 |
|  | \$1,000,001-\$1,500,000 with LTV $\leq 80 \%$ | 9 |
|  | $\leq \$ 1,000,000$ with LTV >80\% | 12 |
|  | \$1,000,001-\$1,500,000 with LTV >80\% | 15 |
|  | \$1,500,001-\$2,000,000 | 12 |
|  | \$2,000,001-\$2,500,000 | 24 |
| Second Home | $\leq \$ 1,000,000$ | 12 |
|  | \$1,000,001-\$1,500,000 | 18 |
|  | \$1,500,001-\$2,000,000 | 24 |
| Investment Property | \$2,000,001-\$2,500,000 | 36 |
|  | $\leq \$ 1,000,000$ | 18 |
|  | \$1,000,001- \$1,500,000 | 24 |
| First-Time Homebuyer | $\leq \$ 1,000,000$ with LTV $\leq 80 \%$ | 12 |
|  | $\leq \$ 1,000,000$ with LTV >80\% | 15 |
|  | \$1,000,001-\$1,500,000 with LTV $\leq 80 \%$ | 15 |
|  | \$1,000,001-\$1,500,000 with LTV >80\% | 18 |
| Additional 1-4 Unit Financed REO | Additional six (6) months reserves PITIA for each property is required based on the PITIA of the additional REO. <br> If eligible to be excluded from the count of multiple financed properties, reserves are not required. |  |

## Asset Depletion

- Maximum 80\% LTV/CLTV/HCLTV
- Primary residence 1-2 units only
- Primary residence 3-4 units are not eligible
- Investment properties are not eligible
- Purchase and Rate/Term transactions only
- Eligible assets must be held in a US account
- At least one borrower who is an account holder must be age 62 or older unless assets have been derived from the sale of a business.
- Minimum Post-Closing assets:
- Borrowers $\geq 62$ years of age $=\$ 500,000$
- Borrowers $<62$ years of age $=\$ 1,000,000$
- Qualifying Asset Income=Net Eligible Assets divided by 240
- Net Eligible Assets equals Total Assets minus:
- Funds required to be paid by borrower for closing (i.e., down payment, closing costs)
- Gift and/or borrowed funds
- Reserves
- Any portion of assets pledged as collateral for a loan
- Business funds not permitted to be included in total asset amount.
- Assets must meet the eligibility and documentation requirements outlined in the below table:

| Asset Type | Asset Eligibility Requirements | Documentation Requirements |
| :---: | :---: | :---: |
| Retirement Assets | - The retirement assets must be in a retirement account recognized by the Internal Revenue Service (IRS) (e.g., 401(k), IRA) <br> - Borrower must be the sole owner <br> - The asset must not currently be used as a source of income by the borrower <br> - As of the Note Date, the Borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty or an additional early distribution tax <br> - The borrower's rights to the funds in the account must be fully vested | - Most recent asset account statement <br> - Documentation evidencing asset eligibility requirements are met |

## Lump-sum distribution funds not deposited to an eligible retirement asset

- If the lump-sum distribution funds have been deposited to an eligible retirement asset, follow the requirements for retirement assets described above, otherwise:
- Lump-sum distribution funds must be derived from a retirement account recognized by the IRS (e.g.,401(k), IRA) and must be deposited to a depository or nonretirement securities account
- A borrower must have been the recipient of the lump-sum distribution funds
- Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the funds from the lump-sum distribution
- The proceeds from the lump-sum distribution must be immediately accessible in their entirety
- The proceeds from the lump-sum distribution must not have been or currently be subject to a penalty or early distribution tax
- Employer distribution letter(s) and/or check-stub(s) evidencing receipt and type of lump-sum distribution funds; IRS 1099-R (if it has been received)
- Satisfactorily documented evidence of the following:
- Funds verified in the nonretirement account and used for qualification must have been derived from eligible retirement assets
- Lump-sum distribution funds must not have been or currently be subject to a penalty or early distribution tax

Elite Jumbo AUS
Assets

| Depository accounts and Securities | - The Borrower must solely own assets or, if asset is owned jointly, each asset owner must be a Borrower on the Mortgage and /or on the title to the subject property <br> - As of the Note Date, the Borrower must have access to withdraw the funds in their entirety, less any portion pledged as collateral for a loan or otherwise encumbered, without being subject to a penalty <br> - Account funds must be located in a United States- or Stateregulated financial institution and verified in U.S. dollars | - Provide account statement(s) covering a two-month period <br> - For securities only, if the borrower does not receive a stock/security account statement <br> - Provide evidence the security is owned by the borrower, and <br> - Verify value using stock prices from a financial publication or web site <br> - Documentation evidencing asset eligibility requirements are met <br> - Sourcing deposits: <br> - Seller must document the source of funds for any deposit exceeding $10 \%$ of the Borrower's total eligible assets in depository accounts and securities, and verify the deposit does not include gifts or borrowed funds, or reduce the eligible assets used to qualify the Borrower by the amount of the deposit <br> - When the source of funds can be clearly identified from the deposit information on the account statement (e.g., direct payroll deposits) or other documented income or asset source in the Mortgage file, Seller is not required to obtain additional documentation |
| :---: | :---: | :---: |

Elite Jumbo AUS
Assets

## Assets from the sale of the Borrower's business

- The Borrower(s) must be the sole owner(s) of the proceeds from the sale of the business that were deposited to the depository or non-retirement securities account
- Parties not obligated on the Mortgage may not have an ownership interest in the account that holds the proceeds from the sale of the borrower's business
- The proceeds from the sale of the business must be immediately accessible in their entirety
- The sale of the business must not have resulted in the following: retention of business assets, existing secured or unsecured debt, ownership interest or Seller-held notes to buyer of business
- Most recent three months' depository or securities account statements
- Fully executed closing documents evidencing final sale of business to include sales price and net proceeds
- Contract for sale of business
- Most recent business tax return prior to sale of business
- Satisfactorily documented evidence of the following:
- Funds verified in the nonretirement account and used for qualification must have been derived from the sale of the borrower's business


## Appraisal Requirements

## All Transactions

Full appraisal is required regardless of the DU findings

- Property inspection waivers are not permitted
- Transferred appraisals are not allowed
- The subject property must be appraised within 90 days prior to the Note date
- Appraisal Update (Form 1004D) is not permitted for appraisals that are over 90 days aged from Note date. A new full appraisal is required for loans where the appraisal effective date is greater than 90 days from the Note date
Third-Party Review
Collateral Desktop Analysis (CDA) ordered from Clear Capital or a Consolidated Collateral Analysis (CCA XP) ordered from Consolidated Analytics is required to support the value of the appraisal. The Seller is responsible for ordering the CDA or CCA XP. See above for the allowance of CU score in lieu of CDA
- Collateral Underwriter (CI with a score of 2.5 or less is allowed in lieu of a CDA or CCA XP (30 Year Fixed Rate only)
- Maximum LTV 80\%
- Maximum Loan amount is $\$ 1,500,000$
- Properties identified by appraiser as being in a declining market are not eligible to use the CU to meet appraisal review requirement. A CDA or CCA XP is required for properties in declining markets. See Declining Market section for additional requirements.
- If the CDA/CCA XP returns a value that is "Indeterminate" or if the CDA/CCA XP indicates a lower value than the appraised value that exceeds a $10 \%$ tolerance, then one (1) of the following requirements must be met:
- A Clear Capital or Consolidate Analytics BPO (Broker Price Opinion) and a Clear Capital Value Reconciliation of Three Reports is required. The Value Reconciliation will be used for the appraised value of the property. Seller is responsible for ordering the BPO and Value Reconciliation through Clear Capital.
- A field review or $2^{\text {nd }}$ full appraisal may be provided. The lower of the two values will be used as the appraised value of the property. Seller is responsible for providing the field review or $2^{\text {nd }}$ full appraisal.
- If two (2) full appraisals are provided, a CDA/CCA XP is not required

| Appraisal Requirements Based on Loan Amount: |  |  |
| :---: | :---: | :---: |
| Purchase Transactions |  |  |
| First Lien Amount | Appraisal Requirements |  |
| $\leq \$ 2,000,000$ |  | 1 Full Appraisal |
| $>\$ 2,000,000$ |  |  |
|  | Refinance Transactions |  |
| $\leq \$ 1,500,000$ |  |  |
| $>\$ 1,500,000$ |  | 1 Full Appraisal Appraisals |
|  |  | 2 Full Appraisals |

## Second Appraisal Requirements

When two (2) appraisals are required, the following applies:

## Elite Jumbo AUS Appraisal Requirements

- Appraisals must be completed by two (2) independent companies
- The LTV will be determined by the lower of the two (2) appraised values if the lower appraisal supports the value conclusion
- Both appraisal reports must be reviewed and address any inconsistencies between the two (2) reports and all discrepancies must be reconciled
- If the two (2) appraisals are done "subject to" and 1004Ds are required, it is allowable to provide one (1) 1004 D . If only one (1) 1004D is provided, it should be for the appraisal that the value of the transaction is being based upon
If the date of the appraisal report is more than 120 days from the date of the Mortgage Note, the original appraiser must provide an update to the appraisal based on his or her exterior inspection of the Mortgaged Property and knowledge of current market conditions and in accordance with Fannie Mae Selling Guide age of document requirements

Higher Priced Mortgage Loans (HPML) (30 Year Fixed Rate only)

- If the property was acquired by the seller less than 90 days from the purchase agreement and the purchase price exceeds the seller's acquisition price by more than $10 \%$ then a second full appraisal is required. Bank owned properties are not exempt.
- If the property was acquired by the seller between 91-180 days from the purchase agreement and the purchase price exceeds the seller's acquisition price by more than $20 \%$, then a second full appraisal is required. Bank owned properties are not exempt
- If a second appraisal is required for one of the above two reasons, the borrower may only be charged for one of the appraisals


## Disaster Area Requirements

These guidelines describe the requirements for loans delivered to Company that are secured by properties located in a Declared Disaster Area as federally defined by FEMA or an investor or as determined by Company. This document outlines the minimum requirements for loans secured by properties impacted by a disaster in order to assist in ensuring marketability, soundness and value of the structure.

In addition to the requirements outlined in this document, Company reserves the right to impose restrictions and/or suspend purchases for properties subject to any disasters and adverse events that may impact the collateral.
This section provides guidelines to be followed for properties impacted by a disaster in:

- FEMA Major Disaster Declarations with designated counties eligible for individual assistance (IA)
- Areas where FEMA has not made a disaster declaration, but FCM or an Investor has determined that there may be an increased risk of loss due to a disaster
- Areas where there is reason to believe that a property might have been damaged in a disaster

Upon the occurrence of multiple events, such as a hurricane followed by a flood, the requirements of these guidelines apply to the date of the most recent event.

Notwithstanding any other requirements set forth herein regarding disasters and similar events, Seller represents and warrants that the property securing the Mortgage Loan is free of damage on the purchase date. In addition, any adverse event must be evaluated in terms of its effect on the subject's habitability, marketability, and value.

Seller is responsible for determining potential impact to a property located in an area where a disaster is occurring or has occurred. Irrespective of whether a declaration or announcement has been made, if Seller has reason to believe that a property might have been damaged in a disaster Seller must take appropriate action as outlined below to ensure that the property meets Company requirements and applicable investor requirements at the time of purchase by Company.

Additionally, if Company has a reason to believe that a property might have been damaged in a disaster and has placed a prior-to-purchase condition on the Mortgage Loan, then Seller must follow the requirements of the loan condition.

## Disaster Assessment and Disaster Notification Announcements

Company will assess the significance of events in geographic areas impacted by disasters. The assessment will utilize data provided by FEMA and other sources regarding impacted areas. As a result of this assessment, Company may define the affected area differently than the FEMA declaration. Unless communicated otherwise, Company will utilize FEMA for declaration dates, incidents begin dates and incident end dates. The Company's Credit Policy department, at its discretion and if permitted by investor guidelines may choose to declare disaster incident period begin dates and/or incident period end dates other than those recommended by FEMA if there are mitigating factors. Company may communicate a list of counties and/or zip codes by which a property's location is determined to be covered by these guidelines as a disaster area.

Seller is responsible for monitoring the Disaster Declaration File and the FEMA Website including the FEMA Declarations Summary on an ongoing basis to ensure that the property is not located in an area impacted by a disaster. In the event of a declared or undeclared disaster area requiring action, Company Loan Servicing will update the disaster file with the following information:

- Nature and location of disaster
- Disaster incident period (An incident period is defined as the beginning and subsequent ending date to a particular disaster). The incident beginning period is defined by FEMA.
- Incident period end date may be either:
- Determined by FEMA and published at FEMA.gov, or
- Determined by Company and published in the Disaster Announcement, or
- Determined by an Investor (Fannie Mae, Freddie Mac)
- Impacted counties as determined by FEMA's Major Disaster Declaration of areas eligible for individual assistance and/or Company and/or an Investor (Fannie Mae, Freddie Mac)
- Any related Company and/or Investor (Fannie Mae, Freddie Mac) announcements and special requirements
- Any additional documentation requirements, including
- Additional appraisal or appraisal product requirements
- Additional re-inspection requirements
- Employment re-verification requirements if any
- Effective date of any requirements


## Re-Inspection Requirements

The inspection document provided must address the specific disaster and indicate any apparent damage to subject property. Inspection reports may not be used to estimate or recertify value.

## Loans with Appraisals (Not Yet Purchased)

If a property is in a Declared Disaster Area and the most recent appraisal was completed on or before the incident period end date, or an incident period end date has not yet been declared, then, subject to the applicable product matrix and investor requirements, Company requires that an acceptable property inspection dated after the declared incident period end date be completed prior-to-purchase confirming the property was not adversely affected by the disaster prior to our purchase of the Mortgage Loan.

- A final exterior inspection or appraisal with exterior photos update signed and dated by the original appraiser
- Appraisal Update, form Fannie Mae 1004D, Disaster Inspection, or
- Completion Report, form Freddie Mac 442, or
- Property Inspection Report with exterior photos-
- Form Fannie Mae 2075, or
- DAIR

If the re-inspection notes that the property is uninhabitable, unsound, or that the property condition has been affected by the disaster, then a new appraisal must be completed, including an interior inspection and interior and exterior photos showing that:

- All identified damages and associated repairs have been resolved and meet guidelines and,
- The property is habitable, sound, and the property value is supported


## Eligibility/Requirements

Borrower Eligibility

- US Citizens
- Permanent Resident Aliens with evidence of lawful residency
- Must be employed in the US for the past twenty-four (24) months
- Non-Permanent Resident Aliens with evidence of lawful residency are eligible with the following restrictions:
- Primary Residence Only
- Maximum LTV/CLTV/HCLTV 75\%
- Unexpired H1B, H2B, E1, L1, and G Series VISAs only; G Series VISAs must have no diplomatic immunity.
- Borrower must have a current twenty-four (24) month employment history in the US
- Documentation evidencing lawful residency must be met, the identity must be confirmed for each borrower whose credit is used for loan qualification. The closing agent, notary public or signing attorney, as appropriate, must provide evidence that the identification document has been confirmed for each Borrower. Acceptable forms of identification include:
- Valid state driver's license with photo;
- Work ID with photo;
- Military photo ID;
- Permanent Resident card with photo;
- Student photo ID;
- Military dependents photo ID;
- Department of Public Welfare photo ID; or
- US passport with photo
- Illinois Land Trust
- Inter Vivos Revocable Trust
- All borrowers must have a valid Social Security Number
- Non-Occupant Borrower-Follow Fannie Mae Selling Guide requirements with exception of non-occupant relationship who must be a related family member of the borrower(s)
- Properties vested in LLC:
- The borrower(s) on the loan application must be the same as the managing member(s) and have documented authority to sign on behalf of the entity. All members with signing authority must sign the security instrument. All members with $25 \%$ ownership or more are subject to AML/BSA review.
- Documentation Requirements:
- Certificate of formation, filed articles of incorporation, including any and all addendums and a current listing of all ownership interests. Lender to provide a clear OFAC check for all individuals with $25 \%$ or more ownership of the entity as confirmed by a current listing of ownership interests.
- The Operating Agreement for the LLC must be provided in order to confirm acceptability of the LLC
- Current Certificate of good standing, dated within 12 months prior to note date


## Ineligible Borrowers

- Foreign Nationals
- Borrowers with Diplomatic Immunity status
- Life Estates
- Non-Revocable Trusts
- Guardianships
- LLCs, Corporations or Partnerships
- Land Trusts, except for Illinois Land Trust
- Borrowers with any ownership in a business that is Federally illegal, regardless if the income is not being considered for qualifying


## Eligible Property Types

- 1-4 Unit Owner Occupied Properties
- 1 Unit Second Homes
- 1-4 Unit Investment Properties
- Condominiums-Must be Fannie Mae warrantable and meet Fannie Mae guidelines
- Florida new construction: Full review or PERS permitted
- Modular homes
- Planned Unit Developments (PUDs)
- Leaseholds (30-year fixed rate product term only)
- Properties with $\leq 40$ Acres
- Properties $>10$ acres $\leq 40$ acres must meet the following
- Maximum land value $35 \%$
- No income producing attributes
- Transaction must be $10 \%$ below maximum LTV/CLTV/HCLTV as allowed on Elite Jumbo Plus AUS for transactions over twenty (20) acres. For example, if borrower qualifies for a loan at $80 \%$ LTV based on transaction, FICO score, loan amount and reserves, then the maximum allowed would be $70 \%$
- Properties Subject to Existing Oil/Gas Leases must meet the following:
- Title endorsement providing coverage to the lender against damage to existing improvements resulting from the exercise of the right to use the surface of the land which is subject to an oil and/or gas lease
- No active drilling; Appraiser to comment or current survey to show no active drilling
- No lease recorded after the home construction date; Re-recording of a lease after the home was constructed is permitted
- Must be connected to public water

NOTE: Properties that fall outside these parameters can be considered on a single loan variance basis

## Inherited Property

Inherited Properties are eligible for all occupancy types. The following limitations apply in cases where the Mortgaged Property was inherited within the prior 12 months:

- Must have clear title or copy of probate showing that the Borrower was awarded the Mortgaged Property.
- A copy of the will or probate document must be provided.
- Copy of buy-out agreement signed by all beneficiaries.
- The transaction may be considered a Rate and Term Refinance when buying out additional heirs identified in the will or probate document. Cash back to Borrower not to exceed $1 \%$ of loan amount. Borrower retains sole ownership of the property after the pay out of the other beneficiaries.

Ineligible Property Types

- 2-4-unit second home properties
- Condotels/Condo Hotels
- Cooperatives (Co-ops)
- Manufactured Homes/Mobile Homes
- Mixed-Use Properties
- Model Home Leasebacks
- Modular Homes
- Non-Warrantable Condominiums
- Properties with condition rating of C5/C6
- Properties with quality rating of Q6
- Properties located in Hawaii in lava zones 1 \& 2
- Properties located in areas where a valid security interest in the property cannot be obtained
- Properties $>40$ acres
- Properties with a private transfer fee covenant unless the covenant is excluded under 12CFR1228 as an excepted transfer fee covenant
- Tenants-in-Common projects (TICs)
- Unique properties
- Working farms, ranches or orchards
- Single Close Construction to Permanent Transactions


## Declining Markets

- LTV/CLTV/HCLTV must be $10 \%$ below product maximum per product matrix eligibility grid - As an example:
- If the eligibility grid indicates a maximum of 89.99\% LTV/CLTV/HCLTV for the subject transaction and the appraisal indicates a declining market, then the maximum LTV/CLTV/HCLTV should be reduced to $75 \%$ OR If the eligibility grid indicates a maximum of 80\% LTV/CLTV/HCLTV for the subject transaction and the appraisal indicates a declining market, then the maximum LTV/CLTV/HCLTV should be reduced to $70 \%$


## Underwriting

## DU Findings

All loans must have Fannie Mae DU Findings included in the loan file

- The DU recommendation may be either Approve/Ineligible due to loan amount or maximum cash-out on a rate/term refinance transaction or Approve/Eligible for high balance loan amounts only
- The loan delivery data must match the closed loan and the final data submitted to DU Manual underwrite is not permitted. Delegated underwriting only.


## Debt Obligations

## Business Debt in Borrower's Name

When a self-employed borrower indicates that certain liabilities are paid by his or her business, it must be confirmed that the obligation was paid from company funds and meets all of the following requirements:

- There is no history of delinquency.
- A minimum of 12 months evidence documenting that the debt is paid by the business account; and
- The cash flow analysis of the business took the payment obligation into consideration

The payment must be included in the borrower's individual recurring monthly debt obligations if any of the following situations exist:

- The business does not provide sufficient evidence that the obligation was paid out of company funds.
- The business provides acceptable evidence of its payment of the obligations, but the cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense and taxes and insurance, if applicable - equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan).
- It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.
- If the account in question has a history of delinquency.


## Co-Signed Loans

When a borrower co-signs for a loan to enable another party (the primary obligor) to obtain credit, but is not actually repaying the debt, the borrower has a contingent liability.
The contingent liability must be included in the debt-to-income ratio, unless there is documentation to evidence the primary debtor has been making satisfactory payments for a minimum of 12 consecutive months and the account is current.

## Court-Ordered Assignment of Debt

When the borrower has an outstanding debt that was assigned to another party by a court order (e.g., divorce decree or separation agreement), and the creditor does not release the borrower from liability, it may be excluded from the debt-to-income ratio if all of the following can be documented:

- Copy of the court order assigning the debt; and
- Proof of transfer of ownership

The payment history of the debt need not be taken into consideration after the transfer date occurred.

## Deferred Installment Debt

Loans deferred or in forbearance are always included in the loan qualification. If the credit report does not indicate the monthly amount that will be payable at the end of the deferment period, copies of the. Borrower's payment letters or forbearance must be obtained to determine the monthly payment used for loan qualification. Refer to Product Matrices Liabilities section for payments on student loans in deferment

## Installment Debt

Installment debt that is not secured by a financial asset, including student loans, automobile loans, timeshares, and home equity loans, must be included in the Borrower's monthly debt obligations, if there are 10 months or more remaining. An installment debt with fewer than 10 monthly payments remaining should be considered as a recurring monthly debt obligation if it significantly affects the Borrower's ability to meet his or her monthly obligations

## Student Loans

For all student loans, whether deferred, in forbearance, or in repayment (not deferred), the greater of the following to determine the monthly payment may be used as the Borrower's recurring monthly debt obligation:

- If a monthly payment is provided on the credit report, the amount indicated for the monthly payment may be used in qualifying
- If the credit report does not provide a monthly payment or if it shows $\$ 0$ as the monthly payment, the monthly payment may be one of the options below:
- Loan payment indicated on student loan documentation verifying monthly payment is on an income- driven plan
- For deferred loan or loans in forbearance:
- $1 \%$ of outstanding loan balance (even if this amount is lower than the actual amortizing payment) or
- A fully amortizing payment using the documented repayment term


## Lease Payments

Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease.

## 30-day Charge Accounts

Borrower must have sufficient liquid assets to cover the unpaid balance and the balance is subtracted from available liquid assets.

## Subordinate Financing

- Allowed up to maximum CLTV per matrix. Secondary financing term must conform to Fannie Mae Selling Guide requirements.
- If subject property has a HELOC that is not included in the CLTV/HCLTV calculation, the loan file must contain evidence the HELOC has been closed.
- Shared equity finance agreements are an ineligible source of subordinate financing

When the mortgaged property has a home equity line of credit that has a balance and monthly payment, that payment must be considered part of the borrower's recurring monthly debt obligations. If there are other open
home equity lines of credit on the credit report with a zero balance, no monthly payment needs to be included in the recurring debt obligations.

## Down Payment/Closing Cost Assistance

Down payment and closing cost assistance subordinate financing is not permitted

## Escrow Holdbacks

Not allowed unless the holdback has been disbursed and a certification of completion has been issued prior to purchase.

## Multiple Financed Properties

Maximum number of financed properties-follow Fannie Mae Selling Guide requirements
All financed 1-4-unit residential properties require an additional six (6) months reserves for each property, unless the exclusions below apply
1-4-unit residential financed properties held in the name of an LLC or other corporation can be excluded from the number of financed properties only when the borrower is not personally obligated for the mortgage.
Ownership of commercial or multifamily (five (5) or more units) real estate is not included in this limitation.

## Mortgage Insurance

Mortgage insurance is not required for transactions with LTVs greater than $80 \%$

## Escrow/Impound Accounts

Escrow/Impound accounts required for LTVs greater than 80\% unless prohibited by applicable laws

## Liabilities

Tax liens and Payment Plan

- If the most recent tax return or tax extension indicate a borrower owes money to the IRS or State Tax Authority, evidence of sufficient liquid assets to pay the debt must be documented if the amount due is within ninety (90) days of loan application date or if the tax transcripts show an outstanding balance due:
- A payment plan for the most recent tax year is allowed if the following requirements are met:
- Payment plan was setup at the time the taxes were due. Copy of the payment plan must be included in the loan file
- Payment is included in the DTI
- Satisfactory pay history based on terms of payment plan is provided
- Payment plan is only allowed for taxes due for the most recent tax year, prior years not allowed. For example, borrower files their 2019 return or extension in April 2020 A payment plan would be allowed for taxes due for 2019 tax year. Payment plans for 2018 or prior years would not be allowed
- Borrower does not have a prior history of tax liens

Alimony Payments

- Follow Fannie Mae Selling Guide requirements


## Compliance/General

## QM Designation

Must ensure that each loan delivered is in compliance with the Ability to Repay (ATR) and the Safe Harbor Qualified Mortgage (QM) rules established by the Consumer Financial Protection Bureau ("CFPB") with an APR not to exceed more than $1.5 \%$ above the average price offer rate ("APOR"). FCM shall deliver loans that were originated in accordance with the Special Products Seller Guide unless otherwise stated.

## Non-Arm's Length Transactions

A non-arm's length transaction exists whenever there is a personal or business relationship with any parties to the transaction which may include the seller, builder, real estate agent, appraiser, lender, title company or other interested party. The following non-arm's length transactions are eligible:

- Family sales or transfers.
- Property seller acting as their own real estate agent.
- Relative of the property seller acting as the seller's real estate agent.
- Borrower acting as their own real estate agent.
- Relative of the borrower acting as the borrower's real estate agent.
- Borrower is the employee of the originating lender, and the lender has an established employee loan program. Evidence of employee program to be included in loan file.
- Originator is related to the borrower.
- Borrower purchasing from their landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).
Gifts from relatives that are interested parties to the transaction are not allowed unless it is a gift of equity. Real estate agents may apply their commission towards closing costs and/or prepaids if the amounts are within the interested party contribution limitations.
Investment property transactions must be arm's length.
Other non-arm's length transactions may be acceptable on a single loan variance basis.


## Continuity of Obligation

When at least one (1) borrower on the existing mortgage is also a borrower on the new refinance transaction, continuity of obligation requirements have been met. If continuity of obligation I not met, the following permissible exceptions are allowed for the new refinance to be eligible:

- The borrower has been on title for a least twelve (12) months but is not obligated on the existing mortgage that is being refinanced and the borrower meets the following requirements:
- Has been making the mortgage payments (including any secondary financing) for the most recent twelve (12) months, or
- Is related to the borrower on the mortgage being refinanced
- The borrower on the new refinance transaction was added to title twenty-four (24) months or more prior to the disbursement date of the new refinance transaction.
- The borrower on the refinance inherited or was legally awarded the property by a court in the case of divorce, separation, or dissolution of a domestic partnership.
- The borrower on the new refinance transaction has been added to title through a transfer from a trust, LLC, or partnership. The following requirements apply:
- Borrower must have been a beneficiary/creator (trust) or $25 \%$ or more owner of the LLC or partnership prior to the transfer
- The transferring entity and/or borrower has had a consecutive ownership (on title) for at least the most recent six (6) months prior to the disbursement of the new loan
- NOTE: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.


## Forbearance

For borrowers who have entered into forbearance on any loan (including but not limited to the subject mortgage) between 01.01.2020 and 06.01.2022, the below listed criteria is to be used to determine eligibility. All other loans must follow the forbearance waiting period as required in the Significant Derogatory Credit section.
Any loans that are shown to be in active or previous forbearance but where the borrower continued to make regularly scheduled payments and has made at least one (1) regularly scheduled payment since forbearance inception date are eligible

- All payments must have been made within the month due
- The forbearance plan must be terminated at or prior to closing and the loan file must contain documentation that the forbearance is no longer active (i.e. removal letter from servicer, etc.).

Any loans (including but not limited to the subject mortgage) where a mortgage reflects reduced or missed payments under a forbearance and borrower has accepted a payment deferral, initiated a repayment plan or has reinstated the mortgage to return to a current status must meet the requirements below:

- Purchase \& Rate/Term Refinance:
- Three (3) consecutive months of required payments since completed forbearance plan
- All payments must have been made within the month due
- Cash-out Refinance:
- Twelve (12) consecutive months of required payments since completed forbearance plan
- All payments must have been made within the month due
- Payment Deferral: The refinance of a loan that has a payment deferral and where the amount of the deferred payment is included in the new loan, is eligible as a rate/term transaction. Funds applied to pay off the prior loan, including the deferred portion, are not considered cash out.
- Repayment Plan: The full amount of the repayment plan monthly payment must be considered in meeting the required consecutive payment requirements. (Purchase/Rate Term or Cash-out) detailed above.
- A mortgage subject to forbearance must utilize the mortgage payment history in accordance with the forbearance plan in determining late housing payments.
- Loan file must contain a letter of explanation from the borrower detailing the reason for forbearance and that the hardship no longer exists.
- Forbearance resulting in subsequent loan modification is considered a significant derogatory credit event and subject to a four (4) year waiting period.

