first community mortgage

FCM NMLS ID 629700

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a division of First Community Mortgage

Home Opportunity Loan (HOL-ITIN) Guidelines

Program Codes

HOLBC30

first community mortgage

HOL- ITIN Matrix

PRIMARY RESIDENCE 1-4 Units, Condo, PUD				
Credit Score	Loan Amount	Purchase	Cash Out	Max DTI
700	$1,500,000	85% LTV/CLTV	NA	50%
Credit Score	Loan Amount	Purchase/RT	Cash Out	Max DTI
660	<$1,000,000	80% LTV/CLTV	NA	50%
660	$1,500,000	70% LTV/CLTV	NA	50%
700	$1,500,000	NA	65% LTV/CLTV	50%
SECOND HOME-1-Unit, Condo, PUD				
Credit Score	Loan Amount	Purchase/RT	Cash Out	Max DTI
660	$1,500,000	70% LTV/CLTV	NA	50%
700	$1,500,000	NA	65% LTV/CLTV	50%
INVESTMENT (Business Purpose) 1-4 Units, Condo, PUD				
Credit Score	Loan Amount	Purchase/RT	Cash Out	Max DTI
660	$1,500,000	70% LTV/CLTV	NA	50%
700	$1,500,000	NA	65% LTV/CLTV	50%

Maximum cash out $500,000
Mortgage/Rental History 0x30x12
FC/SS/DIL/BS Seasoning 48 months
Escrow waivers are not allowed
Delayed Financing maximum 60% LTV
Non-Arms Length Transactions permitted for primary residence only, maximum 70% LTV
Declining markets – reduce maximum LTV by 5%
Non-Occupant Co-Borrower maximum loan amount $1,000,000. Primary occupancy only. Cash-Out refinances not allowed

General Requirements

All Mortgage Loans must be underwritten by FCM and must meet the standards and guidelines stipulated herein as well as in the Underwriting Guidelines FCM Documents.

FCM requires that all loans meet the Ability to Repay (ATR) rules.

Loan Program Requirements

Manual underwriting is required. Items not listed in these guidelines will default to FNMA requirements. Exceptions to published guidelines may be considered on a case-by-case basis.

Minimum Loan Amount

The minimum loan amount is $100,000

Maximum Loan Amount

The maximum loan amount is $1,500,000

State Eligibility

All State in FCM's footprint are eligible. The following U.S. commonwealth and territories are not eligible: Puerto Rico, Guam, American Samoa, Northern Marina Islands and the U.S. Virgin Islands.

Credit/LTV/CLTV

- 660 minimum credit score, maximum LTV/CLTV 80%
- 700 minimum credit score, maximum LTV/CLTV 85% Primary, Purchase
- Primary Residence
- Second Homes
- Investment Properties

Assumptions

- Loans are not assumable

Escrows

- Escrow account is required and must be maintained for the life of the loan.

DTI

- Maximum DTI is 50%

Eligible Products

- Fixed Rate Fully Amortizing: 30 Year.

- Fully Amortizing ARMs with 30-year amortization term: 5/6 and 7/6 ARM -Qualify at the higher of the fully indexed rate or the note rate

Ineligible Loan Types

- HELOC
- Bridge Loans
- Construction Loans
- Greater than 30 year terms
- Mobile to Land Loans
- Interest-Only
- Balloon Payments
- Negative Amortization

Power of Attorney

Power of Attorney is not permitted.

Transactions

Determining Borrower Occupancy

The Borrowers must declare whether they will occupy the Subject Property as their primary residence or second home, or if they will not occupy, but instead will use the Subject Property as a business purpose investment. (Investor Specific – Please refer to the Investor specific Rate Sheet/Matrix.) The Lender must conduct due diligence to determine if the Borrowers will or will not occupy the Subject Property as declared.

Primary Residence

A primary residence is a dwelling occupied by the borrowers as their principal residence. To qualify as a primary residence, the transaction must meet each of the following criteria:

- Property is located in the same general area as the borrower's employment
- Borrower intends to occupy the subject property for the majority of the year
- Property possesses physical characteristics that accommodate the borrower's family
- If refinance, the borrowers address on their paystubs, bank statements, tax returns, driver's license etc… must be predominately the subject property

Second Home

A second home is a dwelling occupied by the borrower in addition to their primary residence. Second homes are eligible at a maximum of 70% LTV.

Investment Property

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy. Non owner-occupied are eligible at a maximum of 70% LTV.

Purchase Transactions

Loan proceeds must be used for the acquisition of the Subject Property; no proceeds may be paid to the Borrowers other than nominal amounts to reimburse the Borrowers for the overpayment of fees; none of the Borrowers may have had an ownership interest in the Subject Property over the past twelve months. The loan file must include a fully executed agreement (purchase contract) of sale and counteroffer (if applicable) reflecting the following: The purchase contract cannot be expired, Borrower as the purchaser of the property, Seller as the vested owner on title, correct sales price, amount of down payment, closing dates, concessions and seller contributions.

Purchase Transaction LTV Calculation

To calculate the loan to value for a purchase transaction, the Lender must divide the loan amount by the lower of the Subject Property's purchase price or appraised value.

Rate and Term Refinance Transactions

- Loan proceeds may be used to pay off the current first lien mortgage, any seasoned non- first lien mortgages, subordinate lien used to acquire the property, closing costs and pre-paid items
- If the first mortgage is a HELOC, evidence is required showing 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 $2,000 in the most recent twelve (12) month period to be documented with a transaction history.
- Payoff of a seasoned non-first lien mortgage is permitted. A seasoned non-first lien mortgage is a mortgage that has been in place for twelve (12) months as determined by the time between the note date of the subordinate lien and the application date of the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- Maximum cash back at closing is limited to the lesser of 2% of the new loan amount or $2,000.
- The Borrower must have paid the mortgage on the subject property for the last six months prior to the application date
- If the most recent first mortgage transaction on the subject property was a cash-out refinance within the last six months, the new mortgage is not eligible as a rate and term and must be classified as a cash-out refinance. Note date to note date is used to calculate the six months.

Rate and Term Refinance LTV/CLTV Calculation

- LTV/CLTV will be based on the current appraised value.

Cash-Out Refinance Transaction

- The amount of cash-out refinance may include the present first mortgage payoff, subordinate liens (if applicable), unsecured debt, unseasoned liens, closing costs and additional cash in hand to borrower.
- Borrower must have taken title to the property more than 180 days from the Note date. If the property is owned free and clear and the six-month seasoning is not met, refer to the Delayed Financing section
- Maximum LTV/CLTV is 65%, minimum credit score 700 with 2 years of tax returns required.
- Texas cash-out refinance transactions are not eligible.

Cash-Out Refinance LTV/CLTV Calculation

- Calculation of the LTV depends on the time between the application date of the new loan, and the Note date of the prior mortgage or the date of initial purchase of the subject.
- Subject owned ≥ 12 months: The LTV/CLTV/HCLTV is based on current appraised value.
- Subject owned less than 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 current appraised value. Documented improvements must be supported with receipts. (Note: cash-out refinance transactions requires subject to be owned six months or more).

Properties Previously Listed for Sale

- Properties listed for sale at the time of application are not eligible for refinance transactions.
- Primary residence: Subject property must be off the market for a minimum of three months prior to application; and Borrower must provide a written letter of explanation for listing the property and confirmation of intent to occupy the subject property as a primary residence. Documentation required showing cancellation of listing.
- Second home/Investment: Subject property must be off the market for a minimum of six months prior to application; and Borrower must provide a written letter of explanation for listing the property. Documentation required showing cancellation of listing.

Delayed Financing

Per Fannie Mae guidelines. Maximum LTV/CLTV is 60%.

Non-Arm's Length Transactions

Non-arm's length transactions involve a direct relationship outside of the subject transaction between a borrower and a party to the loan. Non-arm's length transactions are permitted for primary residence only with maximum 70% LTV/CLTV. The transaction must not involve a bale out or appear to be improper such as borrower owning a LLC that is selling the property to himself or another LLC that he owns to borrower more money etc…

Examples of non-arm's length transactions include, but are not limited to, the following:

- Family member sales

- Renters purchasing from current landlord
- Buyer/Borrower representing themselves as agent in real estate transaction
- Existing buyer relationship with loan officer, real estate agents, closing agent, builder or developer

Non-arm's length transactions are subject to all of the following requirements:

- Relationship must be fully disclosed,
- Borrower to provide a written explanation stating relationship to the seller and reason for purchase. (Letter is not required when borrower is purchasing the property they have purchased been residing in, i.e., lease purchase or tenant-purchase situations.
- Borrower to provide a copy of the canceled earnest money check paid to the property seller.
- Underwriter must be satisfied that the transaction makes sense and that the borrower will occupy the property.
- All liens on title to be paid in full and reflected on the settlement statement.
- Borrowers cannot provide services on transaction (closing agent, title agent, appraiser, etc.)
- Borrower may not be an owner of a business entity selling the subject property.
- Family sales have the following additional requirements:
    a. Payment history for the seller's mortgage on the subject property must be obtained and show no pattern of delinquency within the past 12 months.
    b. Verification that the borrower has not been in title to the property in the past 24 months

Eligible Borrowers

Any person signing an application for a mortgage loan is a borrower. All borrowers must sign the mortgage note. A borrower must be an individual. Title must be in the Borrower's name at time of closing for all transactions.

Borrower must have a valid ITIN with at least 2 years consistent ITIN payments reporting to the IRS. If multiple borrowers, one borrower must have an ITIN.

The total number of borrowers are limited to two per loan. Borrowers involved in a lawsuit or litigation are not permitted.

ITIN – Documentation Requirements

- Unexpired foreign passport
    - Note that the above satisfies the residency requirements, a VISA is not required for an ITIN borrower.
- ITIN card or letter from the IRS
    - ITIN is required to be assigned to the borrower prior to application

- Verification of the unexpired ITIN is provided by a letter from the IRS confirming the ITIN is assigned to the borrower
  - IRS Form W7 is not acceptable evidence if the ITIN letter is not provided, or if the ITIN letter submitted is not legible.
  - ITINs expired or expiring within the next six months must also include a signed W7 (executed by all parties) to evidence current status. ITINs are considered to be expired if the letter from the IRS is dated more than three years ago. In those instances, a fully executed W7 is required.

- All documentation in file must support the borrower's ITIN number and cannot reference a social security number belonging to another individual.
- DACA eligible with ITIN/Social Security Number with valid US Driver's License along with current and verified EAD card evidencing their DACA status. Other documentation may be considered on a case-by-case basis.

Non-Occupant Co-Borrowers

- Non-occupant co-borrowers must meet the following requirements:
  - Primary occupancy only
  - Maximum loan amount $1,000,000
  - Non-occupant co-borrower is required to sign the note and mortgage
  - Non-occupant co-borrower cannot have interest in the subject property sales transaction to include, but not limited to, seller, real estate broker or builder
  - Occupying borrower must contribute to qualifying income. DTI not to exceed 50% using solely the occupant borrower's income.
  - Cash-out transactions not allowed.

First-Time Home Buyers

A First-Time Home Buyer is defined as a borrower who had no ownership interest in a residential property in the United States during the preceding 3-year period.

First-Time Home Buyers are permitted for purchase of primary residences with 12 months of rental history with no late payments.

Eligible Ownership Interests:

Acceptable forms of vesting with Fee Simple ownership are:

- Individuals
- Joint Tenants
- Tenants in Common

Ineligible Ownership Interests:

- Irrevocable Trust, Blind Trust or Inter-Vivos Revocable Trust
- Business Entity
    - Limited Liability Company (LLC)
    - Limited and General Partnerships
    - Corporations
    - S Corporations
    - Life Estates
    - Leasehold Estates

Multiple Financed Properties

If loan is secured by the borrower's principal residence, there are no limitations to the number of properties that the borrower can own or currently financing. Second homes and investment properties maximum of six financed properties including the subject loan.

Credit Analysis

Credit Report

An industry standard, tri-merge credit report (a "Credit Report") is required for each Borrower who is both (i) a citizen / US person, and (ii) a natural person.

All Credit Reports must provide merged credit information from Experian (FICO), Trans Union (Empirica) and Equifax (Beacon).

Non-Traditional credit reports are not acceptable

Age of Credit Report

Credit reports may not be greater than 90 days old on the Date of the Loan.

Credit Score Requirements

The qualifying credit score is the lowest Applicable Score among all Borrowers who are natural persons. The applicable score for a Borrower is the middle score for Borrowers with 3 Valid Credit Scores, the lower score for Borrowers with 2 valid Credit Scores, single score if only one bureau has a score.

A ("Valid Credit Score") is a credit score from Experian (FICO), Trans Union (Empirica), and Equifax (Beacon). Only scores from these reporting agencies are Valid Credit Scores

Tradeline Requirements

- Minimum of three open and active tradelines reporting for 12 months.

  - One of the tradelines can be an acceptable most recent 12 months of mortgage or rental verification with a minimum of three cancelled checks or bank statements to document the housing payments if not listed on the credit report.
- Or- Two tradelines open and active reporting for 24 months
- Tradelines on the Borrower credit denoted as an "authorized user" are ineligible.
- Collection and charge-off accounts are not considered valid tradelines.
- Purchase of Primary Residence only: If tradeline requirement is not met, non-traditional credit is acceptable per below requirements:
  - A minimum of one credit score is required
  - The credit history must include three (3) credit references, from the list below covering the most recent 12 months of activity from date of application with cancelled checks.
  - 12 months housing history is required to be one of the credit references
    - If a borrower's mortgage or rental history is not reported on the credit report, alternative documentation showing the most recent 12-month history must be provided. Please refer to requirements in section 5.4.

  o The other two tradelines may be documented with the following alternative credit references:

  - ☐ Installment loan payments (such as an auto loan)
  - ☐ Utility payments, such as electricity, gas, water, telephone service, television, and internet service providers. If utilities are included in the rental housing payment, they cannot be considered a separate source of nontraditional credit. Utilities can be considered a source of nontraditional credit only if the payment history can be separately documented
  - ☐ Cell phone payments
  - ☐ Insurance payments (excluding payroll deductions)
  - ☐ Lease payments related to durable goods, such as automobiles Local store payments (department, furniture, appliance)
  - ☐ School tuition payments or ongoing childcare payments
  - ☐ Payments on a loan obtained from an individual, provided the repayment terms can be documented in a written agreement

Mortgage and Housing Payment History

- A 12-month verification of rent or mortgage (0x30x12) is required on all loans with the exception:
  - A rent-free letter is acceptable
  - Primary Residence owned free and clear.

- Mortgage or rental history not disclosed on the Borrower's credit report must be documented with Verification of Mortgage (VOM) or Verification of Rent (VOR) from an institutional third party with the most recent twelve months payment activity up to and including the month prior to the Note date or with cancelled checks, month bank statements, monthly mortgage statements and/or a transactional payment history directly from the servicer or their website. Private Verification of Rent must be completed as a credit supplement with 3 months of consecutive cancelled checks or copy of bank statements documenting the rental being withdrawn each months for 3 consecutive months.
- Borrowers who own a property free and clear can qualify by providing evidence of payment of homeowners' insurance and taxes for their property.

Rolling Late Payments

Rolling late payments are not considered a single event. Each occurrence of a contractual delinquency is considered individually for loan eligibility.

Liens and Judgments

All open judgments, garnishments and outstanding tax liens must be paid off prior to or at closing. All tax liens must be paid off prior to or at loan closing, payment plans are not permitted.

Collection accounts & Charge-Off accounts

Collection and charge-off of non-mortgage accounts may remain open provided they do not affect title per below:

- Signed letter of explanation is required from the borrower that is consistent with other credit information in the file.
- Collections and charge-offs that have passed beyond the statute of limitations for that state
- All medical collections

Bankruptcy

Chapter 7, 11 or Chapter 13 Bankruptcy:

- 4 years from discharge or dismissal. Detailed letter of explanation is required that describes the situation and reason for the bankruptcy.

Foreclosure, Pre-Foreclosure, Deed in Lieu of Foreclosure, Short Sale

- 4 years from discharge or dismissal. Detailed letter of explanation is required that describes the situation and reason for the occurrence.

Liabilities

Installment Debt

Installment debt is a monthly obligation with fixed payments and terms. Payments on installment loans must be included in the borrower's debt-to-income ratio. Payments can be excluded if there are 10 or fewer monthly payments remaining to pay the debt in full. If the payment is substantial and exceeds 5% of the borrower's qualifying income, the overall transaction should be reviewed to ensure the remaining payments will not impact the borrower's ability to handle the new mortgage payment. Installment debt paid in full prior to closing can be excluded from the debt-to-income ratio. Paying down debt to qualify is not permitted. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full. Lease payments are not permitted to be excluded.

Revolving Debt

Revolving debt is open-ended debt in which the principal balance may vary from month to month. The minimum required payment as stated on the credit report or current account statement should be used to calculate the debt-to-income ratio. If no payment is stated on the credit report, the greater of $10 or 5% of the current balance should be included in the debt-to-income ratio calculation. A credit supplement can be obtained to verify what the minimum payment is if it is not reflected on the credit report. Revolving accounts can be paid off prior to or at closing in order to exclude the payment from the debt ratio. Supporting documentation, such as a credit supplement or direct verification from the creditor, must be obtained as evidence the debt has been paid in full. See Asset Documentation for sourcing and seasoning requirements. If revolving debt is paid off to qualify the account does not have to be closed. Paying down debt to qualify is not permitted.

Authorized User Accounts

Authorized user account should not be considered in the borrower's debt-to-income ratio.

Student Loans

If a monthly student loan payment is provided on the credit report, that amount may be used for qualifying purposes. If the credit report does not reflect the correct monthly payment, the monthly payment that is on the student loan documentation (the most recent student loan statement) may be used to qualify the borrower.

If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, then the qualifying monthly payment must be determined using one of the options below:

- If the borrower is on an income-driven payment plan, student loan documentation may be obtained to verify the actual monthly payment is $0. The borrower may then qualify with a $0 payment.
- For deferred loans or loans in forbearance, the following must be calculated: a payment equal to 1% of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment); or fully amortizing payment using the documented loan repayment terms.

Business Debt

A business debt is a financial obligation of a business and can be the sole responsibility of the business or be personally secured by the business owner, making that person also liable for the debt. If the debt is reflected on the borrower's personal credit report, the borrower is personally liable for the debt and it must be included in the debt-to-income ratio.

Debts paid by the borrower's business can be excluded from the debt-to-income ratio with most recent 12 months canceled checks drawn against the business account.

Child Support, Alimony Support or Maintenance Obligations

Monthly alimony, child support or separate maintenance fees should be current at time of application and must be included in the borrower's debt-to-income ratio. File should contain supporting documentation as evidence of the obligation, such as a final divorce decree, property settlement agreement, signed legal separation agreement, or court order. If payments are past due, the arrearages must be brought current prior to loan closing.

Debts Paid by Others

When a borrower is obligated on a non-mortgage debt but is not the party actually repaying the debt, the monthly payment may be excluded from the borrower's recurring monthly obligations. This policy applies whether or not the other party is obligated on the debt but does not apply if the other party is an interested party to the subject transaction (such as the seller or realtor). Non- mortgage debts include installment loans, student loans, revolving accounts, lease payments, alimony, child support, and separate maintenance. When a borrower is obligated on a mortgage debt but is not the party who is actually repaying the debt, the full monthly payment may be excluded from the borrower's recurring monthly obligations if:

- the party making the payments is obligated on the mortgage debt,
- there are no delinquencies in the most recent 12 months, and
- the borrower is not using rental income from the applicable property to qualify. In order to exclude non-mortgage or mortgage debts from the borrower's DTI ratio, the most recent 12 months' canceled checks (or bank statements) must be obtained from the other party making the payments that document a 12-month payment history with no delinquent payments. When a borrower is obligated on a mortgage debt, regardless of whether or not the other party is making the monthly mortgage payments, the referenced property must be included in the count of financed properties.

Open 30-day Charge Accounts

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, 5% of the outstanding balance will be considered to be the required monthly payment.

Open-end accounts do not have to be included in the monthly debt payment if the borrower has sufficient funds to pay off the outstanding account balance and the account has no late payments. The funds must be verified in addition to any funds required for closing and reserves. If the borrower paid off the account balance prior to closing or at closing, proof of payoff may be provided in lieu of verifying funds to cover the account balance

Undisclosed Debts

If asset statements provided reflect payments made on obligations not listed on the credit report or 1003, additional information must be obtained to determine if the liability should be included in the borrower's debt- to-income ratio. If the obligation does not belong to the borrower, supporting documentation is required. If there is a non- borrower also on the account, a signed letter of explanation from the borrower is sufficient. If the borrower is the obligor on the debt, an account statement and pay history should be obtained to review the account for acceptability. The payment must be included in the debt ratio.

Documentation

Age of Loan Documentation

Pay stubs must be most recent 15-30 days of closing. Tax returns, W-2s and 1099's no older than the previous year.

Income/Employment

The income and employment documentation (if not specified below) to follow requirements in the Fannie Mae Single Family Selling Guide.

Wage-Earners

Borrower may be classified as a "wage earner" or W-2 borrower if borrower does not own 25% or more of a business and income is not derived from IRS form 1099.

Income derived from a consistent hourly, weekly, or monthly wage, must be verified by the following:

- Written verification of employment: W2 borrower's income, including but not limited to variable income, is calculated by using the previous year and YTD from the WVOE's unless the YTD income is declining. Declining income will be considered on a case-by-case basis.
- One year signed 1040s – two years signed 1040s required for cash-out refinance transactions
- Executed 4506-C on 1040s
- Verbal Verification of Employment (VVOE) within 10 days of the Note Date.

Self-Employed Borrower

A Borrower is considered self-employed with 25% or more ownership in any business or 1099- MISC income.

The following Income documentation is required:

- Most recent 1 year Personal and Business tax returns with all schedules for purchase & rate and term refinance transactions. Most recent 2 years Personal and Business tax returns with all schedules for cash-out refinance transactions
- If the borrower is filing for an extension, the most recent filed tax return and proof the extension has been filed with the IRS
- A letter of explanation for any losses or significant income changes
- Year to date Profit and Loss statements signed by the borrower along with the most recent two months of bank statements that align with the good through date on the P&L.
- Qualifying income is determined from the tax returns. The P&L is used to determine the stability of the income. The bank statements for the most recent two months must reflect deposits that support those sales from the P&L and the qualifying income from the prior year(s) tax returns.
- Declining income will be considered on a case-by-case basis.

- Executed 4506-C

Employment History

Employment must be stable with at least a 2-year history in the same job or jobs in the same field. Income from self-employment is considered stable if the borrower has been self-employed for 2 or more years and the business must be in existence for at least 2 years.

Child Support or Alimony

Required Documentation:

- Executed copy of the fully executed Divorce Decree, property settlement agreement and/or parenting plan
- Proof of children's ages
- Proof of three year continuance and receipt of payment for most recent 12 months.

Rental Income

- Must be entered in the REO section and included in PITIA
- Must be verified using a current 12 month lease or tax returns Schedule E
- A 25% Vacancy/Maintenance factor will be deducted from gross rental income. Short term rental income received from a home-sharing service (such as Airbnb, VRBO, HomeAway) require proof of rental history for the past 12 months as documented from the short-term rental facilitator, 40% vacancy/maintenance factor must be applied to the gross rents.
- Calculation of rental income will reduce total housing expenses, after the vacancy factor, and added as income or a liability
- Proposed rental income, on a conversion from subject property to investment, will require an executed copy of the future lease and proof of security deposit. If lease is not available, a Rent Range Report is acceptable.

Unacceptable Income

- Gambling winnings (except lottery continuing for 5 years)
- Educational benefits
- Stock options
- Rental income received from the Borrower's single family primary residence or second home
- Refunds of federal, state, or local taxes
- Illegal income
- Expense account reimbursement
- Proceeds of SBA/PPP loans or any other government assistance

- Mortgage credit certificates
- Any source that cannot be verified, is not stable, or will not continue.
- Future income
- Foreign income /Income derived from sources outside of the United States
- Income derived from the subject property with land being leased to another party
- Income derived from farm income when the property is being used for a specific purpose, such as a vineyard or bottling barns
- Non-incidental income received from farming/agricultural use of a property
- Income determined to be temporary or one-time in nature
- Lump sum payments such as inheritance or lawsuit settlements
- Retained earnings in a company
- Taxable forms of income not declared on personal tax returns
- Self-employed income derived from any cannabis related business
- Trailing Co-Borrower income

Alternative Income Documentation

In lieu of the standard income documentation requirements for self-employed borrowers, the following will be accepted:

- Personal Bank Statements: 12 or 24 months
- Business Bank Statements: 12 or 24 months
- 1099 Documentation 1 or 2 years

General Bank Statement Analysis

- Tax returns and 4506-C are not required for the bank statement program. If tax returns and/or transcripts are provided, the loan will be ineligible for this program.
- Bank statements may be obtained from the borrower, or the Client can use a third-party asset vendor participating in the Fannie Mae Day 1 Certainty® process.
- The bank statements should show a trend of ending balances that are stable or increasing over the 12 month (or 24 month) period.
- Decreasing income trends must be explained; additional documentation (inclusive of additional bank statements) may be required.
    - In all cases, income must be deemed stable to be eligible.

  - If a borrower has declining income and is qualifying with 24 months of bank statements, the last 12 months of income will be used to qualify if the income has stabilized.

- Borrowers must provide a comprehensive business narrative that includes all of the following:
  - A detailed description/profile of the business (size/scope and operating profile, locations, percentage of business owned etc.)
  - The outlook for the future of the business
  - Information about the products or services
  - Materials/Trucks/Equipment
  - An outline of how the business and management team is organized
  - The number of full-time employees and/or contractors
- Nonprofit Entity is not eligible.
- Bank Statement Calculator is required in determining if Borrowers' have sufficient income for a loan to be qualified under the bank statement program. Lenders must accurately input the data required by the calculator, and the calculator must indicate that the Borrowers' income is sufficient for the Borrowers to qualify for the loan. In qualifying Borrowers, a Lender should reduce the Borrowers' income below the income determined by the calculator if the Lender is aware of any circumstance that would likely reduce the Borrowers' income. Lenders may not qualify a loan based on income which is higher than the income determined by the calculator. The calculator must be included in the mortgage file.
- Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered for the past 12 months. Overdraft protection fees associated with a pre- arranged link to a savings account or line of credit must also be considered unless one of the following conditions exist:
  - Overdraft protection from a depository account: Occurrences may be excluded if statements for the linked account confirm that (a) the linked account balance at the time of the transfer exceeded the amount of the overdraft transfer, (b) the linked account's balance did not report as zero or negative at any point during the statement period of the transfer, and (c) the linked account did not itself receive overdraft protection proceeds during the statement period of the transfer.
  - Overdraft protection from a line of credit: Occurrences may be excluded if statements for the linked account confirm that (a) the line's credit limit was not exceeded during the statement period of the transfer, and (b) a payment amount which equals or exceeds the sum of all overdraft protection occurrences analyzed in the statement period is made within 30 days after the statement close date.
  - Occurrences included in the analysis are subject to the following tolerances:
    - An occurrence is defined as one or more checks returned the same day.
    - If there are one (1) or more occurrences in the most recent three-month time period, up to three (3) occurrences are allowed in the most recent 12-month time period.

- If there are zero (0) occurrences in the most recent three-month time period, up to five (5) occurrences in the most recent 12-month time period are acceptable.

- A satisfactory letter of explanation is required from the borrower outlining the reason for the occurrences and an explanation of how and when the issue leading to the occurrences was rectified.
- The underwriter must consider the financial strength of a self-employed borrower's business.

Personal Bank Statement Documentation

General Requirements:

- Minimum of 12 consecutive monthly personal bank statements (held in the individual borrower(s) name);
- Bank statements provided must be the most recent available months and must include every page (transaction history printouts are not acceptable)
- Bank statements are considered consecutive if an account was closed and a new account was opened immediately thereafter; the bank statements must reflect continuity (no gaps)
- 4506-C transcripts not required (or allowed)
- Comingling of personal and business accounts is not allowed;
- Two (2) months of business bank statements must be provided to validate borrower utilizes separate bank accounts for personal and business banking transactions. The business bank statements must evidence activity to support business operations and reflect transfers to the personal account;
- A borrower who only utilizes a personal account for business activity and does not have an associated business account is not permitted to use the Personal Bank Statement program;
- All Borrowers must provide evidence that the business has been in existence for at least two (2) years via CPA/Tax preparer letter, confirmation from regulatory or state agency, or applicable licensing bureau and verify that the borrower owns 25% or more of the business.

Documentation Review Process:

- Transfers between personal accounts must be excluded, as well as any deposits that are not consistent with self-employed income, as per the following:
  - Cash advances from credit cards
  - Income sources already taken into account
  - Non-business related account transfers
  - Tax refunds
  - Product returns/credits
  - Gift funds

  - Credit line deposits/business financing
- Only transfers or deposits from the business account(s) are considered eligible deposits;
- Any deposits into a personal account deemed to derive from a source other than the business (rents, SSI, joint account holder wage income, IRS refunds, etc.) must be excluded from the analysis;
- Large deposits exceeding 50% of monthly income that are being used to qualify, must be documented with an LOE and must be consistent with the business profile. If LOE is reasonable, no additional sourcing is required;
- The lower of the stated income on the 1003 or the qualifying income should be used; and
- Monthly qualifying income using Personal Bank Statements is the lower of gross acceptable deposits (total deposits – disallowed deposits) divided by 12 or 24 months depending on analysis term selected and the income indicated on the initial signed 1003.

Business Bank Statements

General Requirements:

- Minimum of 12 month's consecutive business bank statements that reflect the name of the business as completed on the loan application);
- Bank statements provided must be the most recent available months and must include every page (transaction history printouts are not acceptable)
- A maximum of two business accounts (one account per business) can be used qualifying:
- A combination of personal bank statement documentation and business bank statement documentation is prohibited;
- Transfers from personal accounts must be excluded, as well as any deposits that are not consistent with a self-employed income (credit card refunds, IRS refunds, etc.);
- 4506-C transcripts not required (or allowed)
- All Borrowers must provide evidence that business has been in existence for at least two (2) years and that the borrower has ownership of at least 25% of the business via CPA/Tax preparer letter, confirmation from regulatory or state agency, or applicable licensing bureau;
- The lower of the stated income on the 1003 or the qualifying income should be used; and
- The percentage of ownership must be used in the income calculation to reduce the bank statement income by the appropriate factor (must own 25% or more of the business)
- Qualifying income is determined by one of the following approaches:
  - Third Party Prepared P&L;
  - CPA Expense Ratio; or
  - Fixed Expense Ratio

Third Party Prepared P&L

Net income from the P&L statement can be used as qualifying income provided it meets the requirements below:

- P&L must be prepared, signed and dated by a third-party Tax Professional (defined as a CPA, Tax Attorney, Enrolled Agent (EA), or Paid Tax Professional (PTIN);
- The P&L must be provided on the Tax Professional's letterhead;
- The P&L must also be signed by the Borrower;
- The tax preparer must attest that they have prepared the Borrower's most recent tax returns;
- Separate P&Ls are required for each business being used to qualify;
- The P&L must cover the same months as the bank statements provided;
- If using 24 month bank statement analysis 2 P&L's must be provided for each rolling 12 month period
- Business Bank Statements are used to validate the third-party prepared P&L. Gross revenue listed on P&L must be within 15% of the total qualified deposits;
- Any amounts on the P&L representing salary/wages paid to the Borrower/business owner can be added back and considered in the net income analysis;
- Qualifying Income = Net income from the P&L divided by the time period covered (12 or 24 months) x borrower's ownership %
- The resulting income should be reasonable to the borrower's line of work
- Income cannot be calculated higher than the income declared on the initial 1003.

CPA Expense Ratio

Bank statements are used for income then the expense ratio provided by the CPA is used to determine the qualifying income. The lower of the income stated on the 1003 or the bank statement income should be used. The expense statement must be prepared by a CPA indicating business expenses as a percentage of the gross annual sales/revenue.

CPA letter providing the expense ratio of the business with following requirements:

- Letter must be signed and dated by CPA;
- Must confirm the borrower's ownership percentage
- CPA cannot be an employee or a relative of the Borrower
- CPA must be verified
- A minimum 15% Expense Ratio is required. Must be supported by the Business Narrative (income should be reasonable to the borrower's line of work)

Qualifying income is determined as follows:

1. Determine the Gross Monthly Income by using lower of allowable deposits (total deposits – disallowed deposits) divided by 12 or 24 months depending on analysis term selected or the monthly net income stated on 1003.
2. Determine the Business Net Income = Multiply the Gross Monthly Qualifying Income by the Expense ratio provided by the CPA
3. Determine the Borrower's Monthly Qualifying Income = Business Net Income x Borrower's percentage of ownership in the business
4. Example: Average Allowable Monthly Deposits =$20,000, 1003 Income reflects
5. $20,000 per month, CPA provided expense ratio of 50%, Borrower owns 100% of the business. Use $20,000 allowable monthly deposits x 50% (expense ratio provided by CPA x100% percent of business owned by borrower)= $10,000 Qualifying Income.

Fixed Income Expense Ratio

Fixed Income Expense Ratio: The Borrower's business expense ratio is 50% regardless of business type.

Qualifying Income Calculation: Multiply eligible deposits from the business bank statements by a 50% expense ratio. Multiply the result by borrower's ownership percentage. Divide by 12 or 24 accordingly.

Qualifying Income = <u>12 or 24 Months Allowable Deposits x 50% expense ratio x Ownership %</u> 12 or 24 depending on analysis term selected

(Note: compare to monthly net income stated on the 1003 and use lower of)

The bank statement program is designed for active, productive businesses. Borrowers with passive income such as rental properties, or borrowers whose business is asset speculation,

e.g. fix and flix investors, day traders, etc. are ineligible.

Co-Mingled Bank Statement

A co-mingled bank statement is a personal account used by a borrower for both business and personal use. Co-mingled accounts are considered a business bank statement and one of the expense methods under Business Bank statements listed above must be used to calculate the income. A separate business account is not required.

- Verify that the borrower has 100% ownership of the business by providing one of the following: CPA letter, Tax Preparer letter, operating agreement or equivalent reflecting the borrower's ownership percentage.
- The borrower must be the sole owner of the business listed on the loan application.
- Borrower and spouse with combined 100% ownership of the account are eligible.

ALT Doc -1099 Documentation

General Requirements

1099 income documentation eligibility is limited to individual borrowers being paid via a 1099 but are not the business owner of the entity issuing the 1099. A Borrower's income may be determined by this 1099 Tax Form Method if each of the following requirements are met:

- The Borrower's income from self-employment is reported on IRS Form 1099;
- The IRS Form 1099 is payable to the borrower and not a business;
- The 1099s must be validated with a wage and income transcript from the IRS;
- A minimum 2-year self-employment history is required (1099 income)
- The Borrower income from self-employment is solely compensation for personal services performed by the Borrower;
- Provide evidence of year-to-date earnings via YTD bank statements, a printout of YTD wages from their employer/employers, WVOE or check stubs with YTD totals.

Income Determination

The Borrower's monthly income determination using the 1099 Tax Form Method is as follows:

- 1 Year or 2 Years of 1099s using 90% net margin (10% Expense Factor)
- Qualifying income is the 12 or 24 monthly average from the total number of 1099's minus the 10% expense factor.
- YTD earnings must support the ongoing receipt of income shown on the 1099s. The YDT earnings must be within 10% or greater than prior year earnings.

Assets

Loan files must evidence sufficient funds from acceptable sources for down payment, closing costs, prepaid items and debt payoff. A borrower's ability to accumulate assets provides insight into the individual's ability to successfully manage personal finances. The documentation requirement for all transactions must cover the most recent full two-month period of account activity (60 days, or, if reported on a quarterly basis, the most recent quarter) and be dated within 90 days of the note. Follow FNMA requirements unless otherwise specified.

Asset Documentation

Assets must be verified with one of the following:

- Most recent two-months' account statements, or most recent quarterly account statement, indicating opening and closing balances
- Supporting documentation should be obtained for single, unexplained deposits that exceed 50% of the borrower's gross monthly qualifying income for the loan.
- Written Verification of Deposit (VOD), completed by the financial institution

- Large disparities between the current balance and the opening balances will require additional verification or supporting documentation
- Account statements must provide all of the following information: Borrower as the account holder, account number, statement date and time period covered and current balance in US dollars.
- Self-employed borrowers must provide a letter from Tax preparer/CPA stating whether funds withdrawn from a self-employed borrower's business will have negative impact on the business.

Borrower Contribution

- 50% of downpayment must come from borrower's own funds.

Gift Funds

- Gift funds are allowed after the borrower has documented the minimum required borrower contribution.
- Gift funds must be from a relative and can be used for down payment and closing costs. Gift funds cannot be used for reserves.
- Gift letter and copy of the check/wire confirmation are required.

Sales and Financing Concessions

- May only be used for closing costs and prepaid expenses.
- Sales concessions or interested party contributions eligible up to 6% of the purchase price except investment properties maximum contribution 2%.
- If the interested party contribution exceeds the limit listed, reduce both the appraised value and sales price by the excess concession amount.
- Concessions/contributions cannot exceed the actual costs

Subordinate Financing

- Subordinate financing is not permitted.

Reserves

- The reserve requirement is six months
- Retirement accounts:
  - 60% of the vested value of retirement accounts, after reduction of any outstanding loans, may be considered toward the required reserves.
  - Retirement accounts that do not allow any type of withdrawal are ineligible for use as reserves.
- Cash-out proceeds are not eligible to satisfy the reserve requirements.
- Gift funds are not eligible for reserves.

Unacceptable Funds

- Cash-on-hand
- Sweat equity
- Down payment assistance programs/funds from a community second mortgage
- Bridge loans
- Unsecured loans or cash advances
- Section 8 Voucher Assistance
- Proceeds of SBA/PPP loans or any other government assistance
- Crypto currency
- Deferred compensation
- Pooled funds
- Non-vested restricted stock units and stock options
- Deferred compensation
- Stocks held in an unlisted corporation
- Contribution limitations
- Credit card financing
- Donated funds in any form, such as cash or bonds donated by the seller, builder, or selling agent outside of approved financing contributions in the seller concession
- Funds in a custodial or in trust for account
- Individual development accounts
- Materials furnished by the Borrower that are not part of a pre-closing agreement with a builder
- Real estate commission
- Salary advance
- Accounts where the Borrower does not have immediate access to the funds (including where the Borrower is not the Beneficiary, such as a custodial account)

Property

Eligible Property Types

- SFR, 2-4 Units, PUD, Fannie Mae Warrantable Condos

- Property minimum square footage requirements: SFR 750 sq. ft, 2-4 unit 500 sq. ft per unit, condominium 500 sq. ft.

Ineligible Properties

- Condotels
- Non-Warrantable Condos
- New construction condo projects
- Cooperatives
- Manufactured Homes
- Hotel Condominiums
- Unique Properties
- Log homes
- Working Farms or Hobby Farms
- Properties of more than twenty acres
- Mobile Homes
- Leaseholds
- Timeshares
- Commercial Operations
- Unimproved Land
- Rural Properties or property located in town with population under 35,000 – refer to USDA for additional criteria
- Rooming or Boarding Houses
- Mixed Use Properties
- Properties not accessible by roads
- Hawaii properties located in a lava zone 1 or lava zone 2
- Properties with unpermitted additions/alterations to the subject property are not eligible.
- Properties recently listed for sale for refinance transactions.
- Properties on Native American Land (Reservations) are ineligible.

Property Requirements

All properties must satisfy each of the following requirements:

- Conform to the legal definition of improved real property
- Designed and available for year around residential use
- Contain a full kitchen and a bathroom
- Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated.
- Average or better than average condition
- Represent the "highest and best" use of the subject
- Is free of all health and safety violations
- Is free of violations of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property
- Private roads require a permanent easement for ingress and egress with provisions for road maintenance

Condominium Project Requirements

Warrantable Condominium Projects

Warrantable condominiums must conform to Fannie Mae condominium project eligibility requirements. Online search for no condotel or short-term rental is required.

Required documents:

- Condominium Project Questionnaire
- Current annual budget
- Balance Sheet dated within the past 90 days.
- Master Insurance Policy including property, fidelity/crime, liability and wind, along with HO-6 policy if master is not walls in.
- Flood insurance with Replacement Cost Valuation if the subject is located in a flood zone.

Non-Warrantable Condominium Projects

Not eligible

Definitions of Established and New Condominiums

<u>Established condominium</u> projects meet the following criteria:

- At least 90% of the total units in the project have been conveyed to the unit purchasers
- Project is 100% complete, including all units and common elements
- Project is not subject to additional phasing or annexation
- Control of the HOA has been turned over to the unit owners

New condominium projects are not eligible. A project is considered new if any of the following apply:

- Fewer than 90% of the total units in the project have been conveyed to the unit purchasers
- The project us not fully completed or is subject to additional phasing or annexation
- The project is newly converted
- Control of the HOA has not been turned over to the unit owners and is still under the developer's control

General Condominium Requirements

All condominium projects must meet the following requirements:

- All common areas and amenities within the project or subject phase must be complete.
- Subject unit must have at least 500 square feet of living space.
- Subject unit must have at least one bedroom and a full kitchen.
- The sustainability, marketability and financial stability of the project must be supported.
- Project must be located in an area where acceptability of condominium ownership is demonstrated.
- The project must be in compliance with all applicable state or local laws. The homeowners' association must be incorporated in the state where the project is located.
- Condo projects must have acceptable insurance coverage. If Master Condominium
- insurance policy does not contain walls-in-coverage, an HO6 policy is required.
- An environmental hazard assessment is required for condo projects if an environmental problem is identified through performance underwriting or due diligence.
- Projects with pending litigation are ineligible.
- The project must be located on one contiguous parcel of land. The project may be divided by a public street.
- The structures within the project must be within a reasonable distance from each other. Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.

Condominium Project Reviews

A valid project review is required for all condominium transactions. A Condo Project Warranty Certification must be provided with the loan package.

The project review methods below should be utilized to determine the acceptability of a condominium project:

Condominiums -Attached

- Full review permitted per Fannie Mae full review guidelines

- Limited review permitted for those Loan to Value and Geographic locations where Fannie Mae would generally permit a Limited review
- Projects with 2-4 units – no condominium review or condominium warranty is required – Fannie Mae requirements apply
- Condominium documents must be no older than 120 days from the note date

Condominiums – Detached (including site condominiums)

No condominium review or condominium warranty is required. Fannie Mae requirements apply.

Disaster Policy

When natural disasters, such as (but not limited to) hurricanes, tropical storms, and tornadoes, occur prior to the purchase of a loan by FCM Investor, the Seller must take steps to ensure that the subject property secured by the loan is free of material damage.

- If the property is in a zone where a Disaster End Date has been declared by FEMA, the Seller will order a post disaster inspection prior to loan purchase to confirm that the property is free from damage and that the value has not been impacted by the disaster.
- If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside of current know fire boundaries.
- If the Seller determines that the property has been damaged such that the damage impacts the safety, soundness, or structural integrity, the property is not acceptable. If a property is located in a condo or co-op project (co-op not eligible), both the conditions of the unit and the condition of the building in which the unit is located in must be assessed.
- A supplemental property inspection such as a Form 1004D, 2075 or similar report is required prior to purchase if the subject is located in an area affected by a natural disaster. An additional exterior inspection is only required if the most recent appraisal was completed prior to the disaster event. If the exterior inspection reveals potential damage an interior inspection would be required.
- All repairs must be completed before the note date in order for the property to be eligible for purchase. Completion of repairs is required as evidenced by Form 1004D, Appraisal Update and/or Completion Report, or other post-disaster inspection report, with photos of interior, exterior, and neighborhood.

Refer to the list of affected counties published by FEMA using following link: http://www.fema.gov/disasters

Appraisal Requirements

Appraisal requirements:

- One full interior/exterior appraisal report and an approved Desk Review (details below) required for all loans <= $1,500,000

- Two full interior/exterior appraisal reports required for all loans > $1,500,000 -loan size is investor specific, refer to matrix. (Desk Review not required when two appraisals are submitted) or HPML Property Flip Transactions as defined by the CFPB
- Appraiser must provide at least six comparable sales. Preferably all comparable sales should be closed sales. If the appraiser is unable to provide six comparable closed sales, the appraiser may use comparable listings or pending sales, but at a minimum 4 of the comparable sales must be closed sales. Comparable sales must be recent and preferred to be less than a mile from the subject property.
- Desk Reviews -the following Desk Review products are acceptable to satisfy this requirement:
  - Clear Capital © Collateral Desktop Analysis (CDA®).
  - Pro Teck Valuation Services © Appraisal Risk Review (ARR)
- If the difference of value between the appraisal and the Desk Review is within 10% tolerance percentage, the appraised value may be used. If the tolerance is greater than 10% (negative variance) between the first appraisal and the Desk Review, then a second full appraisal is required. (Note: The >10% variance rule applies when the CDA variance is reflecting a lower value than the property appraisal. If the CDA variance is reflecting a higher value than the property appraisal, the property appraisal is fully supported, and a second appraisal is not required.)
- When two appraisals are required, the following applies:
  - Appraisals must be completed by two independent companies
  - The LTV will be determined by the lower of the two appraised values if the lower appraisal supports the value conclusion
  - Any inconsistencies between the two appraisals must be addressed and reconciled
  - If the two (2) appraisals are done "subject to" and 1004Ds are required, only one 1004D is required. The 1004D provided should be for the appraisal that the value of the transaction is based upon
- Lender is responsible for ordering the Desk Review. If the Desk Review is unable to provide a valuation, then a BPO from the associated Desk Review company must be ordered. If the resulting BPO provides a variance > 10% a second full appraisal must be ordered.
- The appraisal must be ordered through an Appraisal Management Company (AMC) that complies with Appraiser Independence Requirements (AIR). The licensed appraiser is required to perform an interior inspection when completing the appraisal report. Pictures must be clear showing the entire property.
- Appraisals must be Uniform Appraisal Data (UAD) compliant and meet Fannie Mae's Appraiser Independence Requirements (AIR).
- Appraisal transfers are not permitted.
- Condition of property is required to be C3 or better. However, C4's will be considered on a case-by-case basis if property is well maintained with some updates.

Age of Appraisal

- The original appraisal effective date must be 120 days from the Note date.
- The Appraisal Update and/or Completion Report (Form 1004D) is only permitted to provide confirmation that the requirements or conditions in an appraisal report have been met (such as completion of construction or repairs). The Form 1004D is not permitted to extend the age of the appraisal report.

Declining Markets

A 5% reduction in LTV/CLTV based on the program maximum LTV/CLTV will be required for properties identified to be in a declining market as designated by the appraiser.

Title Insurance

The preliminary title report/title commitment should be dated no later than 90 days prior to closing. Any requirements by title must be cleared prior to closing.

Title Policy

Loans must be covered by a title insurance policy that has been paid in full and is valid, binding, and remains in full force and effect.

Preliminary title must indicate that the final title policy will be issued after funding.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae requirements.

The following general requirements apply:

- The title policy must be written on one (1) of the following forms:
  - The 2006 American Land Title Association (ALTA) standard form;
  - An ALTA short form if it provides coverage equivalent to the 2006 ALTA standard form;
  - The ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to FNMA.
- The amount of title insurance coverage must be at least equal to the original principal amount of the mortgage;24-month chain of title;
- Borrower name must be indicated on the title commitment;
- If Borrower's marital status appears to be different than on 1003, the discrepancy must be addressed;
- Seller's name must be cross referenced to the purchase agreement and valuation chain of title; and
- Title policy must insure the Originator or the Originator's correspondent as its name appears in the security instrument and must also include the language "its successors and assigns as their interest may appear." MERS cannot be named as the title policy beneficiary.

Property Insurance

Follow FNMA Insurance guidelines

Flood Insurance

Follow FNMA guidelines. Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as an Area of Special Flood Hazard. This is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing. Flood insurance is required to be escrowed.

If the subject property is located in a Special Flood Hazard Area, flood insurance is required and maintained as follows:

- Buildings and improvements in Flood Zone A (lettered or numbered) or Zones V1 through V30 must have flood insurance,
- Minimum flood insurance coverage required for 1-4 unit properties and individual PUDS must be the lower of:
  - 100% of replacement cost of dwelling,
  - The maximum insurance available from the National Flood Insurance Program (NFIP), or
  - The unpaid principal balance (UPB) of the mortgage.

The flood policy for a PUD or condominium project must cover any common element buildings and any other common property located in a SFHA. The amount of flood insurance coverage for a PUD or condo project should be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Program (NFIP).

- Deductibles permitted up to the maximum deductible available under the National Flood Insurance Program (NFIP),
- Evidence of Insurance must be in the underwriting file at time of submittal and provide the following information: names of borrowers reflect the same as the note, property address agrees with the note/security instrument, mailing address is the same as property address, policy number, loan number, name of insurance company, insurance agent information, effective and expiration dates of coverage, premium amount and deductible, coverage amount, loss payee clause as applicable, signed and dated by agent.

Property Flips

A property is considered a “flip” if either of the following are true:

•The price in the Borrower’s purchase agreement exceeds the property Seller’s acquisition price by more than 10% if the property Seller acquired the property 90 or fewer days prior to the date of the Borrower’s purchase agreement.

•The price in the Borrower’s purchase agreement exceeds the property Seller’s acquisition price by more than 20% if the property Seller acquired the property 91-180 days prior to the date of the Borrower’s purchase agreement.

Flip transactions must comply with the HPML appraisal rules in Regulation Z . If the property is a “flip” as defined above, the following additional requirements apply:

•A second appraisal, at no cost to the consumer, must be obtained

•If the loan is subject to Regulation Z, a copy of the second appraisal must be provided to the Borrower in compliance with the federal HPML requirements.

•The second appraisal must be dated prior to the loan consummation/note date. The lesser of the two appraised values to be used for qualification.

•The property Seller on the purchase contract must be the owner of record.

•Increases in value should be documented with commentary from the appraiser and recent comparable sales.

QM Status:

Non-QM Loans.

All Mortgage loans must be ATR compliant.

High-Cost Loans are ineligible.

Prepayment penalties are not allowed on owner occupied properties.