first community mortgage

FCM NMLS ID 629700

a MORTGAGE Boutique

a division of First Community Mortgage

Home Opportunity Loan-NP ITIN Guidelines

Program Codes

HOLNPNDC15

HOLNPNDC30

Home Opportunity Loan-NP (HOL-NP)
ITIN Matrix

FULL/ALT Doc- LTV/CLTV Matrix[1]			
PRIMARY RESIDENCE - 1-Unit, SFR, Condo, PUD			
Credit Score	**Loan Amount**	**Purchase/RT**	**Cash-Out[2]**
740+	125,000 – 1,500,000	80%	80%
	1,500,001 – 2,000,000	80%	80%
	2,000,001 – 2,500,000	75%	70%
720-739	125,000 – 1,500,000	80%	80%
	1,500,001 – 2,000,000	80%	75%
	2,000,001 – 2,500,000	60%	60%
700-719	125,000 – 1,500,000	80%	80%
	1,500,001 – 2,000,000	70%	70%
660-699	125,000 – 1,500,000	80%	75%
640-659	125,000 – 1,500,000	75%	70%
PRIMARY RESIDENCE - 2-4 Units			
Credit Score	**Loan Amount**	**Purchase/RT**	**Cash-Out**
720+	125,000 – 1,500,000	80%	75%
	1,500,001 – 2,000,000	75%	60%
700-719	125,000 – 1,500,000	80%	70%
	1,500,001 – 2,000,000	70%	60%
660-699	125,000 – 1,500,000	75%	70%
SECOND HOME - 1-Unit, SFR, Condo, PUD			
Credit Score	**Loan Amount**	**Purchase/RT**	**Cash-Out**
720+	125,000 – 1,500,000	75%	70%
	1,500,001 – 2,000,000	75%	60%
700-719	125,000 – 1,500,000	75%	70%
	1,500,001 – 2,000,000	70%	60%
660-699	125,000 – 1,500,000	70%	65%
INVESTMENT (Business Purpose) - 1-4 Units, Condo, PUD			
Credit Score	**Loan Amount**	**Purchase/RT**	**Cash-Out**
700+	125,000 – 1,500,000	75%	70%
	1,500,001 – 2,000,000	75%	70%
	2,000,001 – 2,500,000	70%	65%
680-699	125,000 – 1,500,000	70%	65%
	1,500,001 – 2,000,000	70%	65%
	2,000,001 – 2,500,000	65%	60%
660-679	125,000 – 1,500,000	70%	65%
	1,500,001 – 2,000,000	60%	N/A

Notes: Non-Warrantable Projects/Condo- max at 75% LTV

[1]*Loans in the State of MS- Reduce LTVs by 5%*

[2]*Cash-out Requirements: LTV ≤ 60% = Unlimited / LTV > 60% = Max $750K*

[3]*Prepayment Penalty (PPP) on Investment properties must be bought out. FCM does not allow a PPP on ITIN loans*

Eligibility

Eligible Terms and Loan Types

- Term: 15 or 30-year Fixed
- Purchase
- No Cash-Out Refinance
- Cash-Out

Ineligible Loan Types

- ARM
- HELOC
- Bridge Loans
- Construction Loans
- Greater than 30-year terms
- Mobile to Land Loans
- Interest Only
- Balloon Payments
- Negative Amortization
- Texas Cash-Out 50(a)(6)

Eligible Occupancy Types

- Primary Residence- Owner Occupied
- Second Home
- Investment Properties- Non- Owner Occupied (business purpose)

Eligible Properties

- Single Family Attached/Detached
- Condominiums- Warrantable and Non-Warrantable
  - Non-Warrantable up to 75% LTV
- Townhomes
- Planned Unit Development (PUD)
- Multi-Family 2-4 Units

Borrower Eligibility

ELIGIBLE

- ITIN must be valid and at least 2 years consistent ITIN payments reporting to the IRS is required. This can be validated with the borrower's current ITIN # along with a 2-year employment history.
- If multiple borrowers, one borrower must have ITIN.

INELIGIBLE

- Irrevocable or Blind Trusts
- Inter-Vivo Revocable Trust
- Limited partnerships, general partnerships, corporations

Borrower Identification/Documentation Requirements

Documentation of Borrower's Identity is required prior to closing, FCM Patriot Act requirements apply. The following are required forms of identification:

- Unexpired government photo ID
  - Examples include government license, passport, etc.
  - Note that the above satisfies the residency requirements, a VISA is not required in addition to the above for an ITIN borrower
- ITIN card or letter from the IRS
  - ITIN is required to be assigned to the borrower prior to application
  - ITIN must be valid and at least 2 years consistent ITIN payments reporting to the IRS is required. This can be validated with the borrower's current ITIN # along with a 2-year employment history
  - If multiple borrowers, one borrower must have ITIN
  - Verification of the unexpired ITIN is provided by a letter from the IRS confirming the ITIN is assigned to the borrower
  - All documentation in file must support the borrower's ITIN number and cannot reference an SSN belonging to another individual
  - Evidence of unexpired ITIN can be accomplished as follows:
    - **Full Doc/1099 Loans**
      - Current executed transcripts will validate the borrowers current ITIN status
    - **ALT Doc Loans:**
      - IRS letter dated less than three years ago
      - Fully executed W7, including agent signature
      - Letter from Tax Preparer confirming they have filed the borrower's most recent return with the IRS
- DACA eligible with ITIN/SSN with Valid US driver's license along with EAD card evidencing their DACA status

First Time Homebuyer

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 5-year period.

The following requirements apply to First-Time Home Buyer transactions:

- Primary residence and second homes; and investment properties.
- Minimum 640 score
- Minimum 6 months reserves after closing
- Permitted on Select Prime or Select Prime Express for loan amounts up to $1,500,000

If a spouse is on the deed of a principal residence in the last 36 months, they are not a first-time home buyer.

If either borrower has had ownership interest, as defined above, the loan is not subject to the First Time Homebuyer restrictions.

Non-Occupant Co-Borrower(s)

Non-Occupant Co-Borrower(s) must meet the following requirements:

- Primary Occupancy Only

- Purchase and rate/term only (non-occupant must be on the current mortgage for a rate/term refinance)
- Maximum Loan Amount $1,000,000
- Non-occupant Co-Borrower(s) is required to sign the note and mortgage
- Non-occupant Co-Borrower(s) 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 and have a minimum 680 credit score

Geographic Restrictions

- Standard FCM geographic restrictions apply
    - Not available in the state of Vermont
    - Not available in the following Illinois Counties: Cook, Kane, Peoria, and Will
    - Non-Permanent Resident Aliens originating from China are ineligible in the State of Florida
    - Short Term Rentals are ineligible for financing and/or purchase, unless there is documented evidence of active permit requirements for the property and borrower/owner (if applicable) in compliance with local jurisdiction

Underwriting

General Information

- Max Insurance deductible is the greater of $2500 or 1% of the loan amount
- Condition of property is required to be C4 or better
- Escrow account/impounds required
- No High Cost Loans
- One of the occupying borrowers must have an ITIN

Age of Loan Documentation

- 90 days after closing, unless otherwise stated

Cash-Out Maximum

- LTV ≤ 60% LTV = Unlimited
- LTV > 60% LTV = Max $750K

Impounds/Escrows

- Impounds required

Interested Party Contributions

- Primary and 2nd Home
    - LTV ≤ 75%: Max 9%
    - LTV 75.01 -80%: Max 6%
- Investment
    - 6%
- Percentages are based on the lesser of the property's sale price or appraised value and may be applied towards the buyer's closing costs, prepaid expenses, discount points, and other financing concessions

Sales concessions include:

- Financing concessions more than the max financing concession limitations; or
- Contributions such as cash, furniture, automobiles, decorator allowances, moving costs, and other giveaways granted by any interested party to the transaction (contributions with a combined value under $1,000 should be excluded)

The value of sales concessions must be deducted from the sales price when calculating LTV for underwriting and eligibility purposes. The LTV is then calculated using the lower of the reduced purchase price or the appraised value.

Limited Power of Attorney

Limited Power of Attorney (POA) is acceptable when following requirements are met:

- Signed and Notarized Recorded with the mortgage/deed of trust.
- Contains an expiration date.
- Used only to execute the final loan documents.
- Borrower who executed the POA signed the initial 1003.

- No interested party to the transaction (such as property seller, broker, loan officer, realtor, etc.) may act as Power of Attorney.
- Not permitted on cash-out

Loan to Value

- See LTV matrix for LTV by occupancy, loan amount, and credit score
- Mississippi- Reduce LTV by 5%

Minimum and Maximum Loan Amount

- The minimum base loan amount is $125,000
- The total maximum loan amount is $2,500,000 *(varies by occupancy and credit score- see LTV matrix for details)*

Minimum Borrower Contribution

- Minimum borrower contribution is 10%
  - 80% LTV- Borrowers must contribute a minimum of 10% of their own funds- gift funds may be used after the minimum contribution is made
  - Owner Occupied up to 75% LTV- gift funds, from a relative, may be used to meet 10% borrower contribution
- Gift funds may not be used to meet reserve requirements at any LTV

Maximum DTI

- Max DTI cannot exceed 50%

Prepayment Penalty

- Prepayment Penalty on investment properties must be bought out.
  - Note that the timelines are measured from the date the seller became the legal owner of the property and the date the purchase agreement was signed by all parties
  - Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at: https://www.consumerfinance.gov/rules-policy/final- rules/appraisals-higher-priced-mortgage-loans/

Properties Previously Listed for Sale

- **Rate and Term Refinance**
  - Owner Occupied or Second Home
    - The subject property must be taken off the market on or before application date
    - The borrower must also confirm in writing the reason for the prior listing and their intensions for the property
    - If the subject property was listed for sale within six (6) months prior to the application date, the lesser of all the recent list prices or the current appraised value will be used to determine loan- to-value.
  - Investment Properties
    - The property must be taken off the market prior to close provided the new loan has a prepayment penalty

        - If the new loan does not have a prepayment penalty, the property must be taken off the market on or before the application date
    - All Occupancy Types
        - The lessor of all recent list prices or the current appraised value will be used to determine loan to value
- **Cash Out Refinances**
    - Owner Occupied or Second Home
        - The subject property must be taken off the market on or before application date
        - The borrower must also confirm in writing the reason for the prior listing and their intensions for the property
        - If the subject property was listed for sale in the 6 months prior to application date, a 10% LTV reduction is required
    - Investment Properties
        - The property must be taken off the market prior to close provided the new loan has a prepayment penalty
        - If the new loan does not have a prepayment penalty, the property must be taken off the market on or before the application date
    - All Occupancy Types
        - The lessor of all recent list prices or the current appraised value will be used to determine loan to value

Refinance Requirements

- The borrower has paid the mortgage for the last 6 months prior to application
- The borrower must be in title to the subject property at the time of loan application

CREDIT

Credit Qualification

- Minimum credit score is 660
  - A minimum of two (2) credit scores required
  - Middle of three (3) or lower of two (2) scores for the primary wage earner is considered the qualifying score
- Minimum Tradelines
  - If a full housing history and three (3) scores are available, the minimum tradeline requirements may be waived
  - When only two (2) scores are available:
  - If a full housing history and three (3) scores are available, the minimum tradeline requirements may be waived
    - Minimum of two (2) open and active tradelines reporting for 24 months; or
    - Minimum of three (3) open and active tradelines reporting for 12 months
    - Authorized user accounts and/or collections and charge-offs are not considered a valid tradeline
- Housing/Rental History: 0x30x12 + VOR or VOM
  - Borrowers who own their primary residence free and clear are considered to have an acceptable housing history
- Past Due Balloon: Will be considered a delinquency 1x30 not a housing event, only if within 180-days of maturity
- Max DTI 50%

GAP Credit Report

A credit refresh or undisclosed debt monitoring report dated within 10 days of closing is required. Business purpose DSCR loans are excluded from this requirement

Collections and Charge-Offs

Delinquent credit, such as charge-offs of non-mortgage accounts are to be considered as follows. The following accounts may remain open:

- Collections and charge-offs < 24 months old with a maximum cumulative balance of $5,000
- Collections and charge-offs ≥ 24 months old with a maximum of $2,500 per occurrence
- Collections and charge-offs that have passed beyond the statute of limitation for that state (supporting documentation required)
- All medical collections
- Collections from factoring companies when the original debt can be verified on the credit report

Collection and charge-off account balances remaining after the exclusions listed above may remain open when one of the following is met:

- Borrower has sufficient reserves to cover remaining collection and charge-off balances (in addition to the published reserve requirement); or
- Payment for remaining collections and charge-offs included in DTI results in final DTI ≤ 50% (payment calculated at 5% of balance of remaining unpaid collections and charge-offs).

A combination of the two options above is allowed. A portion of the unpaid collection balance can be included in the DTI while the remainder is covered by excess reserves. Collections and charge-offs that cannot be factored into DTI or reserves must be paid off.

Consumer Credit Counseling Service (CCCS)

Borrower enrollment in CCCS is allowed when a minimum of 12 months have elapsed on the plan and evidence of timely payments for the most recent 12 months is provided. The CCCS administrator must also provide a letter allowing the borrower to seek financing on a new home while enrolled in the plan. If accounts included in CCCS plan reflect as charge-off or collection accounts on the credit report, the balances can be excluded from the charge-off and collection limits in Collections and Charge-offs. The monthly CCCS plan payment must be included in the DTI calculation.

If a completion date is not shown on the credit report, the borrower is required to submit verification from the counseling agency establishing the date of completion.

Delinquent Credit Belonging to Ex-Spouse

Delinquent credit belonging to an ex-spouse can be excluded from the credit evaluation when all of the following apply:

- Borrower provides a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse.
- Late payments occurred after the date of the divorce or separation.
- Evidence of title transfer prior to any delinquent debt must be provided if debt is a mortgage, and evidence of buyout as part of court proceedings.

Collection accounts assigned to an ex-spouse may be excluded from aggregate collection totals with a divorce decree or separation agreement assigning the account solely to the ex-spouse.

See also Contingent Liabilities.

Disputed Accounts

When the credit report contains tradelines disputed by the borrower:

- If the tradeline is paid as agreed, no further action is needed.
- If the disputed account has a zero balance or is being paid at closing, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is $2,500 or less, no further action is needed.
- If the disputed account has delinquency within two years of the credit report date and the account balance is over $2,500, the credit file should be documented with a credit supplement showing the dispute has been resolved.
- If the total aggregate balance of accounts in dispute exceeds $5,000, a minimum of 5% of the total balance must be included in the DTI

Housing Events and Prior Bankruptcy

A Housing Event is any one of the following events listed below:

- Foreclosure

- Deed-in-Lieu
- Short Sale
- Modification
- 1x120 mortgage history

Seasoning of a foreclosure, deed-in-lieu, or short sale is measured from the date of COURT ORDER TO THE NOTE DATE OF THE NEW TRANSACTION. The Housing Event must be completed prior to loan closing with no outstanding deficiency balance remaining.

For a 120-day mortgage late, seasoning is from the date the mortgage was brought current. Seasoning for a modification is from the date the modification was executed.

If the property was surrendered in a Chapter 7 bankruptcy, the bankruptcy discharge date is used for seasoning. Bankruptcy papers may be required to show the property was surrendered. The foreclosure action is not required to be fully complete.

Housing History & Housing Event Seasoning Restrictions
Ch. 13: use filing date if discharged; use dismissal date if dismissed

Housing History	1x30x12	2x30x12	0x60x12	0x90x12 (o/o Only)
BK/FC/SS/DIL/Mod	≥ 48 months	≥ 36 months	≥ 24 months	≥ 12 Months

Judgments and Tax Liens

Judgments and tax liens must be paid off prior to or at closing unless the requirements listed below are met:

- Adverse credit that will impact title must be paid in full as title must insure our lien position without exception
- Court-ordered judgments and tax liens may remain open when all of the following requirements are met on refinances (scroll below for No Ratio requirements):
  - A copy of the repayment agreement is obtained.
  - A minimum of 3 months has elapsed on the plan and evidence of timely payments for the most recent 3 months is provided; and
  - The maximum payment required under the plan is included in the debt-to-income ratio.
- Outstanding judgments and tax liens may remain open on purchase transactions only (additional LTV reductions may be required based on the size of the lien). All of the following requirements must be met (scroll below for No Ratio requirements):
  - A copy of the repayment agreement is obtained
  - A minimum of 2 months has elapsed on the plan and evidence of timely payments for the most recent 2 months is provided
  - The maximum payment required under the plan is included in the debt-to-income ratio; and
  - The title company must provide written confirmation confirming (a) the title company is aware of the outstanding tax lien, and (b) there is no impact to first lien position
- IRS tax payment plans approved by the IRS are permitted on No Ratio loans provided they are current and do not carry a lien on the property.
  - A copy of the approved repayment plan is required

- A minimum of 2 months has elapsed on the plan and evidence of timely payments for the most recent 2 months is provided

LAWSUIT/PENDING LITIGATION

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney is required. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage. A copy of the complaint and answer may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

Non-Traditional Credit

May be considered when borrower has at least 2 valid credit scores

- A minimum of two credit scores is required
- Loan Amount is ≤ $1,500,000
- The credit history must include three (3) credit references, from the list below covering the most recent 12 months' 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 (cancelled checks, mortgage/rental statements including payment history, management company VOR, PPVOR, etc.) must be provided showing the most recent 12 month history, supported by the most recent 6-months' cancelled checks
  - Private landlord VORs may be considered on a case-by-case basis.
  - LOE or rent-free letter is required when a 12-month housing history is not applicable maximum 80 LTV with no rent history.
  - The other two tradelines may be documented from credit report or through utilities, 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.

Past Due Accounts

Past due active consumer debts can be no more than 30 days past due at time of closing

Written Explanation for Derogatory Credit

- Housing Events and bankruptcies in the most recent 2 years must be explained by the borrower with a signed letter of explanation
- Housing lates > 60 days in the last 12 months are not acceptable
- Explanation letters for medical collections, revolving lates or collections are not required

ASSETS

Asset Documentation

- Must be sourced and verified for 30 days
- Asset accounts used for qualification or cash to close must be verified
  - FCM will accept most recent 30-day Bank statements
- Gift from a relative is an acceptable form of down payment
  - Review Gift Funds Section for additional restrictions
- Seller or another interested party may not contribute to the borrower's down payment
- Earnest Money Requirements:
  - Copy of the canceled earnest money check; OR
  - Bank statement showing the check has cleared; OR
  - Attorney or Title Company letter acknowledging receipt of funds is required
- Large deposits, above 100% of qualifying monthly income, will require a written letter of explanation from the borrower explaining the source of the funds
- The underwriter may ask for verification of any deposit if there is any indication/suspicion that the funds are borrowed or are from an ineligible source
- 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 that business

Gift Funds

Gift Funds are acceptable with the following requirements:

- Allowed with 5% minimum contribution from borrower's own funds for Owner Occupied
- Allowed with 10% minimum contribution from borrower's own funds for 2nd Home
- 100% of down payment and closing costs may come from gift funds on Owner Occupied and Second Home to a max LTV of 75%
- Gift funds are not permitted on Non-Owner Occupied (NOO)
- Gift must be from a relative
- Fannie Mae guidelines should be used for documentation, proof of funds, and evidence of receipt.
- Gift funds may not be used to meet reserve requirements.
- Gift of Equity allowed for Primary Residence only and 75% maximum LTV. Must meet all other guidelines for Gift Funds.

Gift funds are allowed after the borrower has made the minimum required borrower contribution towards the down payment.

- Gift funds can be used for down payment and closing costs. It is not considered gift funds if the funds are from a spouse that will be on the contract and title.
- Gift funds may not be used to meet reserve requirements.

A gift can be provided by:

- A relative, defined as the borrower's spouse, child, or other dependent, or by any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- A non-relative that shares a familial relationship with the borrower defined as a domestic partner (or relative of the domestic partner), individual engaged to marry the borrower, former relative, or godparent.

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

A signed gift letter is required to provide all of the following information:

- Donor's name, address, phone, and relationship to borrower (donor must be a relative, spouse or domestic partner); and
- Dollar amount of gift; and
- Donor's statement that no repayment is expected.

Sufficient funds to cover the gift must be verified as either currently in the donor's account or evidence of transfer into the borrower's account. Acceptable documentation includes any of the following:

- Copy of the donor's check and the borrower's deposit slip.
- Copy of the donor's withdrawal slip and the borrower's deposit slip.
- Copy of the donor's check to the closing agent.
- Evidence of wire transfer from donor to borrower
- Settlement statement showing receipt of the donor's check.

When the funds are not transferred prior to closing, it must be documented that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, money order, or wire transfer.

See also Spousal Accounts.

Unless otherwise specified, Gift Funds are acceptable if ONE of the following applies:

- For Owner-occupied properties, a 5% down payment has been made by the borrower from their own funds.
- 100% Gift Funds are allowed for Select Prime, using Standard Doc or Alt Doc on owner-occupied loans with a 5% reduction in LTV to a maximum LTV of 80%. Borrower(s) must meet both reserve and residual income requirements.
- For Second Home and Investment properties, gift funds are acceptable only if a 10% down payment has been made by the borrower from their own funds.

Net Proceeds from Sale of Real Estate

If part of the down payment is expected to be paid from the sale of the borrower's current home, a final signed settlement statement verifying sufficient net proceeds must be obtained.

Non-Regulated Financial Assets

Crypto Currency – such as Bitcoin and Ethereum are eligible sources of funds for the down payment, closing costs and reserves. Crypto is not an eligible liquid asset for asset utilization / depletion.

- Down payment and closing costs: currency must be liquidated and deposited into an established US bank account.
- Reserves: Loan file must include a statement meeting the requirements under account statements to document ownership of the crypto holdings. Current valuation, within 30-days of the loan note date, can only be determined from the Coinbase exchange. 60% of the current valuation will be considered eligible funds.

Non-Sufficient Funds (NSFS)

- NSF activity in the past 12 months must be satisfactorily explained by the borrower. Excessive NSF or overdraft activity may preclude the borrower from bank statement eligibility at underwriter's discretion.
- Non-sufficient funds (NSF) or negative balances reflected on the bank statement must be considered unless tied to Overdraft protection. NSF Fees associated with a pre-arranged link to a savings account or line of credit are acceptable when;
    - 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.
- Bounced check NSF fees are not considered when it's a customers check that was returned.
- Occurrences included in the analysis are subject to the following tolerances:
    - An occurrence is defined as one or more checks returned the same day excluding customer checks that were returned. NSFS are reviewed for the past 12 months period only.
    - If there are two (2) or more occurrences in the most recent two (2) month time period, up to five (5) occurrences are allowed in the most recent twelve (12) month time period.
    - If there are zero (0) occurrences in the most recent three (3) month time period, up to seven (7) occurrences in the most recent twelve (12) month time period is acceptable.
- The Underwriter, at their discretion, may consider tolerance deviations outside of the above with a sufficient letter of explanation 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 letter will be reviewed by the underwriter to ensure the explanation supports the viability of income and overall strength of the transaction.

Rent Credit for Lease with Purchase Option

Borrowers may apply a portion of the rent paid to their down payment requirements. Credit for the down payment is determined by calculating the difference between the market rent and the actual rent paid for the last 12 months. The market rent is determined by the appraiser in the appraisal for the subject property. See Lease with Purchase Option for full requirements. The following documentation must be obtained:

- Copy of the rental/purchase agreement evidencing a minimum original term of at least 12 months, clearly stating the monthly rental amount and the terms of the lease.
- Copies of the borrower's canceled checks or money order receipts for the last 12 months

- evidencing the rental payments.
- Market rents as determined by the subject property appraisal.

Reserves

- Reserves must be sourced and verified for 30 days as outlined below:
    - <=$500,000=3 months PITIA
    - > $500,000 to $1,5000,000=6 months PITIA
    - > $1,500,000 to $2,500,000=9 months PITIA
- Owner Occupied/Second Home: Cash-out proceeds may NOT be used to meet reserves
- Non-Owner Occupied: Cash-out proceed MAY be use for reserves
- Non-vested or restricted stock accounts are not eligible for use as down payment or reserves.
- Retirement Accounts
    - 60% of the vested value of retirement accounts, after reduction of any outstanding loans, may be considered toward the required reserves.
    - Excluding 401k's & IRA's, verification of the terms of liquidation if funds are used for reserves
    - Retirement accounts that do not allow any type of withdrawal are ineligible for use as reserves.

Retirement Accounts

Vested funds from individual retirement accounts (IRA/SEP/Keogh accounts) and tax-favored retirement savings accounts (401(k) accounts) are acceptable sources of funds for the down payment, closing costs, and reserves. The lender must verify the ownership of the account and confirm that the account is vested and allows withdrawals regardless of current employment status.

If the retirement assets are in the form of publicly stocks, bonds, or mutual funds, the account must meet the requirements of publicly Stocks, Bonds, and Mutual Funds for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs. When funds from retirement accounts are used for reserves, the funds do not have to be withdrawn from the account.
If the borrower intends to use the retirement account to also satisfy income requirements, see also Proof of Continuance.

Sale of Personal Assets

Proceeds from the sale of personal assets are an acceptable source of funds for down payment, closing costs, and reserves, provided the individual purchasing the asset is not a party to the property sale or mortgage financing transaction. The following must be documented:

- Borrower's ownership of the asset
- Value of the asset, as determined by an independent and reputable source.
- Transfer of ownership of the asset, as documented by either a bill of sale or a statement from the purchaser.
- Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements,
- or copies of the purchaser's canceled check

Secondary/Subordinate Financing

Secondary or subordinate financing is allowed to the maximum CLTVs listed on the applicable matrices with the following requirements.

Secondary financing is permitted for investor-occupied purchase transactions if they are full doc only and the 2nd is institutional. Existing subordinate financing is permitted on a refinance of an investment property for all doc types. If the subordinate financing has a simultaneous closing, the following is required:

- A copy of the loan approval and repayment terms for the new financing; and
- A copy of the executed note at closing.

If the subordinate financing is being subordinated, the following is required:

- The repayment terms of the existing second lien.
- An unsigned copy of the subordination agreement prior to closing; and
- A copy of the executed subordination agreement at closing.

The following requirements apply to all subordinate liens:

- Seller-held subordinate liens are not permitted.
- Subordinate financing must be recorded and clearly subordinate to the new mortgage.
- Payment on the subordinate financing must be included the borrower's DTI. If a payment is
- unable to be determined, 1.5% of the original loan balance can be used.
- If the debt is an equity line of credit, the CLTV ratio is calculated by adding the total HELOC credit line limit (rather than the amount of the HELOC in use) to the first mortgage amount, plus any other subordinate financing, and dividing that sum by the value of the property.
- Negative amortization is not allowed, and the scheduled payments must be sufficient to cover at least the interest due.
- Subordinate financing from the borrower's employer may not include a provision requiring payment upon termination.

Subordinate liens can be paid off through closing. See Rate/Term Refinance and Cash-out Refinance for more information.

Spousal Accounts

Accounts held solely in the name of a non-borrowing spouse may be used for down payment and closing costs only and are subject to the seasoning requirements outlined in Asset Documentation.

Accounts held solely in the name of a non-borrowing spouse may not be used to meet reserve requirements unless the spouse will also be on title.

Stock Options

Vested stock options are an acceptable source of funds for down payment and closing cost s when immediately available to the borrower. Stock options may not be used to meet reserve requirements. The value of vested stock options can be documented by:

- Referencing a statement listing the number of options and the option price; and
- Determining the gain that would be realized from exercise of an option and the sale of the optioned stock using the current stock price.

Stocks, Bond, and Mutual Funds

Vested assets in the form of publicly stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified.
When used for the down payment or closing costs, if the value of the asset is at least 20% more than the portion of the amount of funds needed from the publicly stocks, bonds, or mutual funds for the down payment and closing costs, no documentation of the borrower's actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower's actual receipt of funds realized from the sale or liquidation must be documented. When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.

Trust Accounts

Funds disbursed from a borrower's trust account are an acceptable source for down payment, closing costs, and reserves provided the borrower has immediate access to the funds.
To document trust account funds, both of the following must be obtained:

- Written documentation of the value of the trust account from either the trust manager or the trustee; and
- The conditions under which the borrower has access to the funds and the effect, if any, that the withdrawal of funds will have on trust income used in qualifying the borrower for the mortgage.

See Trust Income if trust is also being used as a source of income to qualify the borrower.

Unacceptable Funds

- Cash-on-hand
- Sweat equity.
- Gift or grant funds which must be repaid.
- Down payment assistance programs
- Unsecured loans or cash advances
- Section 8 Voucher Assistance

LIABILITIES

Authorized User Accounts

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

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 any of the following supporting documentation:

- Most recent 6 months canceled checks drawn against the business account; or
- Tax returns reflect the business expense deduction; or
- Business bank account statement showing assets remain after funds to close and reserve requirements are with a balance greater than or equal to the balance of the debt.

If the debt is less than 3 months old, the payment must be included in the debt-to-income ratio. Unless it is a vehicle and evidence the previous vehicle was paid by the business.

Child Support, Alimony, 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.

If 10 or fewer payments remain, see installment debt to determine if the obligation may be excluded from the DTI calculation.

Contingent Liabilities

An individual has a contingent liability when an outstanding debt has been assigned to another party and the creditor does not release the borrower from liability. Contingent liabilities can be excluded from the debt-to-income ratio under any of the following scenarios:

- Property resulting from buyout of former co-owner (i.e., divorce): file must include the court order and evidence of transfer of ownership
- Mortgage assumption by third party: file must include the formal assumption agreement and evidence of transfer of ownership
- Court ordered assignment of debts: file must include a copy of the court order assigning the debt to another party

The payment history for the assigned debt after the effective date of the assignment does not need to be evaluated.

Debt 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.

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 or at closing can be excluded from the debt-to-income 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 if paid prior to closing. If a vehicle lease is paid off to qualify evidence the car was purchased is required. (The lease payments themselves is not considered paying off the debt). Installment debt may also be paid down to qualify.
    - Time Share obligations are considered installment debt
    - Car Lease obligations must be included in DTI ratio, regardless of time remaining on the lease

Material Recurring Non-Debt Obligations

- Sellers are not permitted to make inquiries or verifications prohibited by Regulation B
- A recurring non-debt obligation is defined as medical expenses for the borrower or a dependent of the borrower that are expected to continue for greater than one year
- If the borrower informs the seller of a recurring non-debt obligation, the loan file must be noted. If the seller believes it could be material to the borrower's ability to repay the loan, escalation is required
- Documentation of material recurring non-debt obligations should be done consistent with seller's
- ability to repay policies and in a form acceptable to FCM

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. 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

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 Assets for sourcing and seasoning requirements. If revolving debt is paid off to qualify, the account does not have to be closed.
- Authorized user account should not be considered in the borrower's debt-to-income ratio

Retirement/Savings Plan Loans

Repayment for loans against a financial asset (retirement/savings plan, insurance policy) can be excluded from the total debt-to-income ratio provided the debt can be repaid by liquidating the asset. Value of the asset must be reduced by the amount of the debt when calculating funds to close and reserves.

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.

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.

Income Verification

- **Primary wage earner requirements:**
  - Fully executed 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 viewed on a case-by-case basis to determine stability of earnings
  - One year signed 1040s
  - Executed 4506-C on 1040s
  - Verbal Verification within 10 days of the Note Date
- **Self-employed borrower requirements:**
  - One year signed 1040s, including all pages, schedules, statements
  - Year to date Profit and Loss Statement signed by the borrower along with most recent two months of bank statements that align with the good through date on the P&L
  - K-1's on all corporations and Schedule E business entities for the prior year
  - Business returns on all Corporations and Schedule E business entities prior one or two years if ownership is > 25%, including all pages, schedules, statements.
  - Executed 4506-C on 1040s
  - Verification of business existence within 30 days of the Note Date
- **Child Support or Alimony:**
  - Monthly child support, alimony, or separate maintenance fees should be current at time of application and must be included in the borrower's DTI ratio. File should contain supporting documentation as follows:
    - Executed copy of the fully executed Divorce Decree, property settlement agreement, signed legal separate agreement, parenting plan and/or court order
    - Proof of child(ren)'s age
    - Proof of 3-year continuance and receipt of payment for most recent 12-months
  - If 10 or fewer payments remain, see Installment Debt to determine if obligation may be excluded from DTI calculation
- **Rental income:**
  - Owner Occupied 2-4 Units: may add 75% of gross rent to borrower's qualifying income
  - NOO: Income used to qualify is 75% or the lesser of documented rent or market rent per appraisal
  - Rental Income: note that for borrowers purchasing a new property and retaining their existing property, proposed rental income on the vacating primary cannot be included as effective income. The borrower must qualify with both PITIA payments.
- **Asset Utilization:**
  - Asset Utilization is permitted for ITIN borrowers with an LTV of 80% or less using a 60-month amortization of the eligible assets to determine qualifying income stream.
- **Alt Doc:**
  - ITIN borrowers can qualify using the following alternative documentation options:
    - 12 or 24-month personal or business bank statement
    - 12 or 24-month P&L and 2 months bank statements
    - 1 or 2 years 1099
    - See below for Alt documentation requirements

Full Documentation

For all income sources, borrowers are qualified based on calculated stable monthly income over the most recent 2-year period. Income may be obtained from a variety of sources such as salary, bonus, commission, self- employment, etc., and should be reasonably expected to continue for the next 3 years.

Wage Earners

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

- Fully executed 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 viewed on a case-by-case basis to determine stability of earnings
- One year signed 1040s
- Executed 4506-C on 1040s
- Verbal Verification within 10 days of the Note Date

Annuity Income

Annuity income can be used for qualification when the following requirements are met:

- 12-month history must be verified using 1099s, tax returns, and/or bank statements
- Letter from issuer of annuity to be obtained stating that it has been set up on periodic withdrawal, amount of withdrawal, duration, and balance.
- Account asset balance must support the continuance of the monthly payments for at least 3 years after the close of escrow.

Annuities less than 12 months old must be in a non-revocable trust with a minimum term of 40 months in order to use the income to qualify.
For annuity distributions from a 401(k) or pension, see Pension/Retirement

Automobile Allowance

For an automobile allowance to be considered as acceptable stable income, the borrower must have received payments for at least 2 years. The full amount of the allowance must be added to the borrower's monthly income, and the full amount of the lease or financing expenditure to the borrower's monthly debt obligations.

Bonus and Overtime

Bonus and overtime can be used to qualify if the borrower has received the income for the past 2 years and it is likely to continue. An average of bonus or overtime income should be used. A written Verification of Employment (FNMA Form 1005) should be obtained to provide a breakdown of bonus or overtime earnings for the most recent 2 years. If the employment verification states the income is unlikely to continue, it may not be used in qualifying.

Capital Gains

When income from capital gains is used to qualify the borrower, tax returns for the most recent 2 years are required to determine if the income is recurring and may be considered in qualifying. If a capital gain appears to be a onetime occurrence, it should not be considered when calculating income available.

For the income to be considered stable and likely to continue, sufficient assets must be documented to show the borrower will continue receiving the capital gains for a minimum of 3 years from note date. If the income is declining and/or there will be no asset base to generate the capital gains, it cannot be used for qualification purposes.

In addition, if assets that generated capital gains are being sold as part of the mortgage transaction, the income from capital gains must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Child Support, Alimony, or Maintenance Income

In order for child support, alimony, or separate maintenance to be considered stable income, it must continue for at least 3 years from note date as specified by the court order. The following requirements apply:

- A copy of the divorce decree or legal separation agreement must be obtained.
- Documentation must be received to evidence receipt of the most recent 6 months of payments through copies of deposit slips, canceled checks, and/or bank statements.

Full and timely payments must have been received for 6 months or longer. Income received for less than 6 months is considered unstable and may not be used to qualify the borrower. Also, if full or partial payments are made on an inconsistent or sporadic basis, the income is not acceptable for qualifying the borrower.

Note: Child support, alimony, or maintenance income information need not be provided unless the borrower wants the lender to consider such income in underwriting the loan.

Commission Income

Commission earnings should be averaged over the most recent 2 years and require the following documentation:

- Most recent year-to-date pay stub reflecting the commission earnings; and
- W-2 forms covering the most recent 2-year period or a complete written Verification of Employment.

A borrower on their current job for less than 2 years with a minimum 2-year history of receiving commission in the same line of work may also qualify to use commission earnings.
If there are large fluctuations, the borrower must provide a signed, written explanation to support the increase or decrease in income. Additional supporting documentation is required to use commission income for qualification when documentation shows a <u>decline in earnings</u> from one year to the next.

With borrowers that receive a draw against the commission earnings, the draw income is not to be considered in addition to the commission income. Draws are only to be considered income paid in advance of receiving commissions, where the amount is then subtracted once the commissions are earned.

Declining Income

Declining income sources should be closely reviewed to determine if the income may be used for qualifying purposes. Income showing a consistent decline over the prior years should not be considered as stable or usable income for qualification purposes.

A signed, written explanation for the decline should be obtained from the borrower and/or employer. In instances where there is sufficient information to support the use of the income, the most recent lower income over the prior 2-year period must be used and may not be averaged.

Disability Income
Long-term and short-term disability income can be used for qualification. The following documentation should be obtained for both long-term and short-term disability:
- Documentation from either the insurance company or employer providing the payment amount, conditions for termination of payment, and the likelihood of it continuing for at least 3 years.
- Copy of most recent check or bank statement is required if the award letter does not reflect the current payment being received.

Short-term disability also requires the following documentation:
- Signed letter from borrower stating intent to return to work once the disability no longer exists.
- Verification from employer stating that the borrower will be allowed to return to work once the disability no longer exists. The letter must identify the borrower's position and rate of pay upon return. If the future employment income will be less than the disability income, the lower income amount must be used to qualify for the loan.

When documenting disability income, do not make inappropriate and/or unlawful inquiries regarding the nature or severity of the borrower's disability.

Dividend/Interest Income
Dividend and interest income derived from investments can be used as qualifying income when the following requirements are met:
- 2 most recent years federal income tax returns received supporting a 2-year history of receipt; and
- Verification of stock asset values no older than 30 days at closing.

Sufficient assets should remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/interest income are being sold as part of the mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

Earnings should generally be averaged over the time period verified when current earnings are consistent with historical dividend and interest earnings.

Employment by a Relative
Income for borrowers who are employed by a relative must be verified with one of the following:
- Federal income tax returns for the most recent 2 year with transcripts. or
- W-2s for the most recent 2 years with transcripts; and
    - Pay stub(s) covering the most recent 30-day period.

Income should be averaged over the 2-year period. Clarification of potential ownership by the borrowers of family-owned businesses may also be required. A borrower may be an officer of a family operated business but not an owner. Verification of their status should be provided by written confirmation obtained from a CPA or legal counsel.

Foreign Income
Foreign income is income earned by a borrower who is employed by a foreign corporation or a foreign government and is paid in foreign currency. Borrowers may use foreign income to qualify if the following requirements are met:

- Two years U.S. federal income tax returns reflecting the foreign income.
- Income is translated to U.S. dollars.
- Standard income stability and continuance requirements are met.
- Standard documentation requirements apply based on the type of income.
- Income from sanctioned countries administered by OFAC is not allowed.

Foster Care Income
Income derived from foster care payments may be considered if there is a 2 -year history of receipt and it is expected to continue for the next 3 years.

The income can be verified by letters from the organizations and copies of borrower's deposit slips or bank statements showing regular deposit of the payments, or by providing federal income tax returns for the most recent 2 years. The documentation received must clearly show the number of foster children involved, their ages, and length of care.

Hourly Wages
Borrowers paid on an hourly basis, or who may not work a regular 40-hour work week throughout the year, will generally have their income averaged over the minimum employment history required. If there is an indication of declining income, the current income is used instead of the average.

Lump-Sum Distributions
Proceeds from the sale of investments held in a 401(k) or IRA account are not eligible as an income source.

Ministry/Clergy Income
Ministers are individuals duly ordained, commissioned or licensed by a church or church denomination. Ministers and members of the clergy are generally considered self-employed unless exempted by IRS from self-employment taxes. If exempt, an exception from the IRS must be provided.

Rental or housing allowance received can be considered income for qualifying the borrower. Written documentation, such as a WVOE provided by the church, must be obtained showing receipt of the income. The borrower's pay stub should also reflect receipt of the housing allowance. If the borrower is newly employed, obtain a copy of the church budget (in lieu of a check) showing funds have been allocated for housing allowance. Housing allowance for ministers is non-taxable income and can be grossed up for qualifying.

The church may budget for educational, medical insurance, life insurance, retirement, etc. to be paid on behalf of borrower; however, these items will not be considered as qualifying income, unless exempted by the IRS. The housing allowance, although not subject to federal income taxes, is subject to self-employment taxes. Gross income on Schedule SE of the borrower's 1040 should include housing allowance paid.

Non-Taxable Income
Non-taxable income can be grossed up by 25%. Examples of non-taxable income may include military allowances for clothing, quarters, and subsistence, child support, worker's compensation, disability retirement, social security income, clergy housing allowance, foster care income, food stamps, income from municipal bonds, and certain types of insurance benefits.

Some income types may contain both taxable and non-taxable income. Federal income tax returns may be required to accurately determine the non-taxable portion.
Income may not be grossed-up for calculating Residual Income.

Notes Receivable Income
Income from notes receivables can be used to qualify provided the income is regular and recurring. The borrower should have a documented history of receiving the income for at least 2 years and can verify that the income will continue for at least 3 years from note on the new mortgage.

A copy of the note confirming the amount, frequency and duration of payments is required along with tax returns for the most recent 2-year period (including Schedule B) and bank statements
showing consistent deposits of funds. Income from a recently executed note/contract (less than 12 months) may not be used as qualifying income.

Evidence of receipt for the last 12 months must be verified with either canceled checks, bank deposit slips, of federal income tax returns. A copy of the note verifying payment amount and remaining term of at least 3 years must also be obtained.

Part-Time/Second Job Income
Income from part-time employment or a second job can be considered stable income if it has been received for the previous 2 years and is likely to continue. Earnings must be documented with current pay stubs and W-2s for the most recent 2-year period. (See FNMA guides for clarification)

Pension/Retirement
Pension and retirement income must be verified with any of the following:
- Letters from the organization providing the income.
- Copy of retirement award letters.
- Tax returns for the most recent 2 years
- W-2 forms or 1099 forms for the most recent 2 years
- Bank statements reflecting regular deposits for the most recent 2 months.

Proof of Continuance
If the borrower is of retirement age, proof of continuance does not have to be documented when the income is received from corporate, government or military retirement/pension.

If retirement income is in the form of monthly annuity distributions, such as 401(k) or IRA, proof of continuance for 3 years is required. If the borrower intends to use the retirement account to also satisfy asset requirements, the value of the asset must be reduced by the funds being withdrawn prior to determining a 3-year continuance of income. Assets available beyond the deduction for continuance of income may be used as reserves. See also Retirement Accounts

Forthcoming Retirement
Any borrower presently employed but anticipating retirement within 3 years from note date must be evaluated upon the verified anticipated retirement income. Effective income for borrowers planning to retire (or end employment for other reasons) during the period must include the amount of documented retirement or other benefits to be received, Social Security payments, or other payments expected to be received in retirement. A combination of present earnings and future retirement income does not represent a supportable level of earnings.

Public Assistance
Income from government assistance programs, such as food stamps, Aid to Dependent Children, or welfare, can be used as qualifying income provided such income has a reasonable likelihood of continuing for at least 3 years.

The applicant must provide a copy of a benefits awards letter as evidence of eligibility. This documentation must verify the amount of assistance, duration of payment and what portion if any is non-taxable. Verification of receipt of benefits for the previous 2 years can be documented with copies of checks, copies of bank statements, copies of award letter or copies of grant statements.

In documenting and evaluating public assistance income, lenders originating loans must comply fully with the requirements of the federal Equal Credit Opportunity Act and applicable state anti-discrimination laws.

Rental Income
Rental income can be used for qualifying when disclosed on the loan application.

Rental Income on Tax Returns
When tax returns are used for qualifying, rental income should be calculated using the FNMA Cash Flow Analysis Method. When income is being qualified using two-years, an average of income should be used unless the rental income is declining, in which case the most recent year's income should be used for qualifying.

- Cash Flow Analysis of the Schedule E should be completed as follows:
    - Gross Rents and Royalties received
    - Less Total Expenses
    - Plus Depreciation
    - Plus Insurance
    - Plus Mortgage Interest
    - Plus Taxes
    - Plus HOA fees (if included on the Schedule E)
    - Subtotal / 12 (24) months
        - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt
        - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss

<u>Rental Income Not on Tax Returns</u>
In instances when tax returns are not provided in the loan file, rental income should be documented in the following manner.

- Evidence of borrower's ownership of the property
- Refinance and/or to document rental income on other REOs:
    - Lease agreement
    - Two months of bank statements demonstrating receipt of rental income
    - Evidence the rental amount is at market rate, which can be documented via a 1007 or through an online source
    - 75% of the rental amount on the lease is used for qualifying
        - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt
        - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss
    - Rental income from a new property being acquired through a purchase transaction:
        - 75% of the appraiser's opinion of market rent on FNMA Form 1007 or Form 1025, as applicable
            - Primary Residence: This figure would be used as net rental income/loss and the full PITIA will be counted as a debt
            - Rental Property: This figure less the proposed/existing monthly payment will be used to determine net rental income/loss
    - Rental Income from a Departing Residence:
        - 75% of the rental amount on the lease if used for qualifying
        - Evidence the rental amount is at market rate, which can be documented through an online source or a 1007

<u>Short Term Rentals</u>
Short-term rental income received directly from a home-sharing service (such as Airbnb, VRBO, HomeAway) may be used for qualification when the following requirements are met on Full and Alt Doc loans.
For DSCR loan 1-4 Units Only), see DSCR section of the guidelines for requirements and restrictions.
Any loan qualified with the use of short-term rental income must comply with any municipality regulations and/or restrictions. Evidence of compliance is to be provided in the loan file

- For 2-4 Units, a report must be pulled on each individual unit in AirDNA, and the sum of all combined units' rental income will be used to determine the rental income
- Purchases:
    - STRs qualifying with Full/Alt Documentation using the market rent from the 1007/1025 using Max LTVs
        - If using AirDNA, the max LTV is limited to the lesser of the applicable matrix LTV or max 75% LTV
    - Market Rent from the 1007/1025 may be used for qualifying with the following restrictions:
        - A 25% vacancy factor is to be applied when long term rentals are used.
        - When Form 1007 (market rent survey) is used, the appraiser is required to address the seasonality of the subject property short-term rental market in computing the market rent. If the appraiser fails to appropriately adjust rents to account for seasonality, the gross rents

should be computed using the vacancy factor as determined by the AirDNA Property Earning Report. For example, if the occupancy rate is 60% a 40% vacancy factor must be applied to the short-term rental income from the comparable rent schedule.

- Refinances:
  - Rental verification to be documented with one of the below options:
    - 1040s along with a Schedule E,
    - 12-monthly statements, or an annual statement provided by the online service at the applicable matrix LTV. In the event the borrower owns a single rental property, bank statements with deposits clearly identified/sourced as rental income can be substituted. If two or more rental properties owned, statements from an online service must be provided to associate rents received with the specific property. The online statements must provide a summary total of the yearly rental income and must clearly identify the associated properties address.
    - AirDNA for recently renovated properties ONLY. If using AirDNA, max LTV is limited to the lesser of the applicable matrix LTV or max 75% LTV; or for Foreign Nationals, max 70% LTV
- A screen shot of the online listing must show the property(s) actively marketed as a short- term rental.
- Evidence of property ownership must be documented.

Restricted Stock Units (RSU)

Restricted stock units (RSUs) are issued to an employee through a vesting plan and distribution schedule. RSUs give an employee interest in company stock but have no tangible value until vesting is complete. The RSUs are assigned a fair market value when they vest and considered income with a portion of the shares withheld to pay income taxes upon vesting. The employee receives the remaining shares and can sell them at their discretion. Restricted stock options may be used as qualifying income when all of the following requirements are met:

- Income has been consistently received for the prior 2 years, is continuing, and is identified on the
- borrower’s tax returns as income.
- RSU income is calculated using a 2-year average.
  - If the RSU income is declining, proof of stability must be provided, and the most conservative average used for qualifying.
- RSU income must be likely to continue for 3 years.
- Borrower must be employed at the same company that issued the RSUs.
- Employer must be a publicly traded entity (e.g., a Fortune 500 company).
- Non-vested restricted stock is not an acceptable source of income or reserves.
- Income verification obtained through a third-party verification service provider is not allowed.
- Vested RSUs may not be considered as qualifying income if they are also used for down payment, closing costs, and/or reserves.

The following documentation is required:

- Evidence that stock is publicly traded.
- Most recent vesting schedule or issuance agreement showing continuance of RSU income for a minimum of 3 years.
- To prove 3-year continuance, take the available RSUs from the note date multiplied by the 52-week low stock price divided by 36 months. The monthly amount must be greater than or equal to the monthly qualifying amount.

- Evidence of payouts of RSUs for the past 2 years. Acceptable verification includes:
  - Tax returns for the last 2 years reflecting RSU income,
  - Year-end paystubs reflecting the RSU payout, or
  - Employer-provided statement paired with a brokerage or bank statement showing transfer of shares or funds that include the (a) date of the payout and (b) the number of vested shares and their cash equivalent distributed to the borrower.

Seasonal Income
Income from seasonal employment can be considered if the applicant has worked the same job during the season for the past 2 years and expects to be rehired for the next season.

A written Verification of Employment and W-2s for the most recent 2 years are required. The WVOE must reference the likelihood of the borrowers rehire. Seasonal income should be averaged over a 2-year period.

Self-Employed Income *Note FNMA Liquidity Test is Not Required
A borrower is considered self-employed with 25% or more ownership interest in a business. The business may be a sole proprietorship, general partnership, limited partnership, corporation, or S corporation.

To utilize self-employed income for loan qualification, borrowers must be self-employed for at least 2 years and the business must be in existence for at least 2 years.

<u>Qualifying Income</u>
Qualifying income is determined from the tax returns and the P&L is used to determine the stability of that income. The bank statements for the most recent months must reflect deposits that support those sales from the P&L and the qualifying income from the prior year's tax return.

<u>Sole Proprietorship</u>
A sole proprietorship is a business structure in which an individual and his or her company are considered a single entity for tax and liability purposes. Income and losses are reported on the owner's schedule C of the individual federal income tax return.

Documents required for determining income from a sole proprietorship are:
- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

<u>Partnerships</u>
A partnership is a business organization in which 2 or more individuals manage and operate the business. The partners share profits and losses and control of the business.
Documents required for determining partnership income are:
- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and

- W-2s for the most recent 2 years (if applicable); and
- Partnership tax returns (IRS Form 1065) for the most recent 2 years, including all schedules and K-1s (Note: If borrower is a limited partner with less than 50% ownership, partnership tax returns are not required); and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

Corporations

A corporation is a legal entity that is separate and distinct from its owners. If a borrower has more than 25% ownership in a corporation, they are considered to be self-employed. A borrower that is self-employed as a corporate officer will receive a pay stub and W-2 and will report income on his or her personal tax returns. Corporate income or losses are reported on the corporate tax returns (IRS Form 1120).

Documents required for determining income from a corporation:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years; and
- Corporate tax returns (IRS Form 1120) for the most recent 2 years, including all schedules; and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

S Corporations

A Subchapter S corporation is a type of corporation which enables the company to have the benefits of a corporation but be taxed as if it were a partnership. S corporations are generally small corporations. The profit of the corporation is given to each owner according to his or her share of ownership. The adjusted profit is then divided by the borrower's share of ownership and combined with W-2 income used for qualifying. Income is reported with both a W-2 and K-1 (reporting on the Schedule E) or only with a K-1.

Documents required for determining income from an S corporation:

- Federal income tax returns (IRS Form 1040) for the most recent 2 years, including all schedules; and
- W-2s for the most recent 2 years; and Corporate tax returns (IRS Form 1120-S) for the most recent 2 years, including all schedules and K-1s; and
- Borrower signed and dated year-to-date profit and loss statement up to the most recent month preceding the loan application; and
- Two months business checking account statements for the most recent 2 months on the P&L; and
- Signed and processed IRS form 4506-C (full 1040 transcripts capturing all schedules); and
- Verification of the existence of the business within 30 business days of closing.

1099 Income

Payments to sole proprietors or contract individuals are reported on IRS Form 1099 and included in the borrower's schedule C. Tax returns may be waived and wage-earner documentation requirements followed in Wage-Earners when all of the following requirements are met:

- 1099s for the most recent 2 years are provided or 1 yr with evidence the borrower has been 1099 a minimum of 24 months.
- 1099s are validated with a wage and income transcript from the IRS.
- Year-to-date earnings are verified via a YTD paystub, written VOE, or other equivalent third- party documentation or YTD Bank statements
- Documentation is obtained from employer/employers confirming borrower has no job-related expenses or will assume 10% expenses.

If the borrower does not meet the requirements above, tax returns for the most recent 2 years (IRS Form 1040) are required to determine income and related expenses.
Note: 1099 forms covering a full 2-year period are not required when a borrower changes from being paid W-2s to 1099s while working for the same employer in the same position. Documentation must be obtained from the employer confirming the borrower has no job- related expenses.

Reduced Documentation for a Secondary Business
Business tax returns, associated schedules, and profit and loss statements may be waived when all of the following requirements are met:

- Income/loss referenced on personal tax returns is generated from a secondary business
- that is not the borrower's primary income source; and
- Income/loss from each separate business is ≤ 10% of qualifying income for the transaction; and
- All losses are subtracted from the borrower's qualifying income.

If income from a business is used to qualify the borrower, or if business expenses are added back to income or a loss, then business tax returns, associated schedules, and profit and loss statements must be obtained. Discretion may be used whether or not to obtain all documentation for self-employed earnings when the secondary business may have a significant impact on the loan.

Cash Flow Analysis
Lender will prepare a written evaluation of the analysis of a self-employed borrower's personal income, including the business income or loss, reported on the borrower's federal income tax returns.

Social Security Income
When a borrower is drawing Social Security benefits from their own account/work record in the form of Retirement or Disability, one of the following items is required:

- Social Security Administrator's (SSA) Award letter, or
- Proof of current receipt

When a borrower is drawing benefits from their own account/work record in the form of Supplemental Security Income (SSI), both the award letter AND proof of current receipt must be obtained.

When a borrower is drawing Social Security benefits from another person's account/work record, all of the following items are required:

- SSA Award letter
- Proof of current receipt; and
- Proof benefit will continue for at least 3 years (e.g., verification of beneficiary's
- age)

See also Non-Taxable Income.

Teacher Income
Teachers are paid on a 9-month, 10-month or 12-month basis. The pay structure should be determined before calculating the monthly income. If uncertainty exists, the borrower may provide a copy of their contract or the school district's personnel office may provide verbal confirmation.

Tips and Gratuities
Tips and gratuity income can be considered if receipt of such income is typical for borrower's occupation (i.e., waitperson, taxi driver, etc.). Income should be received for at least 2 years and documented through the most recent year-to-date pay stubs and federal income tax returns for the most recent 2 years. Income should be averaged over the time period verified. If the tip income is not reported on the pay stubs or tax returns, then it may not be included in qualifying income.

Trailing Spouse or Co-Borrower Income/Relocation
Trailing spouse income or co-borrower income to be received when the borrower is being relocated is not allowed to be used as qualifying income.

Trust Income
Trust income can be used for qualification when all of the following requirements are met:
- Copy of the trust agreement or the trustee's statement must be obtained to confirm the amount,
- frequency, and duration of payments.
- Trust income to continue for at least 3 years from date of the mortgage application; and
- History of receiving the trust income must be documented for a minimum of 3 months.

Lump-sum distributions from the trust made prior to loan closing can be used for down payment or closing costs if the withdrawal does not affect the qualifying number of continuing distributions to the borrower. The funds must be verified by a copy of the check or the trustee's letter that shows the distribution amount.

Unacceptable Income
- Gambling winnings (except lottery continuing for 5 years)
- Educational benefits
- Stock options
- Refunds of federal, state, or local taxes
- Illegal income
- Expense account reimbursement

Unemployment Compensation
Income derived from unemployment compensation is generally not allowed due to the limited duration of its receipt. Seasonal unemployment, however, can be considered if the borrower is employed in a field where weather

affects the ability to work and where unemployment compensation is often received (i.e., construction). The income can be used to qualify on with a 2 - year employment history in the same field of work and a 2-year history of receipt of unemployment compensation. Income should be averaged over the time-period verified.

Alternative Documentation

Bank Statement Documentation

General Requirements

Self-employed borrowers are eligible for either Personal Bank Statement Documentation or Business Bank Statement Documentation. The following restrictions apply to both documentation types:

- Borrowers must be self-employed for at least 2 years; and the business must be existence for a minimum of 2 years.
- Borrowers with less than 2 years as self-employed may be eligible under one of the following 2 options:
    - Option 1: Must be self-employed for a minimum of 18 months and must have a minimum of three (3) years prior experience in the same line of business.
        - See applicable overlays below.
    - Option 2: Self-employed borrowers in a licensed profession (i.e., Medical, Legal, Accounting) will be considered from a business that's been in existence for less than two (2) years, but greater than one (1) year provided the borrower meets the following requirements:
        - Borrower has at least three (3) years of documented previous experience in the same profession, or
        - Evidence of formal education in a related field, and
        - See applicable overlays below:
    - For Option 1 and Option 2, the following overlays apply:
        - Minimum 700 score
        - Max LTV of 80% O/O; 75% 2nd Home; 70% for N/O/O
        - Not permitted for Select Prime Express
        - Non-Permanent Resident Aliens without U.S. Credit and Foreign Nationals are ineligible.
        - All parties listed on each bank account must be included as borrowers on the loan.
        - Statements must be consecutive and reflect the most recent months available.
        - Statements must support stable and generally predictable deposits. Unusual deposits must be documented.
        - Evidence of a decline in earnings may result in disqualification.
        - If bank statements provided reflect payments being made on obligations not listed on the credit report, see Undisclosed Debts for additional guidance.
        - At least one of the borrowers must be self-employed.
        - W-2 Wages: Additional income deposited into the bank statements but derived from a source other than the self-employed business may not be included in the bank statement average. W-2 earnings must be documented as per the requirements in Wage-Earners along with a processed 4506-C verifying the W-2 earnings only.
        - Rental Income: Borrowers who receive rental income as a secondary income source may utilize Bank Statement Documentation on a case-by-case basis. When considered, a 75% expense ratio can be used with evidence of deposits of the rent and copies of the lease. The deposits must be verified through 2 months bank statements from a separate account other than the one used to calculate the self-employed income.

- Verification of self-employed businesses by a third-party source must be obtained prior to loan closing.
- Tax returns and 4506-C are not required for the program. If Tax returns and/or Transcript are provided, the loan will be ineligible for the Alt Doc Program.
- The most recent bank statement used for the Bank Statement Analysis must be within 90 days of the Note Date. In the event updated bank statements are provided to source additional assets and/or funds to close, the Bank Statement Analysis would not need to be updated to reflect those updated statements provided the statements in file not expired as of the note date. Any supporting documentation, such as a P&L statement used in conjunction with the bank statements must align with the dates of the bank statements used for qualifying.

ALT Doc- Personal Bank Statements- 12 or 24-months

Borrowers may provide either 12 or 24 consecutive months of personal bank statements.

The following documentation is required (see also Bank Statement Documentation):

- 12 or 24 months complete personal bank statements from the same account (transaction history printouts are not acceptable)
- Most recent 2 months of BUSINESS bank statements if available
- Initial signed 1003 with a minimum two-year employment history
- Verification within 30 days of the note date that the business has a minimum 2-year operating history with one of the following: a letter from either the business tax professional, regulatory agency or licensing bureau.
- Verify the business is active and operating within 30 days of closing with either a phone listing and/or business address using directory assistance or internet search. In instances where an online listing or search is not possible due to the nature of the borrower's employment (i.e. consultants), verification of activity within 30 days of the note date can be provided via evidence of receipt of business income within 30 days of the note supported by either invoices, bank statements showing business deposits, or similar means to support the business' recent operation.
- Verify the borrower owns a minimum of 20% of the business by providing one of the following:
- CPA/tax preparer letter, operating agreement or equivalent reflecting the borrower's ownership percentage.
- For borrower's who are independent contractors and do not necessarily own their own business, they may be qualified under the bank statement program and must follow the co-mingled accounts guidance. Evidence of filing tax returns and a Schedule C for 2+ years must be provided by their CPA/Tax preparer, as well as an Expense Factor and/or P&L supporting their expenses. See Calculating Qualifying Income below for more detail.

The following requirements apply when analyzing the personal bank statements:

- Multiple bank accounts may be used, but a combination of business and personal is prohibited.
- 100% of deposits used for income and averaged over 12 or 24 months unless the accounts are considered co-mingled then revert to one of the business options under the business bank statement guidelines.
- Transfers between personal accounts should be excluded.

- Transfers from a business account into a personal account are acceptable and proved with 2 months business bank statements. This is the only time 100% of the deposits are allowed.
- Deposits greater than 50% of the average gross deposits over a 12- month period must be sourced.
- ATM deposits may be included if a consistent pattern of deposits is present.

CALCULATING QUALIFYING INCOME

Qualifying income using Personal Bank Statement Documentation is the lower of:

Personal Bank Statement Average [total deposits (minus disallowed deposits) / 12 or 24 months]	OR	1099 Gross Income Calculation [((total gross 1099 income + YTD bank statement income) x90%) / total number of applicable months]

CO-MINGLED ACCOUNTS

Co-mingled accounts are defined as a single account reflecting both personal and business expenses. Co-mingled accounts are considered a business bank statement and one of the Expense Methods under the Business Bank statements section below must be used to calculate the income. In the event a CPA/Tax preparer expense letter is not available, a 50% expense factor may be considered.

Alt Doc-Business Bank Statements

Borrowers may provide either 12 or 24 consecutive months of business bank statements.

The following documentation is required (see also Bank Statement Documentation):

- 12- or 24-months complete business bank statements from the same account (transaction history printouts are not acceptable)
- Multiple bank accounts maybe used for multiple businesses.
- Multiple bank accounts may also be used if a borrower shows they closed the initial account to use another.
- Multiple bank accounts maybe used for merchant services vs operating accounts
- Initial signed 1003 with a minimum two year employment history
- Required Expense Statement Documentation applicable to Calculation Option chosen (see Calculating Qualifying Income for requirements)
- Verification borrower is minimum 25% owner of business.
- Ownership percentage must be documented via Tax Preparer, CPA letter, Operating Agreement, or equivalent.
- All non-borrowing owners of the business or the CFO, Tax Preparer, or CPA for the company must provide a signed and dated letter acknowledging the transaction and confirming the borrower's access to the account for income-related purposes.
- Qualifying Income must be multiplied by the ownership percentage to determine the owner's
- portion of income allowed for the transaction.
- Verification within 30 days of the note date that the business has a minimum 2-year operating history with one of the following: a letter from the business tax professional, regulatory agency or licensing bureau certifying 2 years of self-employment in the same business

- Verification business is active and operating with either a phone listing and/or business address using directory assistance or internet search within 30 business days of closing. In instances where an online listing or search is not possible due to the nature of the borrower's employment (i.e. consultants), verification of activity within 30 days of the note date can be provided via evidence of receipt of business income within 30 days of the note supported by either invoices, bank statements showing business deposits, or similar means to support the business' recent operation.

The following requirements apply when analyzing the business bank statements:

- Business bank accounts, personal bank accounts addressed to a DBA, or personal accounts with evidence of business expenses can be used for qualification.
- Wire transfers and transfers from other accounts must be documented or excluded.
- Statements should show a trend of ending balances that are stable or increasing over time.
- Decreasing or negative ending balances must be explained.
- Business expenses must be reasonable for the type of business. If no tax preparer or CPA is available a 50% expense ratio maybe used (see exception below).
- Deposits greater than 50% of the average gross deposits over a 12-month period must be sourced.

CALCULATING QUALIFYING INCOME
To calculate qualifying income using Business Bank Statement Documentation, choose one of the documentation options below applicable to the Expense Statement method chosen:

OPTION 1: 50% EXPENSE RATIO
Qualifying Income is the monthly net income from deposits less the 50% expense ratio

OPTION 2A: P&L FROM A CPA OR TAX PREPARER WITH 12- OR 24- MONTHS BANK STATEMENTS
Qualifying Income is the monthly net income from deposits less the P&L expense ratio (minimum 10%)

Required P&L Documentation:

- P&L Statement covering the same 1- or 2-year period as the bank statements.
- P&L must be signed and dated by the tax preparer.
- The tax preparer must attest that they have prepared the borrower's most recent tax returns.

OPTION 2B: 24 OR 12 MONTHS P&L FROM A CPA OR TAX PREPARER AND 2 MONTHS BANK STATEMENTS
When calculating income with a 12 or 24 months P&L and 2 months bank statements qualifying Income is the monthly net income from the P&L

Required P&L Documentation:

- P&L Statement covering either 24 or 12 months.
- P&L must be signed and dated by the tax preparer.
- The tax preparer must attest that they have prepared the borrower's most recent tax returns.

When P&L is combined with a minimum of 2 months bank statements, the following applies:

- The monthly gross revenue from the P&L must be supported by the business or co-mingled bank statements provided. Total monthly average deposits per bank statements (minus any disallowed deposits) must be greater than or no more than 20% less than the monthly gross revenue reflected on P&L. Note: The

total deposits calculated with business or co-mingled bank statements is used solely to validate self-employed earnings reported on the P&L. If the deposits are greater than 20% no further action is needed.
- The sum of disallowed deposits/transfers excluded from the bank statement total may be subtracted from the P&L gross revenue. Total usable deposits may then be compared to the revised gross revenue amount for validation purposes. If validated within 20%, the lower of the revised monthly net income average from the P&L may be used for qualifying income.

Option 2B temporarily not available in MS.

OPTION 3: THIRD-PARTY PREPARED EXPENSE STATEMENT

Qualifying Income is the monthly net income using the Expense Statement
- Minimum 10% expense Ratio Required.

The Expense Statement must be prepared and signed by a third-party (CPA or licensed tax preparer) specifying business expenses as a percentage of the gross annual sales/revenue. The tax preparer must attest they have either prepared or reviewed the borrower's most recent tax return.
Net income from the Expense Statement is calculated by determining total deposits per bank statements (minus any disallowed deposits) multiplied by the expense percentage provided by CPA or tax preparer and divided by either 12 or 24 months.

$$\text{Net Income} = \frac{\text{Total Deposits} * (1 - \text{Expense Statement Percentage})}{\text{12 or 24 months}}$$

ALT Doc- P&L Only
- Minimum score of 700
- Max Loan Amount $1,500,000
- Max LTV: 80% for Owner Occupied; or 75% for NOO or Second Home
- 12 or 24 month P&L prepared and signed by CPA/EA
- CPA or Tax Preparer must attest to the fact they have prepared the borrower's most recent tax returns.

ALT Doc – 1099 Documentation
- 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. Self-Employed borrowers who are business owners paying their earnings via a 1099 are not eligible for this income documentation.
- 1099s or 1099 transcripts may be obtained for 1 or 2 calendar years.
- The 1099s must be validated with a wage and income transcript from the IRS, when 1099s are issued to the borrower personally.
- Evidence of year-to-date earnings via YTD bank statements, a printout of YTD wages from their employer/employers or the VOE with YTD income must be completed by each employer.
- A 10% automatic expense ratio will apply when the 1099 is paid to the borrower individually. In the event the 1099 is paid to the borrower's business, the loan may be considered, however an Expense Letter from the borrower's CPA/Tax preparer is required to determine the qualifying income.

ALT Doc – Asset Utilization
Asset Utilization may be used to determine qualifying income. Asset utilization is temporarily not available in MS.

ELIGIBLE ASSETS

Qualified Assets can be comprised of publicly traded stocks, bonds, mutual funds, vested amount of retirement accounts and bank accounts. If a portion of the Qualified Assets is being used for down payment, closing costs, or reserves, those amounts must be excluded from the balance before analyzing a portfolio for income determination. A four-month seasoning of all assets is required.

All individuals listed on the asset account must be on the note and mortgage. Assets held in the name of a business are not eligible to be used for the asset utilization calculation.

The following assets are considered Qualified Assets and can be utilized to calculate income:

- 100% of checking, savings, and money market accounts
- 80% of the remaining value of publicly traded stocks & bonds
- 70% of retirement assets (Borrowers younger than 59 ½ use 60%)

Assets held in a trust are eligible as long as the following requirements are met:

- If the funds are held in a revocable trust, the borrower is the trustee
- If the funds are held in an irrevocable trust, the borrower is the beneficiary and the borrower has immediate access to the assets of the trust
- Based on the asset type, use the above percentages to calculate the Qualified Assets

CALCULATING QUALIFYING INCOME
To calculate qualifying income using Asset Utilization, choose one of the options below:

OPTION 1: DEBT RATIO CALCULATION in addition to any other income type
When the DTI without asset utilization is 60% or less, then follow the below calculation when determining the amount of income to use as secondary income from assets.

The income calculation is: Monthly Income = Net Qualified Assets / 36 Months

OPTION 2: Debt Ratio CALCULATION ASSET CALCULATION
When the DTI without asset utilization is > 60% or when the borrower's entire income is comprised of income from assets, the monthly income calculation is: Monthly Income = Net Qualified Assets / 60 Months

Employment is left blank

Ratios and Qualifying

Ratios

The debt-to-income ratio (DTI) is calculated by adding the borrower's total PITIA and the borrower's total monthly obligations and dividing by the borrower's total monthly qualifying income.

Residual Income

Minimum residual income thresholds apply to HPML loans or when the DTI is > 43% on OO and 2nd homes only using the following calculation:

Residual Income = Gross Monthly Income-Total Monthly Obligations

The initial 1003 should reflect the number of members in the household for all borrowers on the transaction.

Number of Household Members	Minimum Residual Income
1 Person	$1,500
2 Persons	$2,500
For each additional household member	$150

***Instructions for using the Household Member table above:** For the household member count, include all related and unrelated members of the household who depend on the borrowers(s) for support

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.

Frequent Job Changes

Frequent job changes to advance within the same line of work may be considered favorable. Job changes without advancement or in different fields of work should be carefully reviewed to ensure consistent or increasing income levels and the likelihood of continued stable employment.

Gaps in Employment

Borrowers should provide a signed, written explanation for any employment gaps that exceed 30 days in the most recent 12-month period, or that exceed 60 days in months 13-24. Recent graduates and borrowers re-entering the workforce after an extended period are allowed assuming they have been back to work for 6 months.

Note: Illness and childbirth are not considered for gaps in employment

Verbal Verification of Employment (VVOE)

Verbal Verifications of Employment must be obtained for each borrower using employment income to qualify. VVOEs must meet all of the following criteria:

- Must be obtained within 10 business days from closing
- Confirm that the borrower is employed at time of verification
- Include the name and phone number of the person processing the VVOE
- Include the name, position and phone number of the person providing the verification (employer)
- Telephone number for the borrower’s employer must be verified independently via any of the following: telephone book, the internet, directory assistance, or by contacting the applicable licensing bureau

When VVOEs are completed through a third-party vendor, because their databases are typically updated monthly, the verification must evidence that the information in the vendor’s database was no more than 35 days old as of the note date.

For self-employed borrowers, the existence of the business must be independently verified through a disinterested third party within 30 business days of closing. The loan file should reflect the documentation secured from these sources. Sources may include:

- CPA, regulatory agency, or applicable licensing bureau
- Secretary of State listing reflecting current year registration
- Verification of a phone and address listing using the Internet.

Appraisal Report (URAR)

Appraisers are required to use current appraisal report forms that are acceptable to Fannie Mae and/or Freddie Mac. The following appraisal report forms should be used:

- Uniform Residential Appraisal Form (FNMA Form 1004)
- Small Residential Income Property Appraisal Report (FNMA Form 1025)
- Individual Condominium Unit Appraisal Report (FNMA Form 1073)
- Appraisal Update and/or Completion Report (FNMA Form 1004D)
- Single Family Comparable Rent Schedule for all 1-unit investment properties when rental income is used to qualify (FNMA Form 1007)
- 1-4 Family Rider (Assignment of Rents) for all investment properties (FNMA Form 3170)

Appraisal Report Requirements

The following items must be contained in the appraisal report:

- Street map showing the location of the subject property and all comparable used.
- Exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For a
- unit in a condo project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions.
- Original color photographs or digital color images of the front, street, and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards.
- Interior photos of the subject are required to include the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/ improvements.
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value.
- Appraisal report must contain analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and analysis of all sales of the subject property that occurred within the 3 years prior to the effective date of the appraisal.
- Appraisal report must include a completed Sales Comparison Approach section of FNMA Form 1004 where there are comparable used with more than one sale or transfer in the 12 months prior to the effective date of the appraisal.
- Appraiser must identify if property is located in a declining market. A 5% LTV reduction off Matrix Max LTV applies to properties in declining markets. If Borrower is financing > 5% below the Matrix Max LTV, a reduction is not required.
- Appraiser comments on any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected.
- Certification and Statement of Limiting Conditions signed by the appraiser.

Appraiser Qualifications

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The seller must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence, and the ability to generate a quality appraisal report. The seller may choose to use an appraisal management company; however, the seller must establish appropriate procedures and qualifications and continue to meet all requirements noted in these guidelines.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal as long as the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory appraiser or any appraiser signing on the left-hand side of the appraisal report as the "Appraiser" must have performed the level of inspection of the subject property required by the assignment.

Appraisal Review Process

The Appraisal Review Process requires a secondary appraisal product to support the appraisal value for the transaction. Acceptable review products include:

- Clear Capital Desk Review (must contain a value and comparative sales data to support the valuation result)
- Field Review
- Second Full Appraisal (appraisals must be completed by different, independent appraisers and the lower of the two appraised values used to determine value)

The Appraisal Review product can be waived if the loan is submitted to Collateral Underwriter and receives a FNMA SSR score of 2.5 or lower.

The following transactions require a 2nd full appraisal:

- Approved maximum loan amount exceptions (when exceeding the max loan amount available per the applicable matrix)
- Loan amounts > $2,000,000
- HPML purchase transactions subject to flipping. See HPML section for details.
- Charges for Second Appraisal or inspections, unless previous disclosed on the LE, may not be charged to the borrower in most cases. It is advised to correctly disclose appraisal, second approval, and/or inspection fees, as required, at the time of initial LE. Should it be determined after disclosure a second appraisal or inspection is required, a Change in Circumstance (CIC) is required to charge the borrower with the cost of the second appraisal and/or inspection

FCM reserves the right to request additional appraisal products at their discretion based on review of the appraisal and loan file.

Appraisal Review Tolerance

If two appraisals are required, the lower of the two values or the purchase price must be used.

A 10% tolerance is permitted for all other secondary review products. If the review product value is more than 10% below the appraised value, the lower of the two values must be used. If the secondary review product tolerance is exceeded, you may order an additional review product of a higher-level review (desk review, field review, etc.). The original appraised value may then be used if the additional review product value is within 10% of the appraised value. If the variance of the higher-level review is greater than 10%, a second full appraisal is required.

Age of Appraisal and Appraisal Updates

Residential Appraisal (1-4 Units):

The appraisal must be dated within 365 days of the Note date. A recertification of value is required if the report exceeds 120 days of the Note Date. Refer to the Appraisal Report Requirements section for details.

Commercial Appraisal (5-10-units multi-family or 2-8-units mixed use):

Appraisals dated fewer than 120 days prior to the Note date are acceptable. After 120 days, a new appraisal is required.

When an appraisal report will be more than 4 months old on the date of the note and mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), a photograph of the front of the subject property must be included.

- If the appraiser indicates on the Form 1004D that the property value has declined, then the seller must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has not declined, then the seller may proceed with the loan in process without requiring any additional fieldwork.

Note: The appraisal update must occur within the 4 months that precede the date of the note and mortgage.

The original appraiser should complete the appraisal update; however, sellers may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The seller must note in the file why the original appraiser was not used.

Disaster Areas Policy

- Follow FCM Disaster Area Policy
- Additional Requirement: Employment Verification
  - In addition to verifying the property has not been adversely impacted, it must also be established that the employment/earnings have not been negatively impacted on all loans with the exception of DSCR loans when the property is located in a county with individual assistance and the income documentation in file predates the date of the disaster.
    - Wage Earners must have the VVOE completed after the disaster date confirming no impact to wages due to the disaster
    - Self-Employed borrowers must provide a Borrower Certification attesting to the fact that their revenue has not been impacted as a result of the disaster

Electronic Submission of Appraisal Report

Appraisal reports which have been transmitted electronically using internet, wireless transmissions, or other types of electronic transmissions are acceptable, provided the following are met:

- The appraisal report accurately identifies the appraiser and is signed by the appraiser. Digitized signatures are acceptable.

- The appraisal report was created by the appraiser whose name appears on the appraisal report and that the appraisal is complete, unaltered, and submitted by the identified appraiser.

General Property requirements

A completed appraisal report is required on all loan transactions to assess the adequacy of the property as collateral for the mortgage requested.

- Ensuring the accuracy and completeness of the appraisal and its assessment of the marketability of the property
- Reviewing the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage.
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion.
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property.
- Ensuring that the appraiser provides his or her license or certification on the appraisal report.
- Complying with the Appraiser Independence Requirements published by Fannie Mae/Freddie Mac and the requirements of the Federal Truth in Lending Act and Regulation Z with respect to valuation independence.
- Disclosing to the appraiser any information about the subject property of which it is aware of that could impact the marketability of the property.
- Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction.
- Ordering and receiving the appraisal report for each mortgage transaction.
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status, national origin for any party in the transaction, or impermissible demographics of the community in which the property is located, as the basis for market value.

Hazard and Flood Insurance

- Follow FCM Hazard and Flood Insurance Policies
- Max Deductible: 5% of the face amount of the policy
- The coverage must provide for claims to be settled on a replacement cost basis. Property insurance policies that provide for claims to be settled on an actual cash value basis are not acceptable

Condominium And PUD Project Insurance Requirements

Temporary Requirements For Condo Projects

- In alignment with Fannie Mae (SEL-2023-06), and in the wake of the tragic collapse of the Champlain South Tower in Surfside, Florida, residential buildings with aging infrastructure and significant deferred maintenance are a growing concern across the nation. This concern is expected to increase over the next decade as the majority of residential condo buildings were built more than twenty years ago. Sellers must adhere to the guidance on how to manage this emerging risk related to residential projects.
- In response to the concerns about projects with significant deferred maintenance, we are issuing temporary requirements that impact the eligibility of condo projects containing attached units. These requirements apply to all loans secured by units in projects with five (5) or more attached units, regardless of the type of project review.

- Refer to the Significant Deferred Maintenance and Unsafe Conditions section in this guide

PUD Projects

- The master property or flood insurance policy must designate the HOA as the named insured.

Coverage Requirements

- The insurance policy must at a minimum protect against fire and all other hazards that are normally covered by the standard extended coverage endorsement, and all other perils customarily covered for similar types of projects, including those covered by the standard “all risk” or “special form” endorsement. If the policy does not include an “all risk” or “special form” endorsement, a policy that includes the “broad form” covered causes of loss is acceptable. If the master policy excludes or limits coverage of any of the required perils, the HOA must obtain an acceptable stand-alone policy which provides adequate coverage for the limited or excluded peril.
- The policy must be provided for claims to be settled on a replacement cost basis. Policies written on an actual cash value basis are not acceptable.

Special Coverage Requirements

- The following special coverage requirements apply to both condos and PUD Master Insurance Policies
  - Inflation Guard Coverage – the coverage is not required if it’s not obtainable in the insurance market available to the association. In addition, inflation guard coverage is not required when the policy has guaranteed replacement cost or extended replacement cost.
  - Building Ordinance or Law Coverage – the coverage may be included in the property coverage form or obtained as an endorsement to the property insurance policy. The coverage is no t required if it is not obtainable in the insurance market to the association. When required, the coverage must include:
    - Coverage A: loss to the undamaged portion of a building,
    - Coverage B: demotion costs, and
    - Coverage C: increased cost of construction.
  - Boiler and Machinery/Equipment Breakdown Coverage – this coverage is required if the project development has central heating or cooling. The coverage may be included in the property coverage form, obtained as an endorsement to the master policy, or the HOA may purchase a stand-alone policy.
    - Coverage amount must equal the lesser of $2m or the replacement cost value of the building(s) housing the boiler or machinery.

Minimum Property Standards

All properties must:

- Be improved real property
- Be designed and available for year around residential use.
- Contain a kitchen and a bathroom.
- For single family, 2+, condominium, and DSCR 5-10 Residential or 2-8 Mixed Use, must contain a minimum 400 square feet per unit.

- 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.
- Be free of all health and safety violations.
- NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability, or marketability of the subject property.

Property Considerations

Accessory Units

Properties with accessory units, also known as Granny units, mother-in-law suites, etc., are acceptable if all of the following are met:

- Property is typical, readily acceptable, and common in the subject's market area.
- Property must conform to all zoning laws and/or regulations.
- Appraisal contains 2 comparable with similar additional accessory units.
- Accessory unit is substantially smaller than the primary dwelling.
- Legal non-conforming use is acceptable provided its current use does not adversely affect value and marketability.
- Any rental income received from the accessory unit may not be used for qualifying.
- Existence of the unit must not jeopardize any future hazard insurance claim that may need to be filed for the property. *Note if all of the above are not met appraisal must give the accessory unit zero value.
- For properties located in California, if zoning (current or grandfathered) permits an accessory unit, the rental income may be included, subject to the following:
  - Appraisal reflects the accessory unit is legal and the appraiser report includes at least one comp with an accessory unit.
  - Refinance – the market rent for the accessory unit should be documented on FNMA Form 1007 and the file must include a copy of the current lease with two months proof of current receipt.
  - Purchase – the market rent for the accessory unit should be documented on FNMA Form 1007.

Dampness

If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem. Generally, a structural engineer's report is required prior to making a loan decision. The cause of the dampness must be corrected prior to closing should the dampness problem indicate a structural deficiency and/or significant negative impact on value or marketability.

Declining Markets

Appraiser must identify if property is located in a declining market.

- A 5% Max LTV reduction applies to properties in declining markets.

Deed Restrictions

Deed restrictions impact the future transferability of a property. The following deed restrictions are allowed:

- Age Restricted Communities

Deed restrictions must be reviewed to ensure all of the following requirements are met:

- Appraisal supports property is common and typical for the market area.
- Deed restriction must not impair or restrict the first mortgage holder's legal rights in the event of a default (or cure), foreclosure, or any other default measure.
- Declarations must not contain any provisions that would require the first mortgage holder to send a notice of default or foreclosure to any third party.
- Deed restriction must not require the lender to provide notification to the governing authority of any delinquency or default.

Deferred Maintenance

Property must be in average or better conditions. Properties in C5 or C6 condition are not acceptable. Structural deferred maintenance is not permitted. Non-structural deferred maintenance can be considered provided:

- The deficiencies are not excessive; and
- The deficiencies do not represent a health or safety concern; and
- The appraisal report is completed as-is with an appropriate adjustment for the current condition of the property

Electrical Systems

An electrical certification from a licensed electrician is required if the appraisal notes a fair or poor rating concerning the adequacy or condition of the system. Any electrical inadequacies must be corrected prior to closing.

Environmental Hazards

The appraisal report should note the existence of known environmental hazards and its effect on value and marketability of the subject property. Environmental hazards may include but are not limited to:

- Evidence of radon above EPA safety levels which is left untreated.
- Properties built on or near toxic waste dumps, cleanup sites, etc.
- Presence of urea formaldehyde foam insulation (UFFI)

A property inspection completed by a licensed inspector is required in order to make final determination of the acceptability of the property. The mortgagor's acknowledgment of condition is required.

Escrows for Work Completion

Generally, escrow holdbacks are not allowed but may be considered on a case-by-case basis per Underwriter discretion. Exceptions are not permitted on DSCR loans. Lock must cover the escrow period.

Foundation Settlement

If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. Generally, a structural engineer's report is required prior to making a loan decision.

Properties with evidence of sinkhole activity are ineligible for financing.

Heating Systems

A central heat source with ductwork or baseboard in all rooms is required on all properties. If subject does not have central heat, the appraiser must provide similar comparable properties and an addendum indicating:

- the heat source is typical for the area.
- the heat source is permanently attached.
- the heat source is adequate for the dwelling.
- the heat source is externally vented.

Land Value and Acreage
Acreage and land value must be typical and common for the subject's market. Maximum acreage permitted is 20 acres. Investment property transactions are limited to 5 acres, with the exception of DSCR loans which are capped at a maximum of 2 acres. Special consideration should be taken for properties with land values that exceed 50% of the total property value to ensure the value is justified and the property has marketability. The appraisal report must provide data which indicates like-size properties with similar land values are typical and common in the subject's market area. See also Rural Properties.

Leasehold Appraisal Requirements
A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met.
When the lease holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property.
Leasehold condos are not permitted

Mixed Use Properties- O/O
Properties that have a business use in addition to their residential use are allowed (i.e., property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office). The following criteria must be met:

- The property must be a 1-unit dwelling that the borrower occupies as a primary residence.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential in nature.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.
- In addition, the appraisal must contain the following:
    - Provide a detailed description of the mixed-use characteristics of the subject property.
    - Indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements.
    - Report any adverse impact on marketability market resistance to the commercial use of the property; and
    - Report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

Modular Homes
Modular, prefabricated, panelized, or sectional housing homes are eligible for financing at a maximum LTV of 90%. Modular homes must meet all of the following requirements:

- Must assume the characteristics of site-built housing; and
- Must be legally classified as real property; and
- Must conform to all local building codes in the jurisdiction in which they are permanently located.

- Not permitted on ITIN HLTV program

Multiple Dwellings on One Lot
Properties with 2 or more detached single-family homes on a single lot are generally ineligible for financing. Single-family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations. They must be typical and common within the subject's neighborhood. Typically, the additional dwelling is smaller than the main dwelling and will not be rented. The subject property should be appraised as a single-family residence. Any value for additional dwellings should be supported by comparable sales. See also Accessory Units.

Multiple Parcels
When a property consists of more than one parcel of real estate, the following requirements must be met:
- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- Each parcel must have the same basic zoning (for example, residential, agricultural).
- The entire property may contain only one dwelling unit. Limited additional nonresidential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel.

New Construction
The following are required for all new construction properties:
- Appraisal Update and/or Completion Report (FNMA Form 1004D) with complete interior and exterior photos reflecting completion, if applicable. Proposed improvements are not allowed.
- Property taxes are calculated at 1.5% of the sales price for qualification. 1.25% should be used for properties located in CA.

Pest Infestation
If the appraisal report or sales contract notes evidence of termites or other insect infestation, a pest inspection report certifying treatment of the infestation prior to closing is required. Any significant structural damage due to pest infestation must be corrected prior to closing.

Plumbing
A plumbing certification from a licensed plumber is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to closing.

Private Roads
Properties on private roads are acceptable subject to the following:
- The title company must insure access to the subject property from a public street; and

- A legally enforceable agreement or covenant for maintenance of the street is required.
    - The agreement should include provisions for the responsibility for payment of repairs, including each party's representative share, default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and the effective term of the agreement which in most cases should be perpetual and binding on any future owners.
    - If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required. Any maintenance costs are to be included in the borrower's housing payment (PITIA).

Planned Unit Development (PUD)
A Planned Unit Development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD units. In order for a project to qualify as a PUD, all of the following requirements must be met:

- Each unit owner's membership in the owners' association must be automatic and non-severable.
- The payment of assessments related to the unit must be mandatory.
- Common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners.
- The subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. The PUD project must be analyzed to ensure that an individual unit in the project will be acceptable security for the mortgage.

Repairs
The appraisal must identify all items that require repair. It should also include and describe physical deficiencies that could affect a property's soundness, structural integrity, livability, or improvements that are incomplete. Any immediate or necessary repairs must be completed and re-inspected by the appraiser prior to closing. See also Deferred Maintenance.

Rural Properties
A property indicated by the appraisal as rural, or containing any of the following characteristics, is typically considered a rural property:

- Neighborhood is less than 25% built-up.
- Area around the subject is zoned agricultural.
- Photographs of the subject show a dirt road.
- Comparable are more than 5 miles away from the subject.
- Subject is located in a community with a population of less than 25,000.
- Distance to schools and/or amenities are greater than 25 miles.
- Subject property and or comparable have lot sizes greater than 10 acres.
- Subject property and or comparable have outbuilding or large storage sheds.

Rural properties must comply with all of the following criteria:

- Primary residence and residential use only
- Maximum LTV allowed is 80%
- Maximum acreage allowed is 20, which includes road frontage and subject property.

- Property must not be agricultural or provide a source of income to the borrower.
- Lot size and acreage must be typical for the area and similar to surrounding properties.
- Property cannot be subject to idle acreage tax benefit, tax abatements or other tax incentive program.
- Present use as per the appraisal must be the “highest and best use” for the property.
- Condition, quality, and use of outbuildings should be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information.

Septic System/Sewage Disposal System
Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity. The report should be provided by a city, county, state (or governing body) official or qualified entity stating:

- Sewage disposal system complies with applicable local and/or state health standards, is in proper working order,
- and can be expected to function satisfactorily; or
- Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the subject property.

For systems one-year-old or less, the certification may be no more than one-year-old on the date of closing. For systems more than one-year old, the certification should be no more than 120 days old on the date of closing.

Solar Panels
Properties with solar panels are eligible for financing. If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title). If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply (whether to the original agreement or as subsequently amended):

- The solar panels may not be included in the appraised value of the property.
- The property must maintain access to an alternate source of electric power that meets community standards.
- The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to:
    - provide delivery of a specific amount of energy at a fixed payment during a given period, and
        - have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
- Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
- The lease or power purchase agreement must indicate that:
    - any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home).
    - the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner’s property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar

panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and
  - in the event of foreclosure, the lender or assignee has the discretion to:
    - terminate the agreement and require third-party owner to remove the equipment.
    - become, without payment of any transfer or similar fee, the beneficiary of the
    - borrower's lease/agreement with the third party; or
    - enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.

Unconventional Floor Plans
Properties with unusual floor plans or functional obsolescence are allowed if the appraisal demonstrates acceptability in the marketplace and includes appropriate adjustments. A floor plan sketch is required for all appraisals.

Water Supply
Water certification must be obtained if required by the appraiser or purchase contract. The report should be provided by a city, county, state (or governing body) official or a qualified entity stating:
- The water supply system is in proper working order and pumping an adequate supply of water for the subject property; and
- The water supply is potable and complies with local and/or state health authority standards (in the absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption). The water certification(s) for existing properties can be no more than 120 days old on the date of closing. If new construction, the report may be one-year old as of the date of closing.

Zoning and Land-Use Regulations
Property improvements must constitute a legally permissible use of the land based on the zoning ordinance. If the improvements represent a legal, non-conforming use of land, the appraisal analysis must reflect any adverse effect that the non-conforming has on the value and marketability of the property; this requirement applies to all property types.

The appraiser must compare the existing and potential use of the subject property to the zoning regulations. In addition, the appraiser must indicate where the subject property presents:
- A legal conforming use;
- A legal non-conforming (grandfathered) use;
- An illegal use under zoning regulations; or
- That there is no local zoning

Special consideration must be given to properties that are subject to other types of land use regulations, such as coastal tideland or wetland laws, as setback lines or other provisions may prevent reconstruction or maintenance of the property improvements in the event of damage or destruction. The intent of some land-use regulations is to remove existing land uses and to stop land development (including the maintenance, or new construction, or seawalls) within specific setback lines. Except as stated above, properties with land-use restrictions which prohibit the reconstruction to maintenance the dwelling are ineligible.

Warrantable Condo Requirements

Certain programs and/or LTVs require that the condo project be FNMA warrantable to be eligible. When a program indicates the condo must be warrantable, full FNMA condo guidelines must be followed to ensure warrantability.

- Reserves
  - Budget must demonstrate a minimum 10% reserve requirement. No exceptions to this requirement are permitted and reserve studies are no longer an acceptable alternative means to demonstrate sufficient reserves.
- 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 property is located in a flood zone

Ineligible Projects

- Condos listed with a status of "unavailable" in Condo Project Manager (CPM), unless the "unavailable" reason is for a characteristic explicitly deemed acceptable in the condo program guides.
- A project subject to the rules and regulations of the US Securities and Exchange Commission.
- Timeshare or condo projects with restrictions on owner's ability to occupy the unit.
- Houseboat project.
- Manufactured home projects.
- Assisted living facilities or any project where the unit owner's contract includes a lifetime commitment
- from the facility to care for the unit owner regardless of future health or housing needs.
- Multi-family units where a single deed conveys ownership of more than one, or all of the units.
- A common-interest apartment
- A project in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment unit in the building.
- The project or building is often owned by several owners as tenants-in-common or by a
- homeowners' association.
- Fragmented or segmented ownership
- Ownership is limited to a specific period on a recurring basis (i.e., timeshare, quarter share).
- Any project where the developer (or its affiliates) owns the Common and/or Limited Elements and leases the elements back to the HOA.
- Any project that has non-conforming zoning (can't be rebuilt to current density).
- Any project that requires Private Transfer Fees as a part of the transaction, and those fees do not benefit the association.

In addition, the following applies to projects of five or more units:

- Projects with significant deferred maintenance are not eligible, such as:
  - Projects with a full or partial evacuation of the building to complete repairs for more than 7 days or an unknown period of time;
  - Projects with deficiencies, defects or substantial damage, or deferred maintenance that

        - Is severe enough to affect the safety, soundness, structural integrity or habitability of the improvements;
        - The improvements need substantial repairs and rehabilitation, including major components; or
        - Impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical systems, HVAC or plumbing.
- Projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or re-inspections.
    - Special assessments, even if paid in full for the subject unit, must be reviewed to determine acceptability and the following must be documented:
    - The reason for the special assessment;
    - The total amount assessed and repayment terms;
    - Documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project;
    - The association has sufficient funds for any repairs; and
    - Borrower must qualify with the outstanding special assessment payment.
    - Note that if unable to determine no negative impact and/or that the assessments deem the project to be unsafe or unsound, the project is ineligible.
- When any of these issues are identified, for project consideration, a full review (warrantable) must be obtained, and all required documents listed under the Warrantable Condo section of the guide must be obtained and a third-party review completed.

Projects In Need Of Critical Repairs

- Loans secured by units in condo project with significant deferred maintenance or in projects that have received a directive from a regulatory authority or inspection agency to make repairs due to unsafe conditions are not eligible.
- These projects are ineligible until the required repairs have been made and documented. Acceptable documentation may include a satisfactory engineering or inspection report, certificate of occupancy, or other substantially similar documentation that shows the repairs have been completed in a manner that resolves the building's safety, soundness, structural integrity, or habitability concerns.
- Significant deferred maintenance includes deficiencies that meet one or more of the following criteria:
    - Full or partial evacuation of the building to complete repairs is required for more than seven days or an unknown period of time;
    - The project has deficiencies, defects, substantial damage, or deferred maintenance that:
        - Is severe enough to affect the safety, soundness, structural integrity, or habitability of the improvements;
        - The improvements need substantial repairs and rehabilitation, including many major components; or
        - Impedes the safe and sound functioning of one or more of the building's major structural or mechanical elements, including but not limited to the foundation, roof, load bearing structures, electrical system, HVAC, or plumbing.
- Additionally, projects that have failed to obtain an acceptable certificate of occupancy or pass local regulatory inspections or recertifications are not eligible.

- These policies do not apply to routine maintenance or repairs that a homeowners' association (HOA) undertakes to maintain or preserve the integrity and condition of its property.
- Also, if damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the improvements then these project eligibility requirements do not apply. Examples of this scenario include water damage to a unit due to a leaky pipe that is isolated or damage from a small fire impacting the interior of a specific unit. However, if the subject property unit is affected, our standard requirements for property condition apply.

Special Assessments

- Any current or planned special assessment, even if paid in full for the subject unit, must be reviewed to determine acceptability.
- The loan file must be documented with the following:
  - the reason for the special assessment;
  - the total amount assessed and repayment terms;
  - documentation to support no negative impact to the financial stability, viability, condition, and marketability of the project; and
  - borrower qualification with any outstanding special assessment payment.
- The financial documents of the HOA must are required for review to confirm the association has the ability to fund any repairs.
- If the special assessment is related to safety, soundness, structural integrity, or habitability, all related repairs must be fully completed, or the project is not eligible. Additionally, If the client or appraiser is unable to determine that there is no adverse impact, the project is ineligible.

Inspection Reports

- If a structural and/or mechanical inspection was completed within 3 years of the project review, a copy of the report must be provided. The report cannot indicate any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.
- If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. A review of the engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project is required

Condo Conversion

A condominium conversion is the conversion of an existing building to a condominium project. Project conversions legally created in the past year must meet new condo presale requirements.

Site Condominiums

- Projects consisting of single-family detached dwellings (also known as site condominiums) are acceptable provided the appraisal supports market acceptance of site condominiums in the subject's market area. A Condominium Project Questionnaire is not required.
- Appraisals for site condos are to be documented on FNMA Form 1004. The appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.

- Appraisals for site condos may be documented on FNMA Form 1073 or 1004. When documented on the 1004, the appraiser should include an adequate description of the project, information about the homeowners' association fees, and note the quality of the project maintenance.
- Standard Condominium insurance requirements apply.

Title Insurance

- Follow FCM Title Insurance Policies
- Max Deductible: 5% of the face amount of the policy

Eligible occupancy types are Primary Residence, Second Home, Business Purpose Investment Properties.

Primary Residence

A primary residence (or owner-occupied property) is a dwelling occupied by the borrower as his or her 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.

Second Home

A second home is a dwelling occupied by the borrower in addition to their primary residence (may also be referred to as a vacation home). Second homes are restricted to 1 - unit dwellings. Typical second homes should meet the following criteria:

- Be located a reasonable distance away from the borrower's primary residence.
- Must be occupied by the borrower for some portion of the year.
- Suitable for year-round occupancy
- Borrower must have exclusive control over the property.
- Must not be subject to any timeshare arrangements, rental pools or other agreements which require the borrower to rent the subject property or otherwise give control of the subject property to a management firm.

Investment Property (Business Purpose)

An investment property (or non-owner-occupied property) is an income-producing property that the borrower does not occupy.

- Retail/Wholesale Investment loans must all be non-TRID; Correspondents (Non-Delegated and Delegated) have the option of delivering as either Business Purpose Loans or according to TRID regulation
- For Retail and Wholesale channel transaction only, the Business Rider to the Mortgage/Deed of Trust must be executed at Closing.
- All Borrowers must execute a Borrower Certification of Business Purpose and Occupancy Certification.
- Proceeds must be used for business purposes only. All Business Purpose Transactions are non-TRID loans. If there is any indication that the transaction is not a Business Purpose Loan, the loan would be ineligible.

Acceptable Business Purpose Cash-Out Use:

- Payoff of debt secured by an investment property;
- To pay cost of improvements for an investment property;
- Refer to <u>Judgments and Tax Liens</u> for applicable eligibility.

Purchase Transaction

A purchase transaction is one which allows a buyer to acquire a property from a seller. A copy of the fully executed purchase contract and all attachments or addenda is required.

The lesser of the purchase price or appraised value of the subject property is used to calculate the loan-to-value.

Refinance Transaction

Rate/term refinance, cash-out refinance, and debt consolidation transactions are allowed.

Benefit to Borrower

In keeping with the commitment of responsible lending, all primary residence and second home refinance transactions must have a measurable benefit to the borrower. When determining the benefit on a refinance transaction, one or more of the following must exist to support the benefit to the borrower:

- Balloon payoff
- Title transfer
- Property retention
- Rate reduction
- P&I reduction
- Debt reduction
- Uncontrolled cash-out

State-specific and/or federal benefit to borrower compliance requirements must be adhered to.

Additional restrictions apply if the new loan refinances an existing loan considered to be a special mortgage. A special mortgage is originated, subsidized, or guaranteed by or through a state, tribal, or local government, or nonprofit organization that either bears a below-market interest rate at the time the loan was originated or has nonstandard payment terms beneficial to the borrower, such as payments that vary with income, are limited to a percentage of income, or where no payments are required under specified conditions.

If the borrower will lose one or more of the benefits of the special mortgage, then both of the following apply:

- Must check that the loan complies with all applicable state and local laws as well as laws associated with the subject special loan program for compliance; and
- Must take special care to ensure a net tangible benefit to the borrower.

Rate/Term Refinance

A rate/term refinance is the refinancing of an existing mortgage for the purpose of changing the interest and/or term of a mortgage without advancing new money on the loan.

The mortgage amount for a rate/term refinance is limited to the sum of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens used in their entirety to acquire the subject property (regardless of seasoning)
- The amount of a home equity line of credit in first or subordinate lien position that was used in its entirety to acquire the subject property (regardless of seasoning)
- Any subordinate financing that was not used to purchase the subject property provided:
    - For closed end seconds, the loan is at least one year seasoned as determined by the time between the note date of the subordinate lien and the note date of the new mortgage.
    - For HELOCs and other open-ended lines of credit, the loan is at least one year seasoned and there have been less than $5,000 in total draws over the past 12 months.
- If the most recent first mortgage transaction on the property was a cash-out refinance within the last 6 months, the new mortgage is not eligible as a rate/term and must proceed as a cash-out refinance. Note date to note date is used to calculate the 6 months.
- On rate/term transactions, the borrower may only receive cash back in an amount that is the lesser of 2% of the new mortgage balance or $5,000.

Determining Loan to Value (R/T)

The appraised value is used to determine loan-to-value, regardless of the acquisition date. If the refinance is being completed within six months of a prior refinance, there must be a minimum of a 10% savings in payment to demonstrate sufficient benefit to the borrower.

Properties Listed for Sale (R/T)

On a rate and term refinance, the subject property must be taken off the market on or before application date. The borrower must also confirm in writing the reason for the prior listing and intent to occupy the subject property.

If the subject property was listed for sale within six (6) months prior to the application date, the lesser of all the recent list prices or the current appraised value will be used to determine loan- to-value.

Cash-Out Refinance

Eligibility Requirements

The following requirements apply to a cash out refinance:

- A cash-out refinance is a refinance that does not meet the rate/term refinance definition.
- A mortgage taken out on a property previously owned free and clear is always considered a cash- out refinance.

A signed Borrower Certification of Business Purpose disclosing the purpose of the cash-out must be obtained on all Investment Property transactions. The purpose of the cash-out should also be reflected on the loan application. If the loan purpose for a NOO property is anything other than Business Purpose, the loan will be ineligible for approval.

The mortgage amount for a cash-out refinance transaction may include any of the following:

- Existing first mortgage payoff
- Closing costs and prepaid items (interest, taxes, insurance) on the new mortgage
- The amount of any subordinate mortgage liens being paid off that do not meet seasoning and draw history requirements as described in Rate/Term Refinance
- Paying off delinquent real estate taxes (60 or more days past due)
- The amount of any non-mortgage related debt paid off through closing.
- Additional cash in hand reflected on the settlement statement.

Ownership Requirements- C/O

At least one individual on title must have been on title (not a borrower) to the subject property for at least six (6) months prior to the disbursement date of the new loan, unless one of the following exceptions apply:

There is no waiting period if the borrower acquired the property through an inheritance or was legally awarded the property (divorce, separation, or dissolution of a domestic partnership).

The delayed financing requirements are met.

If the property was owned prior to closing by a limited liability corporation (LLC) that is majority-owned or controlled by the borrower(s), the time it was held by the LLC may be counted towards meeting the borrower's six-month ownership requirement. (In order to close the refinance transaction, ownership must be transferred out of the LLC and into the name of the individual borrower(s).

If the property was owned prior to closing by an inter vivos revocable trust, the time held by the trust may be counted towards meeting the borrower's six-month ownership requirement if the borrower is the primary beneficiary of the trust.

For DSCR Loans, refer to the Continuity of Obligation section within the Program guidelines.

Seasoning- C/O
For all cash-out refinance transactions, a minimum of 6 months must have elapsed since the most recent mortgage transaction on the subject property unless otherwise specified in a product section or matrices. The most recent mortgage transaction includes either the most recent purchase of the property or a subsequent refinance of the property. This requirement does not apply in the following situations:

- Delayed Financing
- When buying out a co-owner pursuant to a legal agreement Note date to note date is used to calculate seasoning requirements.

Determining Loan to Value (C/O)
For cash out refinances on properties owned >= 6 months to < 12 months, the appraised value may be utilized to determine property value (this does not apply to Condotels, or Foreign Nationals Loans). If the new appraised value is more than 120% of the acquisition cost, the appraisal should show signs of recent improvements justifying the increase in value.

If the property was acquired ≤ 6 months, cash out is only permitted for Delayed Financing.

Properties Listed For Sale (C/O)
For cash out refinances, the subject property must be taken off the market on or before application date. The borrower must also confirm in writing the reason for the prior listing and intent to occupy the subject property.

If the subject property was listed for sale in the 6 months prior to application date, a 10% LTV reduction from the maximum available for the specific transaction is required for O/O and second home cash out transactions.

For investment properties outside of DSCR No Ratio loans, no LTV reduction is required but a PPP is mandatory if allowable in the state. If a PPP is not legal in the state, transaction is only eligible for a rate and term refinance. On a DSCR No Ratio loan, if the property was listed for sale within the last 12 months, the loan is not eligible.

The lesser of all recent list prices or the current appraised value will be used to determine loan- to-value.

Delayed Financing (C/O)
Cash-out on properties purchased by the borrower with cash and owned less than 6 months is allowed. The following requirements apply:

- Original transaction was an arm's-length transaction.
- Settlement statement from purchase confirms no mortgage financing used to acquire subject with the exception of instances in which the borrower has obtained a short term and/or hard money type loan which is being paid through proceeds. A copy of the note is required to verify the terms.
    - Note that in Texas on an owner-occupied transaction, that delayed financing is only permitted when the property was purchased entirely in cash; the payoff of a short term and/or hard money loan is not permitted.
- Source of funds used for purchase are documented, such as bank statements, personal loan documents, or a HELOC on another property. If the source of funds used to acquire the property was an unsecured loan or a

- loan secured by an asset other than the subject property (such as a HELOC secured to another property), the settlement statement for the refinance transaction must reflect that all cash out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Note that funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new loan.
- New loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan.

Cash-Out Limits

See program matrices for cash out limits.

Debt Consolidation

A debt consolidation refinance transaction involves the repayment of existing liens and additional consumer debt. Consumer debt being consolidated is paid directly through the closing and referenced on the Closing Statement. Transactions in Texas must comply with the requirements set forth in Texas Home Equity Loans.

The following requirements apply to debt consolidation transactions:

- Primary Residences occupancy with full or alternative documentation
- Traditional full doc only for second home transactions
- DTI ≤ 50%
- Consumer debt must be no more than 0x60 in past 6 months.
- Minimum 3-month reserves after closing (no additional reserves required for other loan features)
- Cash to the borrower must be the lesser of $5,000 or 2% of the new mortgage balance.
- Non-occupant co-borrowers not allowed.
- Not permitted for Investment Properties.

Benefit to Borrower

Debt consolidation transactions must result in the following benefits to the borrower:

- Total monthly debt payments are lowered by at least 10%; and
- Closing costs must be recouped within 60 months, excluding Taxes, insurance, prepaids and interest.
    - Note: if not saving 10% revert to Cash Out LTV Matrix

Determining Loan to Value

For properties owned between (6) to (12) months, the appraised value may be utilized to determine property value with some restrictions.:

- The loan amount may not exceed 100% of the acquisition cost plus documented improvements, or
- The new appraised value may not exceed 120% of the acquisition cost.

If the property was acquired ≤ 6 months from application date, the lesser of the current appraisal value or previous purchase price plus documented improvements (if any) must be used. The purchase settlement statement and any invoices for materials/labor will be required.

Properties Listed for Sale

On a debt consolidation loan, the subject property must be taken off the market on or before application date. The borrower must also confirm in writing the reason for the prior listing and intent to occupy the subject property.

If the property was listed for sale within six (6) months prior to the application date, the lesser of all the recent list prices or the current appraised value will be used to determine loan- to- value.

Flip Transactions

When the subject property is being resold within 180 days of its acquisition by the Seller with more than a 20% increase in value, the transaction is considered a "flip". To determine the 180-day period, the acquisition date (the day the seller became the legal owner of the property) and the purchase date (the day both parties executed the purchase agreement) should be used.

Flip transactions are subject to the following requirements:

- All transactions must be arm's length, with no identity of interest between the buyer and property seller or other parties participating in the sales transaction including but not limited to the spouse of the Seller or Borrower being the Realtor on the transaction.
- No pattern of previous flipping activity may exist in the last twelve (12) months. Exceptions to ownership transfers may include newly constructed properties, sales by government agencies, properties inherited or acquired through divorce, and sales by the holder of a defaulted loan.
- The property was marketed openly and fairly, through a multiple listing service, auction, for sale by owner offering (documented) or developer marketing.
- No assignments of the contract to another buyer.
- If the property is being purchased for more than 5% above the appraised value, a signed letter of acknowledgement from the Borrower must be obtained.
- If the value of the property being purchased after being rehabbed appraises at more than 20% of the seller's acquisition cost and the 6-months seasoning requirement is not met, one (1) full interior/exterior appraisal and a Clear Capital Desk Review is required, unless the loan is an HPML Purchase Transaction in which case the below requirement applies.
- HPML Purchase Transactions- On a purchase transaction, a second appraisal is required if:
- If the seller acquired the property within the past 90 days and the new purchase price is
- more than 10% of the seller's acquisition price OR
- If the seller acquired the property within the past 91 to 180 days and the new purchase price is more than 20% of the seller's acquisition price.
- The cost of the second appraisal may not be passed along to the borrower.
- Note that the timelines are measured from the date the seller became the legal owner of the property and the date the purchase agreement was signed by all parties.
- Flip transactions must comply with the HPML appraisal rules in Regulation Z. The full Reg Z revisions can be found at: https://www.consumerfinance.gov/rules-policy/final- rules/appraisals-higher-priced-mortgage-loans/.

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.

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

- Family member sales
- Renters purchasing from current landlord.
- Buyer trading properties with the seller
- Property seller foreclosure bailouts
- Existing buyer relationship with loan officer, real estate agents, closing agent, appraiser, builder, or developer.

Non-arm's length transactions are subject to all of the following requirements for Primary Residence, Second Home and Investment Properties:

- 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 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.
- FCM 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.
- Lesser of sales price or current appraised value to be used to calculate the LTV.
- 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.

The following additional requirements apply only to family sales:

- 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 (if applicable)
- Verification that the borrower has not been in title to the property in the past 24 months.
- Gift of equity is permitted.

Inherited Properties and Property Buyouts

Refinances of inherited properties and properties legally awarded to the borrower (divorce, separation, or dissolution of a domestic partnership) are allowed. If the subject property was acquired < 12 months prior to loan closing, the transaction is considered a cash-out.

These transactions are subject to the following:

- Written agreement signed by all parties stating the terms of the buyout and property transfer must be obtained.
- Equity owners must be paid through settlement.
- Subject property has cleared probate and property is vested in the borrower's name.
- Current appraised value is used to determine loan-to-value

Land Contract/Contract for Deed

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on a land contract that was executed more than 12 months prior to the date of the loan application, the transaction is considered rate/term refinance.

If the land contract was executed within 12 months of the date of the loan application, the transaction is considered a purchase.

The following requirements apply:

- Primary residence only when the land contract is unrecorded. Second Homes and Investment Homes are permitted only when the Land Contract has been recorded for a minimum of 12 months prior to closing on the new transaction.
- Copy of fully executed land contract and payoff(s) to be obtained.
- Copies of canceled checks for 12 months (or term of the lease if less) as evidence of timely payments
-

- If the land contract was executed less than 12 months ago, the borrower's previous housing payment history must also be verified to complete a completed 12-month history.
- Liens on title to be paid in full and reflected on settlement statement at closing.
- If the contract was executed less than 12 months ago, the lesser of the purchase price or the current appraised value must be used to determine LTV. The current appraised value may be used to determine LTV if the land contract was executed over 12 months ago.
- Cash-out and non-arm's length transactions not eligible
- If the Land Contract was recorded it is not considered a Non-Arm's Length Transaction.
- If they have been in the Contract for Deed agreement for more than 12 months, the borrower will not be considered a FTHB

Lease with Purchase Option

Lease with purchase option transactions is allowed for primary residences only. Borrowers may apply a portion of the rent paid to their down payment requirements. See Rent Credit for Lease with Purchase Option for detailed requirements. For lease with purchase option transactions, the file must contain:

- Copy of fully executed rental/purchase agreement verifying monthly rent and the specific terms of the lease; and
- Copies of canceled checks for 12 months (or term of lease if less) as proof of rental payments
- If they have been in the lease purchase agreement for more than 12 months, the borrower will not be considered a FTHB

Prepayment Penalties, Points, and Fees

- Total points, fees, and APR may not exceed current state and federal high-cost thresholds. In addition, with the exception of Investment Property transactions, points and fees may not exceed the lesser of state regulations or 5%
- For business purpose loans, a Business Purpose Certification must be signed by the borrower
- FCM does not allow Prepayment Penalties-all Prepayment Penalties MUST be bought out