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EQUAL HOUSING LENDER
FCM NMLS ID 629700

Non-Conforming Choice QM Jumbo Guidelines

Program Code
NCJCH30

Choice QM Eligibility Matrix

Fixed Rate

Primary Residence/Purchase, Rate and Term Refinance

Transaction Type	Units	Minimum FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount[1]
Purchase or Rate and Term Refinance	1-2	680	85%[4]	$1,000,000
		661	80%	$1,500,000
		680	75%	$2,000,000
	1-4	680	70%	$2,000,000

Primary Residence/Cash-Out Refinance[2]

Transaction Type	Units	Minimum FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount	Maximum Cash-Out
Cash-Out Refinance	1-2	680	75%	$1,000,000	$500,000
		680	70%	$1,500,000	$500,000
	3-4	680	60%	$1,500,000	$500,000

Second Home/Purchase, Rate and Term Refinance

Transaction Type	Units	Minimum FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount
Purchase or Rate and Term Refinance	1	680	80%	$1,000,000
			70%	$1,500,000
			65%	$2,000,000

Second Home/Cash-Out Refinance

Transaction Type	Units	Minimum FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount	Maximum Cash-Out
Cash-Out Refinance	1	680	65%	$1,000,000	$500,000
			60%	$1,500,000	$500,000

Investment[3]/Purchase/Rate and Term Refinance/Cash-Out

Transaction Type	Units	Minimum FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount
Purchase	1-4	680	70%	$1,500,000
Rate and Term Refinance	1-4	680	70%	$1,500,000
Cash-Out Refinance	1-4	700	60%	$1,500,000 Max Cash-out $500,000

[1]First-Time Homebuyers are subject to a maximum loan amount of $1,000,000. Loan amounts up to $1,500,000 allowed in CA, NJ, NY and CT for First-Time Homebuyers. See Eligible Borrower section for specific requirements for First-Time Homebuyers.

[2]Texas 50 (a) (6) refinance (Texas Equity Loans) only allowed on 20, 25 and 30-year fixed rate only. Additional restrictions apply, please see Jumbo Program Eligibility Supplement Section 2(D)

[3]The following requirements apply for Investment Property Purchase, Rate and Term Refinance and Cash-Out Refinance transactions:

- Florida attached condominiums limited to 50% LTV/CLTV/HCLTV
- Transaction must be arm's length
- Gift funds not allowed
- Appraiser to provide rent comparable schedule
- First-Time Homebuyers not allowed

[4] The following requirements apply for transactions with LTV's greater than 80%:

- MI not required
- Secondary Financing not allowed
- Maximum DTI 38%
- Non-permanent resident aliens not allowed
- Gift funds not allowed
- Escrow/Impound accounts required for LTV's greater than 80% unless prohibited by applicable laws

Choice Loans QM Notes:

- Minimum loan amount is $1 over the current conforming/high balance limit set by the FHFA.
- Minimum loan amount for Non-Warrantable Condos is $300,000.
- Higher Priced Mortgage Loans (HPML) are allowed if the following requirements are met:
    - Loan must have an escrow account for a minimum of 5 years.
    - 1002.14(a)(1) allowing the consumer to waive the requirement that the appraisal copy be provided three business days before consummation, does not apply to higher-priced mortgage loans subject to § 1026.35(c). A consumer of a higher-priced mortgage loan subject to § 1026.35(c) may not waive the timing requirement to receive a copy of the appraisal under § 1026.35(c)(6)(i).
    - If the property was acquired by the seller less than 90 days from the purchase agreement and the purchase price exceeds the seller's acquisition price by more than 10% then a second full appraisal is required.
    - If the property was acquired by the seller between 91-180 days from the purchase agreement and the purchase price exceeds the seller's acquisition price by more than 20% then a second full appraisal is required.
    - If a second appraisal is required for one of the above two reasons, the borrower may only be charged for one of the appraisals.

Underwriting Requirements

- Manual underwrite is required, follow Fannie Mae Selling Guide subject to Overlays within these guidelines
- AUS findings are not considered; no documentation waivers are considered
- The loan must meet the Price Based QM definition:
    - Safe Harbor = <150 basis points above the applicable APOR.
    - Rebuttable Presumption = APR ≤ 225 basis points above the applicable APOR (HPCT)
- QM designation must be provided in the loan file.
    - QM designation is QM-APOR (or similar name i.e. Price Based)
- In all cases, the loan file must document the eight (8) ATR rules.

Documentation

- All loans must be manually underwritten and fully documented. No documentation waivers based on AUS recommendations permitted.
- Income calculation worksheet or 1008 with income calculation. Current Fannie Mae Form 1084, Freddie Mac Form 91 or equivalent is required for self-employment income analysis.
- Full income and asset verification is required.
- All credit documents, including title commitment, must be no older than ninety (90) days from the Note date.
- QM designation must be provided in the loan file
    - QM designation is QM Safe Harbor-APOR (price-based).
    - A loan is a QM Rebuttable Presumption if the loan is a Higher-Priced Covered Transaction (HPCT)
    - QM designation is Exempt for investment property transactions when the transaction is exclusively for business purposes. (Refer to§1026.3(a) and the Official Interpretation to §1026.3(a))
        - Investment property transactions require an attestation from the borrower stating the property is used 100% of the time for business purposes and/or 100% of any cash out proceeds must be used for business purpose in order for the designation to be Exempt.
        - If the borrower does not use the property and/or cash out proceeds 100% of the time for business purposes, the loan is subject to QM and the designation would be QM Safe Harbor or QM rebuttable Presumption for Choice QM loans.

Note: Loans with application dates on or before 3.1.2021, regardless of lock date, must meet the maximum DTI of 43% and adhere to all Appendix Q documentation requirements.

- Loan file must document the eight (8) Ability to Repay (ATR) rules identified in Part 1026-Truth-in-Lending (Regulation Z).
- Residual income calculation must be provided and meet the residual income requirements indicated in the Income/Employment section of this guide.
- If subject transaction is paying off a HELOC that is not included in the CLTV/HCLTV calculation, the loan file must contain evidence the HELOC has been closed.
- If the 1003, title commitment or credit documents indicate the borrower is a party to a lawsuit, additional documentation must be obtained to determine no negative impact on the borrower's ability to repay, assets or collateral.
- All credit, income, assets and appraisal documentation must be dated after June 1st, 2020. (Note: This date requirement may not apply to tax returns orW2s which can be dated prior to June 1st, 2020.)
- Borrower Affidavit specific to COVID-19 pandemic for loan with application dates on or after June 1st, 2020.

Debt to Income Ratio

- Primary Residence: 45%
- LTV/CLTV's > 80%: 38%
- Primary Residence: DTI > 45% ≤ 49.99% requires residual income calculation
- Second Home: 40%
- Investment Property: 38%

LTV/CLTV/HCLTV

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

Refinance Transactions

Rate and Term Refinance

- The new loan amount is limited to pay off the current first lien mortgage, any seasoned non-first lien mortgages, closing costs and prepaid items.
  - If the first mortgage is a HELOC, evidence it was a purchase money HELOC or it is a seasoned HELOC that has been in place for twelve (12) months and total draws do not exceed $2000 in the most recent twelve (12) months.
  - A seasoned non-first lien mortgage is a purchase money mortgage or a mortgage that has been in place for twelve (12) months.
  - A seasoned equity line is defined as not having draws totaling over$2000 in the most recent twelve (12) months. Withdrawal activity must be documented with a transaction history.
  - Max cash back at closing is limited to 1% of the new loan amount.
- Properties inherited less than twelve (12) months prior to application date can be considered for a Rate and Term refinance transaction if the following requirements are met:
  - Must have clear title or copy of probate evidencing borrower was awarded the property.
  - A copy of the will or probate document must be provided, along with the buy-out agreement signed by all beneficiaries.
  - Borrower retains sole ownership of the property after the pay out of the other beneficiaries.
  - Cash back to borrower not to exceed 1% of loan amount

Cash-Out Refinance Requirements

- Borrower must have owned the property for at least six (6) months. If the property is owned free and clear and six (6) month seasoning is not met, refer to Delayed Purchase Refinancing section above.
- Maximum cash-out limitations include the payoff of any unsecured debt, unseasoned liens and any cash in hand.
- Inherited properties may not be refinanced as a cash-out refinance prior to twelve (12) months ownership. See Rate and Term Refinances for requirements.

- Cash-out refinances where the borrower is paying off a loan from a pledged asset/retirement account loan, secured loan, unsecured family loan or replenishing business funds used to purchase the property; the following guidelines apply:
  - Cash-out limitation is waived if previous transaction was a purchase.
  - Seasoning requirement for cash-out is waived (borrower does not have to have owned for six (6) months prior to subject transaction).
  - Funds used to purchase the subject property must be documented and sourced.
  - HUD-1/CD for subject transaction must reflect payoff or pay down of pledged asset/retirement account loan, secured loan, unsecured family loan or business asset account. If cash- out proceeds exceed payoff of loans, excess cash must meet cash-out limitations.
  - The purchase must have been arm's length.
  - Investment properties are ineligible.

Texas 50(a)(6) Refinance (Texas Equity Loans)

- 20,25 and 30-year fixed rate only
- See Jumbo Program Eligibility Supplement for additional requirements

Construction-To-Permanent Financing

- The borrower must hold title to the lot which may have been previously acquired or purchased as part of the transaction.
- LTV/CLTV/HCLTV is determined based on the length of time the borrower has owned the lot. The time frame is defined as the date the lot was purchased to the Note date of the subject transaction.
  - For lots owned twelve (12) months or more, the appraised value can be used to calculate the LTV/CLTV/HCLTV.
  - For lots owned less than twelve (12) months, the LTV/CLTV/HCLTV is based on the lesser of the current appraised value of the property or the total acquisition costs (documented construction costs plus documented purchase price of lot).

Delayed Purchase Refinancing is allowed with the following requirements:

- Property was purchased by borrower for cash within six (6) months of the loan application.
- HUD-1/CD from purchase reflecting no financing obtained for the purchase of the property.
- Preliminary title reflects the borrower as the owner and no liens.
- Funds used to purchase the property are fully documented and sourced and must be the borrower's own funds (no gift funds or business funds).
- Funds drawn from a HELOC on another property owned by the borrower, funds borrowed against a margin account or funds from a 401(k) loan are acceptable if the following requirements are met:
  - The borrowed funds are fully documented.
  - The borrowed funds are reflected on the Closing Disclosure (CD) as a payoff on the new refinance transaction.
- LTV/CLTV/HCLTV for Rate and Term refinances must be met. The loan is treated as a Rate and Term refinance except for primary residence transactions in Texas.
- Texas primary residence must be treated as cash out and locked as cash out however cash out limits and 6 months seasoning will not be applicable.
- Investment properties are allowed if borrower is not a builder or in the construction industry and prior transaction was arm's length.

Continuity of Obligation:
When at least one (1) borrower on the existing mortgage is also a borrower on the new refinance transaction, continuity of obligation requirements have been met.

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

NOTE: Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.

Secondary Financing

- Institutional Financing only. Seller Subordinate financing not allowed.
- Subordinate liens must be recorded and clearly subordinate to the first mortgage lien.
- If there is or will be an outstanding balance at the time of closing, the monthly payment for the subordinate financing must be included in the calculation of the borrower's debt-to-income ratio.
- Full disclosure must be made of the existence of subordinate financing and the subordinate financing repayment terms. The following are acceptable subordinate financing types:
  - Mortgage terms with interest at market rate.
  - Mortgage with regular payments that cover at least the interest due, resulting in no negative amortization.
- Employer subordinate financing is allowed with the following requirements:
  - Employer must have an Employee Financing Assistance Program in place
  - Employer may require full repayment of the debt if the borrower's employment ceases before the maturity date.
  - Financing may be structured in any of the following ways:
    - Fully amortizing level monthly payments
    - Deferred payments for some period before changing to
    - Fully amortizing payments
    - Deferred payments over the entire term,
    - Forgiveness of debt over time

        - Balloon payment of no less than five (5) years, or the borrower must have sufficient liquidity to pay off the subordinate lien.
- LTV/CLTV/HCLTV guidelines must be met for loans with subordinate financing.

Multiple Financed Properties

- The borrower(s) may own a total of ten (10) financed, 1–4-unit residential properties including the subject property and regardless of the occupancy type of the subject property.
    - If the borrower owns up to four (4) financed properties:
        - Max financing for the subject transaction is allowed
        - Additional financed 1-4 unit residential properties require three (3) months reserves for each property
    - If the borrower owns between five (5) and ten (10) financed properties:
        - The subject transaction is limited to a maximum of 80% LTV/CLTV/HCLTV or program maximum (lower of the two)
        - Subject property requires the greater of six (6) months reserves or required reserves per guidelines as indicated in the Asset Section of this guide
        - Additional financed 1-4 unit residential properties require six (6) months reserves for each property
- The borrower may own an unlimited number of financed 1-4 unit residential properties when the subject transaction is a primary residence with the following requirements met:
    - The subject transaction is limited to a maximum of 80%LTV/CLTV/HCLTV or program maximum (lower of the two).
    - Additional financed 1-4 unit residential properties require six (6) months reserves for each property.
- 1–4-unit residential financed properties held in the name of an LLC or other corporation can be excluded from the number of financed properties only when the borrower is not personally obligated for the mortgage.
- Ownership of commercial or multifamily (five (5) or more units) real estate is not included in this limitation.

Properties Listed for Sale

- Properties currently listed for sale (at the time of application) are not eligible.
- Properties listed for sale within six (6) months of the application date are not acceptable for refinance transactions.
- Cash-out refinances are not eligible if the property was listed for sale within twelve (12) months of the application date.

Financing Concessions

- Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender, or their affiliates, and/or any other party with an interest in the real estate transaction. The following restrictions for interested party contributions apply:
    - May only be used for closing costs and prepaid expenses and may not be used for down payment or reserves

  - Maximum interested party contribution must meet Fannie Mae requirements.

Seller Concessions

- All seller concessions must be addressed in the sales contract, appraisal, and HUD-1/CD.
- A seller concession is defined as any interested party contribution beyond the stated limits (as shown in financing concessions section) or any amounts not being used for closing costs or prepaid expenses.
- If a seller concession is present, both the appraised value and the sales price must be reduced by the concession amount for the purposes of calculating LTV/CLTV/HCLTV.

Personal Property

- Any personal property transferred with a property sale must be deemed to have a zero-transfer value as indicated by the sales contract and appraisal.
- If any value is associated with the personal property, the sales price and the appraised value must be reduced by the personal property value for purposes of calculating LTV/CLTV/HCLTV.

Escrow Holdbacks

- Escrow Holdbacks are not allowed unless the holdback has been disbursed and certification of completion has been issued prior to purchase.

Non-Arm's Length Transactions

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

The following non-arm's length transactions are eligible:

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

Credit

Tradeline Requirements:

- Minimum three (3) tradelines are required. The following requirements apply:
  - One (1) tradeline must be open for twenty-four (24) months and active within the most recent six (6) months.
  - Two (2) remaining tradelines must be rated for twelve (12) months and may be opened or closed.

-OR-

- Minimum two (2) tradelines are acceptable if the borrower has a satisfactory mortgage rating for at least twelve (12) months (opened or closed) within the last twenty-four (24) months and one (1) additional open tradeline.
- Each borrower contributing income for qualifying must meet the minimum tradeline requirements; however, borrowers not contributing income for qualifying purposes are not subject to minimum tradeline requirements.
- Authorized user accounts are not allowed as an acceptable tradeline.
- Non-traditional credit is not allowed as an acceptable tradeline.

Disputed Tradelines:

- All disputed tradelines must be included in the DTI if the account belongs to the borrower unless documentation can be provided that authenticates the dispute.
- Derogatory accounts must be considered in analyzing the borrower's willingness to repay. However, if a disputed account has a zero balance and no late payments, it can be disregarded.

Mortgage History Requirements:

- If the borrower(s) has a mortgage in the most recent twenty-four (24) months, a mortgage rating must be obtained. The mortgage rating may be on the credit report or a VOM. Applies to all borrowers on the loan.
- No more than 1X30 in the last twelve (12) months or 2X30 in the last twenty-four (24) months. Mortgage lates must not be within the most recent three (3) months of the subject transaction. 0X60 and 0X90 required in the most recent twenty-four (24) months. A satisfactory explanation letter from the borrower(s) must be provided for any mortgage lates within the most recent twenty-four (24) months.
- If the mortgage holder is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory mortgage history is required.

Rental History Requirements:

- If the borrower(s) has a rental history in the most recent twelve (12) months, a VOR must be obtained. Applies to all borrowers on the loan.
- No more than 1X30 in the last twelve (12) months. 0X60 and 0X90required in the most recent twelve (12) months. Rental lates must not be within the most recent three (3) months of the subject transaction. A satisfactory explanation letter from the borrower(s) must be provided for any rental lates within the most recent twelve (12) months.
- If the landlord is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory rent history is required; otherwise if not related or a party to the transaction a satisfactory VOR can be provided.

Derogatory Credit:

- Bankruptcy, Chapter 7, 11, 13 – Four (4) years since discharge/dismissal date
- Foreclosure/Notice of Default – Four (4) years since completion date
- Short Sale/Deed-in-Lieu- Four (4) years since completion/sale date
- Mortgage accounts that were settled for less, negotiated or short payoffs -Four (4) years since settlement date
- Borrowers with credit events listed above between four (4) and seven (7) years must meet the following requirements:
    - Tradeline requirements must be met
    - Satisfactory housing history for twenty-four (24) months required
    - No mortgage lates since credit event
    - No public records since credit event
    - Primary residence – purchase or rate/term refinance with a maximum 80% LTV/CLTV/HCLTV or program maximum if lower
- Credit events seasoned more than 10 years do not need to be considered
- Exceptions for credit events that require 4 year seasoning will be considered on a case by case basis between two (2) and four (4) years with extenuating circumstances subject to the following:
    - Extenuating circumstances are defined as non-recurring events that were beyond the borrower's control resulting in a sudden, significant and prolonged reduction in income or catastrophic increase in financial obligations.
        - Examples would include death or major illness of spouse or child but would not include divorce or job loss.
    - Documentation must be provided to support the claim of extenuating circumstances and confirm the nature of the event that led to the credit event and illustrate the borrower had no reasonable option other than to default on their obligations.
    - If the defaulted debt was assigned to an ex-spouse and the default occurred after the borrower was relieved of the obligation, the event may be considered on an exception basis.
- Loan Modification – Two (2) years since modification date with no mortgage lates on any mortgage in the last twenty-four (24) months.
- A forbearance that results in a loan modification (moving payments to the end of the mortgage) is a credit event and will be considered "due to hardship."
- Notice of Default-Two (2) years
- A satisfactory explanation letter from the borrower(s) must be provided addressing any of the above derogatory credit events if the event occurred in the last seven (7) years.
- Multiple derogatory credit events not allowed, however credit events seasoned more than 10 years do not need to be considered.
    - A mortgage with a Notice of Default filed that is subsequently modified is not considered a multiple event.
    - A mortgage with a Notice of Default filed that is subsequently foreclosed upon or sold as a short sale is not considered a multiple event.
- Medical collections - allowed to remain outstanding if the balance is less than $10,000 in aggregate.

Past Mortgage Forbearances:

- Allowable six (6) months after the end of the forbearance period, and only if the borrower made all the monthly payments during forbearance and did not utilize the forbearance terms to skip any payments. Payoff statements and mortgage statements must not reflect any deferred principal balances or any indication of current forbearance.

Outstanding Judgments/Tax Liens/Charge-offs/Past-Due Accounts:

- Tax liens, judgments, charge-offs and past-due accounts must be satisfied or brought current prior to or at closing. Cash-out proceeds from the subject transaction may not be used to satisfy judgments, tax liens, charge-offs or past-due accounts.
- Payment plans on prior year tax liens/liabilities are not allowed, must be paid in full.

Credit Inquiries:

- If the credit report indicates inquiries within the most recent 90 days of the credit report, the seller must confirm the borrower did not obtain additional credit that is not reflected in the credit report or mortgage application. In these instances, the borrower must explain the reason for the credit inquiry.
- If additional credit was obtained, a verification of that debt must be provided, and the borrower must be qualified with the monthly payment.
- Confirmation of no new debt may be in the form of a new credit report, pre-close credit report, or gap credit report.

Credit Reports- Frozen Bureaus:

- Credit reports with bureaus identified as "frozen" are required to be unfrozen and a current credit report with all bureaus unfrozen is required.
- Credit Refreshes/Rescores: Redwood will allow for Credit Score refreshes; however, the closed loan file must include all documentation to support the change in score and still meet sufficient assets as required by the program guidelines.

Assets

- Beyond the minimum reserve requirements and to fully document the borrowers' ability to meet their obligations, borrowers should disclose all liquid assets.
- Eligible assets must be held in a US account.
- Large deposits inconsistent with monthly income or deposits must be verified if using for down payment, reserves or closing costs. Lender is responsible for verifying large deposits did not result in any new undisclosed debt.
- Asset verification by a Fannie Mae approved asset validation provider is allowed in lieu of 2 months statements provided by the borrower. The asset verification must provide 60 days of account activity and include all items normally indicated on bank statements.
- Asset documentation must be dated after June 1st, 2020 and be no more than sixty (60) days aged of note date.

Asset Type	% Eligible for Calculation of Funds	Additional Requirements
Checking/Savings/Money Market/CD's	100%	• Two (2) months most recent statements.

Publicly Traded Stocks/Bonds/Mutual Funds	100%	• Two (2) months most recent statements. Non-vested stock is ineligible. Margin account and/or pledged asset balanced must be deducted.
Retirement Accounts (401(k), IRA's, etc.)	100%	• Most recent statement(s)covering a two (2) month period. • Evidence of liquidation if using for down payment or closing costs. • Evidence of access to funds required regardless of employment status • Retirement accounts that do not allow for any type of withdrawal are ineligible for reserves
1031 Exchange	Allowed on second home and investment purchases only. Reverse 1031 exchanges not allowed.	• HUD-1/CD for both properties. • Exchange agreement • Sales contract for exchange property. • Verification of funds from the Exchange Intermediary.
Cash Value of Life Insurance/Annuities	100% of value unless subject to penalties	• Most recent statement(s) covering a Two (2) month period.
Business Funds	• Allowed for down payment/closing costs • Can be used for reserves with additional requirements met	• Cash flow analysis required using most recent three (3) months business bank statements to determine no negative impact to business. • Business bank statements must not reflect any NSFs (non- sufficient funds) or overdrafts. • If borrower(s) ownership in the business is less than 100%, the following requirements must be met: ○ Borrower(s) must have majority ownership of 51% or greater. ○ The other owners of the business must provide an access letter to the business funds. ○ Borrower(s) % of ownership must be applied to the balance of business funds for use by borrower(s). ○ Business funds for reserves or a combination of personal/business funds for reserves will require the total

		amount of reserves to be 2X or double the regular requirement for the subject property and any additional financed REO. ○ If business funds are used for reserves the max LTV is reduced to 65%.
Gift Funds	• Gift funds may be used once borrower has contributed 5%of their own funds. • Gift funds not allowed for reserves. • Gift funds not allowed on investment properties. • Gift funds not allowed to pay off debts to qualify	• Donor must be family member, future spouse or domestic partner. • Executed gift letter with gift amount and source, donor's name, address, phone number and relationship. • Seller must verify sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. • Acceptable documentation includes the following: ○ Copy of donor's check and borrower's deposit slip. Copy of donor's withdrawal slip and borrower's deposit slip. ○ Copy of donor's check to the closing agent. ○ A settlement statement/CD showing receipt of the donor's gift check.

Reserve Requirements (# of Months of PITIA)*		
Occupancy	**Loan Amount**	**# of Months**
Primary Residence	≤$1,000,000 with LTV ≤85%	6
	$1,000,001-$1,500,000	6
	$1,500,001-$2,000,000	9
Second Home	≤$1,000,000	6
	$1,000,001-$1,500,000	12
	$1,500,001-$2,000,000	18
Investment Property	≤$1,000,000	6
	$1,000,000-$1,500,000	12
First-Time Homebuyer	≤$1,000,000 with LTV ≤80%	6
	$1,000,001-$1,500,000	9

Non-Occupant Co-Borrower	Additional six (6) months reserves
Self-Employed Borrower	Additional three (3) months reserves required
Additional 1-4 Unit Financed REO	• If borrower owns up to four (4) financed 1-4 unit properties, additional three (3) months reserves PITIA for each property is required based on the PITIA of the additional REO. • If borrower owns more than four (4) financed 1-4 unit properties, six (6) months reserves PITIA for each property is required based on the PITIA of the additional REO. • If eligible to be excluded from the count of multiple financed properties, reserves are not required.
***Borrowed funds (secured or unsecured) are not allowed for reserves**	

Liabilities

Liability Requirements

- The monthly payment on revolving accounts with a balance must be included in the borrower's DTI, regardless of the number of months remaining. If the credit report does not reflect a payment and the actual payment cannot be determined, a minimum payment may be calculated using the greater of $10 or 5%.
- If the credit report reflects an open-end or net thirty (30) day account, the balance owing must be subtracted from liquid assets.
- Loans secured by financial assets (life insurance policies, 401(k), IRAs, CDs, etc.) do not require a payment to be included in the DTI if documentation is provided to show the borrower's financial asset as collateral for the loan.
- For all student loans, whether deferred, in forbearance, or in repayment, a monthly payment must be included in the borrower's monthly debt obligation.
  - If a monthly payment is provided on the credit report, the amount indicated for the monthly payment may be used in qualifying.
  - If the credit report does not provide a monthly payment or if it shows $0 as the monthly payment, the monthly payment may be one of the options below:
    - Loan payment indicated on student loan documentation verifying monthly payment is based on an income-driven plan.
    - For deferred loans or loans in forbearance:
      - 1% of the outstanding loan balance (even if this amount is lower than the actual fully amortizing payment) or
      - A fully amortizing payment using the documented loan repayment terms.
- HELOCs with a current outstanding balance with no payment reflected on the credit report may have the payment documented with a current billing statement. HELOCs with a current $0 balance do not need a payment included in the DTI unless using for down payment or closing costs.
- Lease payments, regardless of the number of payments remaining must be included in the DTI.
- Installment debts lasting ten (10) months or more must be included in the DTI.
- Alimony payments may be deducted from income rather than included as a liability in the DTI for divorces prior to 1/1/2019. For borrowers with a divorce on or after 1/1/2019, the alimony payment must be treated as a liability.

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

Contingent Liabilities

- **Co-Signed Loans:** The monthly payment on a co-signed loan may be excluded from the DTI if evidence of timely payments made by the primary obligor (other than the borrower) is provided for the most recent twelve (12) months and there are no late payments reporting on the account.
- Debts Paid by Others: Follow Fannie Mae/Selling Guide
- **Court Order:** If the obligation to make payments on a debt has been assigned to another person by court order, the payment may be excluded from the DTI if the following documents are provided.
    - Copy of court order.
    - For mortgage debt, a copy of the document transferring ownership of property.
    - If transfer of ownership has not taken place, any late payments associated with the repayment of the debt owing on the mortgage property should be considered when reviewing the borrower's credit profile.
- **Assumption with No Release of Liability:** The debt on a previous mortgage may be excluded from DTI with evidence the borrower no longer owns the property. The following requirements apply:
    - Payment history showing the mortgage on the assumed property has been current during the previous twelve (12) months **or**
    - The value on the property, as established by an appraisal or sales price on the HUD-1/CD results in an LTV of 75% or less.

Departure Residence Pending Sale

To exclude the payment for a borrower's primary residence that is pending sale but will close after the subject transaction, the following requirements must be met:

- Copy of an executed sales contract for the property pending sale and confirmation all contingencies have been cleared/satisfied. The pending sale transaction must be arm's length.
- The closing date for the departure residence must be within thirty (30) days of the subject transaction Note date.
- Six (6) months reserves must be verified for the PITIA of the departure residence.

Departure Residence Subject to Guaranteed Buy-out with Corporation Relocation.

To exclude the payment for a borrower's primary residence that is part of a Corporate Relocation the following requirements must be met:

- Copy of the executed buy-out agreement verifying the borrower has no additional financial responsibility toward the departing residence
- once the property has been transferred to the third party.
- Guaranteed buy-out by the third party must occur within four (4) months of the fully executed guaranteed buy-out agreement.
- Evidence of receipt of equity advance if funds will be used for down payment or closing costs.
- Verification of an additional six (6) months PITIA of the departure residence.

Income/Employment

Stable monthly income must meet the following requirements to be considered for qualifying:

- Stable - two (2) year history of receiving the income
- Verifiable
- High probability of continuing for at least three (3) years

Declining Income

- When the borrower has declining income, the most recent twelve (12) months should be used.
- In certain cases, an average of income for a longer period may be used when the decline is related to a one-time capital expenditure and proper documentation is provided.
- In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay.
  - The employer or the borrower should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying.

Gaps in Employment

- A minimum of two (2) years employment and income history is required to be documented.
  - Gaps more than thirty (30) days during the past two (2) years requires a satisfactory letter of explanation

General Documentation Requirements

- Residual Income Calculation required. All Choice QM loans must meet the residual income requirements below. Residual income equals Gross Qualifying Income less Monthly Debt (as included in the debt-to-income ratio)

# in Household	1	2	3	4	5
Required Residual*	$1550	$2600	$3150	$3550	$3700

*Add $150 for additional family members

- Tax Transcripts for personal tax returns for two (2) years are required when tax returns are used to document borrower's income or any loss and must match the documentation in the loan file.
  - For Taxpayer identity theft instructions, see Jumbo Program Eligibility Supplement. For cases where the IRS indicates "No Record Found" see Jumbo Program Eligibility Supplement.
- 4506-C must be signed and completed for all borrowers. IRS will require the latest form completed in full.
- Taxpayer consent form signed by all borrowers.
- Income calculation worksheet or 1008 with income calculation. The Fannie Mae 1084, or Freddie Mac Form 91 or equivalent is required for self-employment analysis.
  - The most recent Form 1084 or Form 91 should be used based on application date. Instructions per Form 1084 or Form 91must be followed.
    - Copy of liquidity analysis must be included in the loan file if the income analysis includes income from boxes 1, 2 or 3 on the K- 1that is greater than distributions indicated on the K-1.
    - If a liquidity analysis is required and the borrower is using business funds for down payment or closing costs, the liquidity analysis must consider the reduction of those assets.
- Paystubs must meet the following requirements:
  - Clearly identify the employee/borrower and the employer.

  - Reflect the current pay period and year-to-date earnings.
  - Computer generated.
  - Paystubs issued electronically via email or internet, must show the URL address, date and time printed and identifying information.
  - Year-to-date pay with most recent pay period at the time of application and no earlier than 120 days prior to the Note date.
- W-2 forms must be complete and be a copy provided by the employer.
- Verification of Employment Requirements: Requirements below apply when income is positive and included in qualifying income:
  - Verbal Verification of Employment (VVOE) must be performed no more than Ten (10) business days prior to the Note date. The Verbal VOE should include the following information for the borrower:
    - Date of contact
    - Name and title of person contacting the employer
    - Name of employer
    - Start date of employment
    - Employment status and job title
    - Name, phone #, and title of contact person at employer
    - Independent source used to obtain employer phone number
  - Verification of the existence of borrower's self-employment must be verified through a third-party source and no more than five (30) calendar days prior to the Note date.
    - Third party verification can be from a CPA, regulatory agency or applicable licensing bureau. A borrower's website is not acceptable third-party source.
    - Listing and address of the borrower's business.
    - Name and title of person completing the verification and date of verification.
  - Written Verification of Employment may be required for a borrower's income sourced from commissions, overtime and or other income when the income detail is not clearly documented onW-2 forms or paystubs.
    - Written VOE's cannot be used as a sole source for verification employment. Paystubs, and W-2's are still required.

Tax Returns must meet the following requirements when used for qualifying

- Personal income tax returns (if applicable) must be complete with all schedules (W-2 forms, K-1s etc.) and must be signed. In lieu of a signature, personal tax transcripts for the corresponding year may be provided.
- Business income tax returns (if applicable) must be complete with all schedules and must be signed. In lieu of a signature, business transcripts for the corresponding year may be provided.
- For unfiled tax returns for the prior year's tax return, please see the Jumbo Program Eligibility Supplement.
- Tax Transcripts must be provided to support tax returns.

Unacceptable Sources of Income

- Any unverified source
- Deferred compensation
- Temporary or one-time occurrence income
- Rental income from primary residence – One (1) unit property or one (1) unit property with accessory unit

- Rental income from a second home
- Retained earnings
- Education benefits
- Trailing spouse income
- Any income that is not legal in accordance with all applicable federal, state and local laws, rules and regulations. Federal law restricts the following activities and therefore the income from these sources is **not allowed** for qualifying:
    - Foreign shell banks.
    - Medical marijuana dispensaries.
    - Any business or activity related to recreational marijuana use, growing, selling or supplying of marijuana, even if legally permitted under state or local law.
    - Businesses engaged in any type of internet gambling.

Specific Income Documentation Requirements

Non-Self Employment Documentation Requirements:

Salaried Income

- YTD Paystub
- W-2's or W-2 Transcripts- two (2) years
- VVOE

Hourly/Part-Time Income

- YTD Paystub
- W-2's or W-2 Transcripts- two (2) years
- VVOE
- Stable to increasing income should be averaged for the two (2) years.

Commission Income

- YTD Paystub
- Two (2) Years W-2's or W-2 transcripts
- VVOE
- Stable to increasing income should be averaged over a two (2) year period.

Overtime and Bonus Income

- YTD Paystub
- W-2's or W-2 Transcripts- two (2) years
- VVOE
- Stable to increasing income should be averaged over a two (2) year period.

2106 Expenses

- Employee business expenses must be deducted from the adjusted gross income regardless of the income type.

- Two (2) years tax returns are required. If 2017 tax returns reflect 2106expenses and 2018 tax returns show no expenses (due to tax law change), a 12-month average of expenses must be based on 2017 tax return and deducted from qualifying income.
- Two (2) years tax transcripts.

Alimony/Child Support/Separate Maintenance

- Considered with a divorce decree, court ordered separation agreement, or other legal agreement provided the income will continue for at least three (3) years.
- If the income is the borrower's primary income source and there is a defined expiration date (even if beyond three (3) years) the income may not be acceptable for qualifying purposes.
- Evidence of receipt of full, regular and timely payments for the most recent six (6) months.

Asset Depletion

- Eligible assets must be held in a US account.
    - Calculate the depletion of assets using a 3% rate of return over the life of the loan; the same as calculating a P&I payment for a mortgage. For borrowers >59 ½ years of age, all post-closing retirement and liquid assets may be used in the calculation if the assets are fully vested and unrestricted.
    - For borrowers <59 ½ , all post-closing liquid (non-retirement) assets can be included in the calculation.
        - Minimum liquid post-closing assets of $500,000 required to include asset depletion for qualifying income.
    - Business funds are not allowed for income calculation.

Borrowers Employed by Family

- YTD Paystub
- Two (2) years W-2's and
- Two (2) years personal tax returns with two (2) years tax transcripts
- VVOE
- Borrower's potential ownership in the business must be addressed.

Capital Gains

- Must be gains from similar assets for two (2) continuous years to be considered qualifying income.
    - If the trend results in a gain, it may be added as income.
    - If the trend results in a loss, the loss must be deducted from the total income.
- Personal tax returns – Two (2) years with a consistent history of gains from similar assets. Three (3) years tax transcripts to support tax returns.
- Document assets similar to the assets reported as capital gains to support the continuation of the capital gain income.

Disability Income – Long Term

(Private policy or employment-sponsored policy)

- Copy of the policy or benefits statement must be provided to determine current eligibility for disability payments, amount of payments, frequency of payments, and if there is an established termination date.

- Termination date may not be within 3 years of Note date; please note reaching a specific age may trigger a termination date depending on the policy.

Dividends and Interest Income

- Personal tax returns – two (2) years with two (2) years tax transcripts.
- Documented assets to support the continuation of the interest and dividend income.

Foreign Income

- YTD paystub
- W-2 forms or the equivalent and personal tax returns reflecting the foreign earned income. Income must be reported on two (2) years US tax returns with two (2) years tax transcripts.
- VVOE
- All income must be converted to US Currency.

K-1 Income/Loss on Schedule E

- If the income is 0 or positive, stable, and not used for qualifying, the K-1 is not required.
- If less than 25% ownership with income used in qualifying:
  - Verification of Employment Requirements apply (see Income/Employment General Documentation Requirements).
  - Year-to-date income must be verified if the most recent K-1 is more than 90 days aged prior to Note date.
- If 25% or greater ownership with income used in qualifying:
  - Verification of Employment Requirements apply (see Income/Employment General Documentation Requirements).
  - Partnership/S-Corp and Self-Employment requirements apply.
- If the income is negative, the K-1s for the applicable years are required and loss from the most recent tax year should be applied. If ownership is 25% or greater, see self-employment requirements below.
- Two (2) years tax transcripts.

Non-Taxable Income

(*Child support, military rations/quarters, disability, foster care, etc.)*

- Documentation must be provided to support continuation for three (3) years.
- Income may be grossed up by applicable tax amount. Tax returns must be provided to confirm income is non-taxable. Two (2) years tax transcripts to support tax returns.
- If the borrower is not required to file a federal tax return, gross-up to 25%.

Note Income

- Copy of the Note must document the amount, frequency, and duration of the payment.
- Evidence of receipt for the past twelve (12) months and evidence of the Note income must be reflected on personal tax returns. Tax Transcripts to support tax returns.
- Note income must have a three (3) year continuance.

Projected Income

- Allowed-Purchase transaction, primary residence, one-unit properties allowed. Borrower cannot be employed by family member and can only be qualified using only fixed base income.
- The employment offer or contract must identify employer and fully executed by employer and borrower.

- The offer or contract must be non-contingent.
  - If there are contingencies present, the lender must confirm prior to closing that all conditions of employment are satisfied with verbal or written verification.
- If start date is no more than 30 days prior to the note date:
  - Loan file must contain the employment offer or contract and a verbal verification that confirms active employment status.
- If the start date is no more than 90 days after the note date:
  - Loan file must include a contingent free employment offer or contract and a post-closing verification of employment confirming start date and income.

Rental Income

All properties (except departing primary residence)- Please follow Fannie Mae Rental Income guidelines

- If the property is an investment property (subject or non-subject) and is a seasonal rental, vacation rental or short-term rental, the following requirements must be met:
  - Must have history of at least one filed year tax return reflecting the property on Schedule E.
- Personal tax returns – Two (2) years
  - For properties listed on Schedule E, rental income should be calculated using net rental income + depreciation + interest + taxes + insurance + HOA divided by applicable months minus PITIA.
  - If rental income is not available on the borrower's tax returns, net rental income should be calculated using gross rents X75% minus PITIA.
  - Two (2) years tax transcripts.
- Net rental income may be added to the borrower's total monthly income.
- Net rental losses must be added to borrower's total monthly obligations.
- If the subject property is the borrower's primary residence (one (1) unit property or one (1) unit property with an accessory unit) and generating rental income, the full PITIA should be included in the borrower's total monthly obligations.
- If the subject property is the borrower's primary residence with 2-4 units, rental income may be included for the unit (s) not occupied by the borrower if the requirements for a lease agreement and/or tax returns above are met.

Rental Income- Departing Primary Residence

- If the borrower is converting their current primary residence to a rental property and using rental income to qualify or offset the payment the following requirements apply:
  - Follow Fannie Mae requirements
  - Any positive rental income is disregarded for the income calculation and can only be used to offset the payment.

Restricted Stock and Stock Options

- May only be used as qualifying income if the income has been consistently received for two (2) years and is identified on the paystubs, W-2s and tax returns as income and the vesting schedule indicates the income will continue for a minimum of two (2) years at a similar level as prior two (2)years.
- A two (2) year average of prior income received from RSUs or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the lower of the current stock price or the 52-week average for the most recent twelve(12) months reporting at the time of

application. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule.
- Additional awards must be similar to the qualifying income and awarded on a consistent basis.
- There must be no indication the borrower will not continue to receive future awards consistent with historical awards received.
- Borrower must be currently employed by the employer issuing the RSUs/stock options for the RSUs/stock options to be considered in qualifying income.
- Stock must be a publicly traded stock.
- Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify. ***NOTE: RSU income is capped at 50% of qualifying income.***

Retirement Income

- Existing distribution of assets from an IRA, 401(k) or similar retirement asset must be sufficient to continue for a minimum of three (3) years.
    - Distribution must have been set up at least six (6) months prior to note date if there is no prior history of receipt; or
    - Two (2) year history of receipt evidenced.
    - Distributions cannot be set up or changed solely for loan qualification purposes.
- Document regular and continued receipt of income as verified by any of the following:
    - Letters from the organizations providing the income.
    - Copies of retirement award letters.
    - Copies of federal income tax returns (signed and dated on or before the closing date). In lieu of a signature, personal tax transcripts for the corresponding year may be provided on or before the closing date.
    - Most recent IRS W-2 or 1099 forms.
    - Proof of current receipt with two (2) months bank statements.

NOTE: If any retirement income will cease within the first three (3) years of the loan, the income may not be used.

Social Security Income

- Social Security income must be verified by a Social Security Administration benefit verification letter. If benefits expire within the first three (3) years of the loan, the income may not be used.
- Benefits (children or surviving spouse) with a defined expiration date must have a remaining term of at least three (3) years.

Trust Income

- Income from trusts may be used if guaranteed and regular payments will continue for at least three (3) years.
- Regular receipt of trust income for the past twelve (12) or twenty-four (24) months must be documented.
- Must adhere to Fannie Mae policy as tied to fixed or variable trust income payments
- Copy of trust agreement or trustee statement showing:
    - Total amount of borrower designated trust funds
    - Terms of payment
    - Duration of trust

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

Self-Employment Documentation Requirements:

- Self-Employed borrowers are defined as having 25% or greater ownership or receive 1099 statement to document income.
- The requirements below apply for Self-Employed borrowers:
  - Income calculations should be based on the Fannie Mae Form 1084 or Freddie Mac Form 91 or equivalent income calculation form.
  - Year-to-date is defined as the period ending as of the most recent tax return through the most recent quarter ending one (1) month prior to the Note date. For tax returns on extension, the entire unfiled year is also required.
  - Year-to-date financials (profit and loss statement and balance sheet) are not required if the income reporting is positive, not declining, and not counted in qualifying income.

Example: 2020 returns in file and Note date is 7/14/21 would require 2021 YTD documentation through Q1 or through March 31, 2021. Note date of 8/14/21 would require YTD documentation covering Q1 and Q2 or through June 30, 2021

Sole Proprietorship (includes Schedule C and F)

- Two (2) years personal tax returns signed.
  - In lieu of a signature, personal tax transcripts for the corresponding year maybe provided.
- Two (2) years tax transcripts to support.
- YTD profit and loss statement.
- YTD balance sheet. Tax returns for prior year is not a substitute for balance sheet.
- Stable to increasing income should be averaged for two (2) years.

NOTE: YTD P&L and YTD Balance Sheet may be waived if the borrower is a 1099 paid borrower who does not actually own a business if all the following requirements are met:

  - Year-to-date income in the form of a written VOE or pay history is provided by the employer paying the 1099. YTD income must support prior year's income.

Partnership/S-Corporation

- Two (2) years personal tax returns signed.
  - In lieu of a signature, personal tax transcripts for the corresponding year may be provided.
- Two (2) years tax transcripts to support.
- Two (2) years K-1s reflecting ownership percentage if counting any income from this source in qualifying (K-1 income, W-2 income, capital gains or interest/dividends) or if Schedule E reflects a loss.
- Two (2) years business tax returns (1065s or 1120s) signed if 25% or greater ownership.
  - In lieu of a signature, business tax transcripts for the corresponding year may be provided.
- Due date for business returns for Partnerships and S-Corporations is typically March 15 with an extension for six (6) months or typically September 15. After the extension date, the loan is not eligible without the filed tax return.

- Business returns and YTD financials are not required if the income reporting is 0 or positive, not declining and not counted as qualifying income.
- YTD profit and loss statement if 25% or greater ownership.
- Stable to increasing income should be averaged for two (2) years.

Corporation

- Two (2) years personal tax returns, signed.
  - In lieu of a signature, personal tax transcripts for the corresponding year may be provided.
- Two (2) years tax transcripts to support.
- Two (2) years business returns (1120) signed if 25% or greater ownership.
  - In lieu of a signature, business tax transcripts for the corresponding year may be provided.
- Business returns must reflect % of ownership for borrower.
- YTD profit and loss statement if 25% or greater ownership.
- YTD balance sheet if 25% or greater ownership.
- Stable to increasing income should be averaged for two (2) years.

Eligible Products

- Fixed Rate 20, 25, 30-year term

Ineligible Products

- High-Cost Loans (Federal, State, Local)
- Non-Standard to Standard Refinance Transactions (ATR Exempt)
- Balloons
- Graduated Payments
- Interest Only Products
- Temporary Buy Downs
- Loans with Prepayment Penalties
- Convertible ARMs
- 5/1, 7/1, 10/1 ARM Fully Amortizing, 30-year term
- Points and Fees exceeding 3% see eligibility supplement

Eligible Borrowers

- First-Time Homebuyer is defined as a borrower who has not owned a home in the last three (3) years. For loans with more than one (1) borrower, where at least one (1) borrower has owned a home in the last three (3) years, first-time homebuyer requirements do not apply.
  - Maximum loan amount is $1,000,000.
    - For transactions located in CA, NJ, NY or CT, the maximum loan amount of $1,500,000 is allowed if the following requirements are met and only apply for loan amounts over $1,000,000 in the allowed states:
      - 680 Minimum FICO score
      - Primary residence only
      - Reserve requirements met for FTHB as specified in the Asset section
      - Maximum 80% LTV/CLTV/HCLTV
- US Citizens
- Permanent Resident Aliens with evidence of lawful residency.
  - Must be employed in the US for the past twenty-four (24) months.
- Non-Permanent Resident Aliens with evidence of lawful residency are eligible with the following restrictions:
  - Primary residence only
  - Maximum LTV/CLTV/HCLTV 80%
  - Unexpired H1B, H2B, E1, L1 and G Series Visas only. G Series Visas must have no diplomatic immunity.
  - Credit tradeline requirements must be met, no exceptions. Borrower must have a current twenty-four (24) month employment history in the US.
- Documentation evidencing lawful residency must be met
- Non-Occupant Co-Borrowers are allowed with the following restrictions:
  - Primary resident-One (1) Unit Property,
  - Purchase and rate & term refinance transactions only.
  - Max loan amount $1,000,000; $1,500,000 is allowed for properties located in CA, CT, NY and NJ.
  - Max LTV/CLTV 80%

- No minimum down payment required from the occupant borrower, down payment and reserves may be from the occupant borrower or non-occupant co-borrower.
- Additional six (6) months reserves required.
- Non-occupant co-borrower must be a family member.
- Blended ratios allowed with a maximum 43% DTI.
- Transaction must be an arm's length transaction.

- Inter Vivos Revocable Trust (see Jumbo Program Eligibility Supplement for requirements).
    - All borrowers must have a valid Social Security Number.

Ineligible Borrowers

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

Eligible Occupancy Types

- Primary Residences- 1-4 units
- Second home residences for one (1) unit properties
    - Must be a reasonable distance away from borrower's primary residence.
    - Must be occupied by the borrower for some portion of the year.
    - Must be suitable for year-round use.
    - Must not be subject to a rental agreement and borrower must have exclusive control over the property.
    - Any rental income received on the property cannot be used as qualifying income.
- Investment properties for 1-4 units

Eligible Properties

- 1-4 Unit Owner Occupied Properties
- 1 Unit Second Homes
- 1-4 Unit Investment Properties
- Condominiums – Attached – Warrantable-Follow Fannie Mae Condo Warrantability requirements.
    - Limited review allowed for attached units in established condominium projects:
        - Eligible transactions as per Fannie Mae guidelines.
        - Projects located in Florida are not eligible for limited review.
- CPM or PERS allowed
- Florida attached condominiums limited to 50% LTV/CLTV/HCLTV on investment transactions.
- Condominium documents to support condominium eligibility review must be no older than 120 days from Note date.
- Condominiums – Non-Warrantable (see Non-Warrantable Condominiums section below)
- Modular homes

- Planned Unit Developments (PUDs)
- Properties with ≤40 Acres
    - Properties >10 acres ≤40 acres must meet the following:
        - No income producing attributes
        - Texas: Acreage must meet 50(a)(6) & 50(f)(2) requirements for urban and rural properties.
- Properties Subject to Existing Oil/Gas Leases must meet the following:
    - Title endorsement providing coverage to the lender against damage to existing improvements resulting from the exercise of the right to use the surface of the land which is subject to an oil and/or gas lease.
    - No active drilling: Appraiser to comment or current survey to show no active drilling.
    - No lease recorded after the home construction date; Re- recording of a lease after the home was constructed is permitted.
    - Must be connected to public water.

Declining Markets

- Redwood will purchase loans within a declining market as noted on appraisal, third party valuation or Seller's internal review of appraisal.
    - There is a 5% reduction to the maximum LTV/CLTV/HCLTV based on Redwoods Program Eligibility grid

Note: Properties that fall outside these parameters can be considered on an exception basis

Miscellaneous:

- Properties with leased solar panels must meet Fannie Mae requirements.

Acceptable Forms of Ownership:

- Fee Simple with title vesting as:
    - Individual
    - Joint Tenants
    - Tenants in Common
- Leaseholds must meet Fannie Mae Requirements
- Deed/Resale Restrictions must meet Fannie Mae requirements.

Non-Warrantable Condominiums

Only two (2) non warrantable features are allowed and LTV/CLTV must be 10% below product/program maximum. For example, if borrower qualifies for a loan at 80% LTV based on transaction, FICO score, loan amount and reserves, then the maximum allowed would be 70%:

Minimum Loan Amount is $300,000

- Commercial Space - Commercial space includes space above and below grade. Commercial space must be compatible with the residential use of the project. For example, restaurants, small shops, business offices, small market/grocery store that complement the neighborhood.
    - Maximum 50% commercial space allowed.
- Maximum ownership by one (1) entity is 25% for projects with more than ten (10) units.
    - Units owned by the developer, sponsor, or succeeding developer that are vacant and being actively marketed for sale are not included in the calculation.
    - For projects with ten (10) units or less, Fannie Mae guidelines apply for the number of units owned by one (1) entity and would not be considered non-warrantable.

- Presale - New projects or converted projects (as defined by Fannie Mae) must have at least 30% of the units sold or under contract to owner occupants or second home purchasers for the subject phase; common areas/amenities must be complete for the subject phase.
- Budget – for projects with line item for replacement reserves of less than10%;
  - Less than 10% but greater than 7% replacement reserves allowed if current reserve balance exceeds 10% of operating expenses
  - Less than 7% replacement reserves allowed if current reserve balance exceeds 20% operating expenses
  - Project balance sheet must be provided and within 120 days of the Note date.
- The subject legal phase and any other prior legal phases in which units have been offered for sale are substantially complete (common elements complete and units complete subject to selection of buyer upgrades/preference items).
  - Primary residence and second homes only.
  - All other Fannie Mae condo requirements met.
  - Loan must be locked as a non-warrantable condominium with applicable pricing adjustments applied.

Loans outside of these parameters with strong compensating factors may be considered on an exception basis.

Ineligible Properties

- 2–4-unit second home properties
- Co-ops
- Manufactured Homes/Mobile Homes
- Mixed-Use Properties
- Model Home Leasebacks
- Properties with condition rating of C5/C6
- Properties with construction rating of Q6.
- Properties located in Hawaii in lava zones 1 & 2.
- Properties located in areas where a valid security interest in the property cannot be obtained.
- Properties >40 acres
- Properties with a private transfer fee covenant unless the covenant is excluded under 12CFR 1228 as an excepted transfer fee covenant.
- Tenants-in-Common projects (TICs)
- Unique properties
- Working farms, ranches, or orchards
- Condotels / Condo Hotels

Appraisal Requirements

- Transferred appraisals are not allowed.
- Appraisals must be completed for the subject transaction. Use of a prior appraisal, regardless of the date of the prior appraisal, is not allowed.
- Appraisal Update (Form 1004D) is allowed for appraisals that are over 120 days aged but less than 180 days aged from Note.
  - The appraiser must inspect the exterior of the property and provide a photo
  - Appraiser must review current market data to determine whether the property has declined in value since the date of original appraisal. If the value has declined since original appraisal, a new full appraisal is required.
  - The Appraisal Update (Form 1004D) must be dated within 120days of the Note date.
- Investment properties must contain a rent comparable schedule.
- Collateral Desktop Analysis (CDA) ordered from Clear Capital, or a Consolidated Collateral Analysis (CCA) ordered from Consolidated Analytics is required to support the value of the appraisal. The seller is responsible for ordering the CDA.
  - If the CDA or CCA returns a value that is "Indeterminate" or if the CDA or CCA indicates a lower value than the appraised value that exceeds a 10% tolerance, then one (1) of the following requirements must be met:
    - A Clear Capital BPO or Consolidated Analytics BPO (Broker Price Opinion) and a Clear Capital Value Reconciliation or a Consolidated Analytics Value Reconciliation (of Three Reports) is required.
    - The Value Reconciliation will be used for the appraised value of the property. The Seller is responsible for ordering the BPO and Value Reconciliation through Clear Capital or Consolidated Analytics.
    - A field review or 2nd full appraisal may be provided. The lower of the two values will be used as the appraised value of the property. The Seller is responsible for providing the field review or 2nd full appraisal.
  - If two (2) full appraisals are provided, a CDA is not required.
- For properties purchased by the seller of the property within ninety (90) days of the fully executed purchase contract the following requirements apply:
  - Second full appraisal is required.
  - Property seller on the purchase contract is the owner of record.
  - Increases in value should be documented with commentary from the appraiser and recent paired sales.

The above requirements do not apply if the property seller is a bank that received the property as a result of foreclosure or deed-in lieu.

Appraisal requirements based on loan amount:

First Lien Amount	Appraisal
Purchase Transactions	
≤ $2,000,000	1 Full Appraisal
Refinance Transactions	
≤ $1,500,000	1 Full Appraisal

> $1,500,000	2 Full Appraisals

- When two (2) appraisals are required, the following applies:
  - Appraisals must be completed by two (2) independent companies.
  - The LTV will be determined by the lower of the two (2) appraised values if the lower appraisal supports the value conclusion.
  - Both appraisal reports must be reviewed and address any inconsistencies between the two (2) reports and all discrepancies must be reconciled.
  - If the two (2) appraisals are done "subject to" and 1004Ds are required, it is allowable to provide one (1) 1004D.
    - If only one (1)1004D is provided, it should be for the appraisal that the value of the transaction is being based upon.

Higher-Priced Mortgage Loans (HPML)

- If the property was acquired by the seller less than 90 days from the purchase agreement and the purchase price exceeds the seller's acquisition price by more than 10% then a second full appraisal is required. Bank owned properties are not exempt.
- If the property was acquired by the seller between 91-180 days from the purchase agreement and the purchase price exceeds the seller's acquisition price by more than 20% then a second full appraisal is required. Bank owned properties are not exempt.

If a second appraisal is required for one of the above two reasons, the borrower may only be charged for one of the appraisals.

Disaster Policy

- Follow FCM Disaster Policy