



first community mortgage



# Underwriting Guidance

## Conventional Program Guidance

### Business Assets

If using business assets from a company where income is being used qualify; In order to determine the effect on the business, business tax returns should be reviewed, and a cash flow analysis should be developed using the following documentation:

- P&L and Balance Sheet
- Underwriter reserves the right to increase bank statements in additional to what is required by AUS

### Citizenship

- A copy of the Green Card is required for all permanent resident aliens whose income and/or assets are being used to qualify for a loan. A copy of the front of the card is required and must be included in the loan file. All citizenship documents for non-permanent resident borrowers must be sent to [citizenshipdocs@fcmhomeloans.com](mailto:citizenshipdocs@fcmhomeloans.com) for review and approval. Approval to be uploaded to LOS system.

### Income from Cannabis Industry

- Must meet FNMA requirements for borrower eligibility and must be W2 income. If they are currently or have ever been an owner of the company, income is not allowed. Exceptions will not be considered.
- Freddie Mac not allowed

### Power of Attorney

- All POA's used by the borrower(s) on the loan must be pre-approved by the Underwriter and may not be allowed to close without underwriter approval. POA's must be reviewed by all departments involved for accuracy up to and including Processing, Underwriting and Closing:
- POA's used by the seller, realtor or other parties to the transaction, may be requested but do not need approval by FCM.
- Other POA Requirements are listed below:
  - POAs cannot be used on cash out refinance transactions
  - Date of POA cannot be dated more than 180 days from the closing date

### Tax Return Transcripts

IRS 1040 Personal Tax Transcripts are required regardless of AUS Findings; Prior to final approval for the following:

- All Self-Employed Income Including Schedules C, K1; W-2 where borrower is more than 25% owner
- Rental Income
- Capital Gains
- Dividend Income
- Complete copies of SIGNED business tax returns are required prior to final approval and a 4506C for each business will be signed by the borrower at closing. If Transcripts cannot be obtained or are delayed past closing, the Underwriter may accept the following:

- Customer must log into IRS.gov and obtain a copy of their transcripts for review by the Underwriter – Transcripts provided by the borrower must match the returns submitted in the loan file
- If a balance is due on any returns you need to determine if they have already paid (or have an APPROVED payment arrangement) or deduct assets by the amount owed. If they don't have enough assets to cover this and funds needed for closing, then UW may not approve this to proceed. Approved payment plans must be documented and included in DTI
- Any prior year's balance where there is a payment plan in place will also need to be provided and counted in DTI. Additional conditions may apply
- If there has been an amended return filed, we will need the transcript or proof of filing for the amended return
- Any other forms of documentation other than borrower provided transcripts that are being used to satisfy the transcript condition must be submitted to UW Management for exception approval
- This option is NOT eligible for consideration for the following products: Jumbo, follow Jumbo investor requirements.

## Future Income

- When a borrower is scheduled to begin employment under the terms of an employment offer or contract
  - For Fannie Mae loans follow Option 2
    - Paystub Not Obtained Before Loan Delivery
    - This option is limited to loans that meet the following criteria:- Purchase transaction- Principal residence- One-unit property- The borrower is not employed by a family member or an interested party to the transaction- The borrower is qualified using only fixed base income.
      - The lender must:
        - Obtain and review the borrower's offer or contract for future employment, which must:
          - Clearly identify the employer and the borrower, be signed by the employer, and be accepted and signed by the borrower.
          - Clearly identify the terms of employment, including position, type and rate of pay, and start date.
          - Be non-contingent. If conditions of employment exist, the lender must confirm prior to closing that all conditions of employment are satisfied either by verbal verification or written documentation. This confirmation must be noted in the mortgage loan file.
        - The borrower's start date must be no earlier than 30 days prior to the note date or no later than 90 days after the note date.
        - Prior to delivery, the lender must obtain the following documentation depending on the borrower's employment start date:
          - If the start date is the note date or no more than 30 days prior to the note date: Employment offer or contract and verbal verification of employment that confirms active employment status.
          - If the start date is no more than 90 days after the note date: Employment offer or contract.
        - The lender must document, in addition to the amount of reserves required by DU or for the transaction, one of the following:
          - Financial reserves sufficient to cover principal, interest, taxes, insurance, and association dues (PITIA) for the subject property for six months.
          - Financial resources sufficient to cover the monthly liabilities included in the debt-to-income ratio, including the PITIA for the subject property, for the number of months between the note date and the employment start date, plus one.
        - Financial resources may include financial reserves and current income.
    - Borrower is required to sign the Affidavit of Understanding

- Hourly/Variable Income is not allowed, even if it is guaranteed
- For Freddie Mac loans follow Option 1
  - Eligible employment and Income
    - Employment and income must meet the following requirements
      - Income must be from new primary employment or a future salary increase with the current primary employer
      - Income must be non-fluctuating and salaried (e.g., hourly earnings are not permitted), and
      - The employer must not be a family member or an interested party to the real estate or Mortgage transaction
    - Start date of the new employment or future salary increase, as applicable
      - Must be no later than 90 days after the Note Date
      - May be before or after the Delivery Date
    - Eligible Mortgage Purpose
      - Purchase transaction
      - “No-cash-out” refinance
    - Eligible Mortgage Premises
      - 1-unit Primary Residence
    - Verification of additional funds
      - In addition to funds required to be paid by the Borrower and Borrower reserves, the Seller must verify additional funds in the Borrower’s depository and/or securities account(s) that equal no less than the sum of the monthly housing expense, as described in [Section 5401.1](#), and other monthly liabilities, as described in [Section 5401.2](#), multiplied by the number of months between the Note Date and the start date of the new employment/future salary increase, plus one additional month.
      - A partial month is counted as one month for the purpose of this calculation.
      - The amount of the required additional funds, as described above, may be reduced by the amount of verified gross income that any Borrower on the Mortgage is expected to receive between the Note Date and the start date of the new employment, whether or not this income is used to qualify for the Mortgage or is expected to continue after the start date of the new employment/future salary increase
    - Required documentation
      - Copy of the employment offer letter, employment contract or other evidence of the future salary increase from the current employer that meets all of the following requirements:
        - Fully executed and accepted by the Borrower
        - Non-contingent or provide documentation, such as a letter or e-mails from the employer verifying all contingencies have been cleared
        - Includes the terms of employment, including employment start date and annual income based on non-fluctuating earnings
      - For a future salary increase with the Borrower’s current employer, the above documentation must indicate the increase is fully approved and is explicitly granted to the Borrower
      - 10-day pre-closing verification (PCV) verifying the terms of the employment offer letter, contract or future salary increase have not changed (refer to [Section 5302.2\(d\)](#))
      - Documentation of additional funds, as required above
- Borrower is required to sign the Affidavit of Understanding
- Hourly/Variable Income is not allowed, even if it is guaranteed

# **FHA Program Guidance**

## **Assumptions**

- Owner occupied properties only

## **Business Assets**

If using business assets from a company where income is being used qualify; In order to determine the effect on the business, business tax returns should be reviewed, and a cash flow analysis should be developed using the following documentation:

- P&L and Balance Sheet
- Underwriter reserves the right to increase bank statements in addition to what is required by AUS Citizenship
- A copy of the Green Card is required for all permanent resident aliens whose income and/or assets are being used to qualify for a loan. A copy of the front and back of the card is required and must be included in the loan file.

## **FHA 203(h)**

- Purchase Only
- Rehab/Renovation not eligible

## **Housing/Bond Product- New Employment (we need to review Bond products for requirements- Creating a new document for all Bond loan overlays)**

- Housing/Bond Product loans are not permitted to close with an employment contract where the borrower will be starting a new job after loan closing.

## **Manufactured Home Requirements**

- New construction is eligible if the manufactured home will be sold as real estate (de-titled and classified as Real Estate by dealer/seller) and vested in fee simple ownership prior to closing and reflecting as real property on title commitment.

## **Non-Credit Qualifying SL Documentation**

- Non-Credit Qualifying Streamline Documentation- Current note or other documentation that provides all required information for Net Tangible Benefit (NTB).

## **Power of Attorney**

- All POA's used by the borrower(s) on the loan must be pre-approved by the Underwriter and may not be allowed to close without underwriter approval. POA's must be reviewed by all departments involved for accuracy up to and including Processing, Underwriting and Closing
- POA's used by the seller, realtor or other parties to the transaction, may be requested but do not need approval by FCM.
- Other POA Requirements are listed below:
  - POAs cannot be used on cash out refinance transactions
  - Date of POA cannot be dated more than 180 days from the closing date

## **Tax Return Transcripts**

*Underwriting Guidance 10.2024-PA*

IRS 1040 Personal Tax Transcripts are required regardless of AUS Findings; Prior to final approval for the following:

- All Self-Employed Income Including Schedules C, K1; W-2 where borrower is more than 25% owner
- Rental Income
- Capital Gains
- Dividend Income

Complete copies of SIGNED business tax returns are required prior to final approval and a 4506C for each business will be signed by the borrower at closing. If Transcripts cannot be obtained or are delayed past closing, the Underwriter may accept the following:

- Proof of when order was placed from Interthinx & showing not yet returned as of day the file is resubmitted for final condition review.
- Customer must log into IRS.gov and obtain a copy of their transcripts for review by the Underwriter – Transcripts provided by the borrower must match the returns submitted in the loan file
- They must be full transcripts – Record of Account only is not acceptable in place of the full transcripts
- If a balance is due on any tax returns you need to determine if they have already paid (or have an APPROVED payment arrangement) or deduct assets by the amount owed. If they don't have enough assets to cover this and funds needed for closing, then UW may not approve this to proceed. Approved payment plans must be documented and included in DTI
- Any prior year's balance where there is a payment plan in place will also need to be provided and counted in DTI. Additional conditions may apply
- If there has been an amended return filed, we will need the transcript or proof of filing for the amended return
- Any other forms of documentation other than borrower provided transcripts that are being used to satisfy the transcript condition must be submitted to UW Management for exception approval
- This option is NOT eligible for consideration for the following products: Jumbo- follow Jumbo investor requirements.

### **Temporary Buydowns**

- Primary Residence Purchase Only
- Manufactured Homes are ineligible

### **Mixed-Use Properties**

For mixed-use properties, FHA guidelines specify several requirements to ensure eligibility for FHA insurance. Here are the key points:

#### **Definition**

Mixed Use refers to a property suitable for a combination of uses, including commercial, residential, retail, office, or parking space.

#### **Eligibility Criteria**

1. **Residential Use Requirement:**
  - A minimum of 51 percent of the entire building square footage must be for residential use.
2. **Health and Safety:**
  - The commercial use must not affect the health and safety of the occupants of the residential property.

#### **Appraisal and Documentation**

1. **Appraisal Requirements:**
  - The appraiser must include all components of the real estate in the analysis but must not include business valuation or the value of personal property or business fixtures in the appraisal.

- The appraiser must provide measurements and calculations of the building area on the building sketch to show what portion of the property is allocated to residential use and what portion is allocated to nonresidential use.
- The appraiser must provide a statement as to whether the commercial use will or will not affect the health and safety of the occupants of the residential property.

#### Additional Considerations

- The property must comply with all applicable zoning ordinances. The appraiser must determine if the current use complies with zoning ordinances and report the property as "Legal Non-Conforming" if it does not comply but is accepted by the local zoning authority.

In summary, mixed-use properties must primarily be residential, with at least 51 percent of the building's square footage dedicated to residential use, and the commercial use must not compromise the health and safety of the residential occupants. Proper documentation and appraisal are crucial to meet FHA guidelines.

### Solar & Wind Technology Program

The FHA guidelines for solar and wind technologies cover several aspects, including eligibility, installation, documentation, and completion requirements. Here are the key points:

#### Eligibility

##### 1. Eligible Property Types:

- One- to four-unit properties
- Manufactured housing (one unit)
- Condominium units are ineligible for solar and wind technologies.

##### 2. Eligible Programs and Transaction Types:

- Section 203(b) (purchase transaction, rate and term refinance, and simple refinance)
- Section 203(h) Mortgage Insurance for Disaster Victims
- Section 203(k) Rehabilitation Mortgage Insurance Program.

#### Eligible Technologies

##### 1. Photovoltaic Systems:

- Must provide electricity for the residence
- Must meet applicable fire and electrical code requirements.

##### 2. Wind Turbines:

- Must have a nameplate capacity of no more than 100 kilowatts
- Must have performance and safety certification from either the International Electrotechnical Commission (IEC) or the American Wind Energy Association (AWEA)
- Must be installed by a certified installer.

#### Title to Systems

- The borrower must own, not lease, the solar or wind energy systems for them to be considered eligible improvements. Leased equipment and Solar Power Purchase Agreements (SPPA) may not be financed under any FHA Title II programs.

### Maximum Mortgage Amount Calculation

#### 1. Purchase:

- The mortgagee must compute the Adjusted Value by using the purchase price excluding the cost and installation of the solar or wind technology system.
- The mortgagee must add the lesser of 20 percent of the Property Value or the cost and installation of the solar or wind technology system to the Base Loan Amount.

#### 2. Refinance:

- The mortgagee must compute the Adjusted Value by using the Property Value without the cost and installation of the solar or wind technology system.

- The mortgagee must add the lesser of 20 percent of the Property Value or the cost and installation of the solar or wind technology system to the Base Loan Amount.

### Required Documentation

- The mortgagee must document the cost of work, including the energy systems' materials and labor.

### Completion Requirements

#### 1. Time of Completion:

- Installations must be completed within 120 days of the mortgage disbursement.
- If the work is not completed within the required time frames, the remaining escrow funds must be applied to a prepayment of the mortgage principal.

#### 2. Inspection:

- The mortgagee or their agent must inspect the solar and wind improvement or obtain evidence from a local authority that the system was installed in accordance with local code [\[Ref 4\]](#).

#### 3. Escrow Closeout Certification:

- After the repair or rehabilitation escrow account is closed, the mortgagee must complete the Escrow Closeout Certification screen in FHAC within 30 days after the escrow account is closed.

### Escrows

- If the installation of solar or wind energy systems is not complete by the time of closing, the mortgagee must establish an escrow account for the remaining cost of the energy improvements in accordance with the Repair Completion Escrow Requirements.

In summary, the FHA guidelines for solar and wind technologies require that the borrower owns the systems, the systems meet specific technical and safety standards, and the installation is completed within a specified timeframe. Proper documentation and inspection are also crucial to ensure compliance with FHA requirements.

### Income from Cannabis Industry

#### **Income derived from employment in the cannabis industry is not eligible for an FHA-insured loan.**

According to FHA guidelines, the Mortgagee may only consider income if it is legally derived and properly reported as income on the Borrower's Tax Returns. Under the Controlled Substances Act, marijuana is classified as a Schedule I controlled substance with no accepted medical use. Consequently, income derived from trafficking in controlled substances, including marijuana, is considered illegal under federal law.

- **Legality:** Income must be legally derived. Since marijuana is a controlled substance under federal law, **income from the cannabis industry is not considered legal income for FHA purposes.**

# USDA Program Guidance

## **Assumptions**

- Owner occupied properties only

## **Manufactured Home Requirements**

Manufactured Homes are eligible for financing under the USDA program. The following list of restrictions and requirements are in addition to regular program underwriting requirements:

- 640 minimum credit score
- GUS Accept Only
- Must have a floor area of not less than 400 square feet
- Properties with an unexpired right of redemption are ineligible.

### *Dwelling Requirements:*

- If the manufactured home is de-titled prior to underwriting, nothing further is required.
- If the manufactured home is not de-titled, a copy of the original certificate of title will be required for underwriting approval; the original certificate of title must be delivered to title company on or before the date of closing to de- title the manufactured home. The title company instructions will include collecting the original certificate and de- titling the manufactured home to be classified as real estate except when the loan is in conjunction with a THDA loan. For THDA, the title company will need to send us the original certificate of title so we can send it to THDA for de-titling.