



first community mortgage



# Non-Conforming Jumbo Express

4-21-22



## Jumbo Express Program

| Primary Residence        |                 |                          |                  |                      |                          |
|--------------------------|-----------------|--------------------------|------------------|----------------------|--------------------------|
| Loan Purpose             | Number of Units | Maximum Loan Amount      | Maximum LTV/CLTV | Minimum Credit Score | Maximum DTI <sup>1</sup> |
| Purchase & Rate/Term     | 1 Unit          | \$2,000,000              | 80% / 80%        | 660                  | 43                       |
|                          |                 | \$2,500,000 <sup>3</sup> | 80% / 80%        | 720                  | 43                       |
|                          |                 | \$3,000,000 <sup>3</sup> | 80% / 80%        | 740                  | 43                       |
|                          | 2-4 Units       | \$2,000,000              | 80% / 80%        | 700                  | 43                       |
| Cash-Out <sup>2</sup>    | 1 Unit          | \$2,000,000              | 80% / 80%        | 680                  | 43                       |
|                          |                 | \$3,000,000 <sup>3</sup> | 80% / 80%        | 740                  | 43                       |
| Second Home              |                 |                          |                  |                      |                          |
| Loan Purpose             | Number of Units | Maximum Loan Amount      | Maximum LTV/CLTV | Minimum Credit Score | Maximum DTI <sup>1</sup> |
| Purchase & Rate/Term     | 1 Unit          | \$2,000,000              | 80% / 80%        | 660                  | 43                       |
|                          |                 | \$2,500,000 <sup>3</sup> | 80% / 80%        | 720                  | 43                       |
|                          |                 | \$3,000,000 <sup>3</sup> | 80% / 80%        | 740                  | 43                       |
| Cash-Out <sup>2</sup>    | 1 Unit          | \$2,000,000              | 75% / 75%        | 700                  | 43                       |
|                          |                 | \$3,000,000 <sup>3</sup> | 75% / 75%        | 740                  | 43                       |
| Loan Purpose             | Number of Units | Maximum Loan Amount      | Maximum LTV/CLTV | Minimum Credit Score | Maximum DTI <sup>1</sup> |
| Non-Owner Occupied (NOO) | 1 Unit          | \$2,000,000              | 80% / 80%        | 680                  | 43                       |
|                          |                 | \$2,500,000 <sup>3</sup> | 75% / 75%        | 720                  | 43                       |
|                          | 2-4 Units       | \$2,000,000              | 75% / 75%        | 680                  | 43                       |
|                          |                 | \$2,500,000 <sup>3</sup> | 70% / 70%        | 720                  | 43                       |

<sup>1</sup>Max DTI 35% for Self-Employed Borrowers

<sup>2</sup>Max Cash-Out \$300,000

<sup>3</sup>First-Time Homebuyer- Max Loan Amount \$2,000,000 and Owner-Occupied Only

### Underwriting Guidelines

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| <b>Eligible Products</b>  | Fully Amortizing Fixed Rate 15 and 30 -year term  |
| <b>Underwriting</b>       | <ul style="list-style-type: none"> <li>• Minimum Loan Amount must be \$1 over the current Agency loan limit for the property County and State and number of units</li> <li>• AUS is required                             <ul style="list-style-type: none"> <li>○ DU Approve/LPA Accept Ineligible OR DU Approve/LPA Accept Eligible                                     <ul style="list-style-type: none"> <li>▪ Ineligible for Loan Amount Only or max LTV cash-out refinances</li> </ul> </li> </ul> </li> </ul> |
| <b>Eligible Borrowers</b> | <ul style="list-style-type: none"> <li>• U.S. Citizens</li> <li>• Permanent resident aliens                             <ul style="list-style-type: none"> <li>○ Copy of valid resident alien card must be included in loan file</li> </ul> </li> <li>• Non-permanent resident aliens</li> </ul>  |

- Must be legally present in the U.S with an acceptable visa type. Acceptable visa types are as follows:
  - E Series (E-1, E-2, E-3)
  - G Series (G-1, G-2, G-3, G-4, G-5)
  - H Series (H-1B, H-1C)
  - L Series (L-1, L-1A, L-1B, Spouse L-2 with EAD)
  - NATO Series (NATO 1 – 6)
  - O Series (O-1)
  - TN-1, Canadian NAFTA visa
  - TN-2, Mexican NAFTA visa
  - See USCIS.gov for more information
  - Must have a history of visa renewals and a minimum of two (2) year employment history in the U.S and qualifying income must be from the U.S.
  - Must be able to verify that current employment has a probability of three (3) year continuance. VOE form may be used to document
  - Funds to close must be deposited in a U.S. financial institution. No funds to close from outside the U.S are allowed
- Inter-Vivos Revocable Trusts
  - Trust must be established by one or more natural persons, individually or jointly
  - The individual(s) establishing the trust must be the primary beneficiary/beneficiaries
  - If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage
  - At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law
  - The mortgage and trust documents must meet agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter-vivos revocable trusts
  - The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note
- First Time Homebuyers
  - A first-time homebuyer is defined as a borrower who has not had ownership interest in a property within the last three (3) years from the application date.
    - Owner-occupied only
    - Maximum loan amount \$2,000,000
- Illinois Land Trusts- NOT Eligible
- Maximum of four borrowers per loan

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| <p><b>Ineligible Borrowers</b></p>                | <ul style="list-style-type: none"> <li>• Borrowers with only an ITIN (Individual taxpayer identification number)</li> <li>• Irrevocable trusts</li> <li>• Corporations, limited partnerships, general partnerships, and limited liability companies</li> <li>• Borrower who are party to a lawsuit</li> <li>• Borrowers with Diplomatic Immunity</li> <li>• Foreign nationals</li> </ul>  |
| <p><b>Ownership</b></p>                           | <ul style="list-style-type: none"> <li>• Ownership must be fee simple only and must be in the name of the individual Borrower(s) or Trust. Borrower(s) may hold title as Individual, Joint Tenants, and Tenants in Common</li> </ul>  |
| <p><b>Eligible Property/Occupancy</b></p>         | <ul style="list-style-type: none"> <li>• Primary Residences <ul style="list-style-type: none"> <li>○ 1-4 units</li> <li>○ Detached, attached, PUD, and eligible condominiums <ul style="list-style-type: none"> <li>▪ Condo- low/mid/high-rise new and established agency warrantable with HOA</li> <li>▪ Condo's with HOA in litigation are ineligible</li> </ul> </li> </ul> </li> <li>• Second Home <ul style="list-style-type: none"> <li>○ 1 unit</li> <li>○ Detached, attached, PUD and eligible condominiums</li> <li>○ Must be a reasonable distance away from borrower's primary residence</li> <li>○ Must be occupied by the borrower for some portion of the year</li> <li>○ Must be suitable for year-round use.</li> <li>○ Property may not be a time share, subject to a rental agreement, or other shared ownership agreements</li> <li>○ Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not exceed 30 rental days</li> <li>○ Rental income received on the property cannot be used as qualifying income</li> </ul> </li> <li>• Investment Property <ul style="list-style-type: none"> <li>○ Owned by the borrower but is not occupied by the borrower</li> <li>○ 1-4 units</li> <li>○ Detached, attached, PUD, and eligible condominiums</li> </ul> </li> <li>• Maximum lot size is 20 acres. Properties with greater than 10 acres must have three comparables with similar acreage</li> <li>• Multi-Financed properties- follow AUS requirements</li> </ul> |
| <p><b>Ineligible Property/Occupancy Types</b></p> | <ul style="list-style-type: none"> <li>• NOO/Investment properties (cash-out transactions)</li> <li>• Manufactured homes</li> <li>• Co-ops</li> <li>• Factory built housing</li> <li>• Properties held as leasehold</li> <li>• Condo hotel units</li> <li>• Condo with HOA litigation</li> <li>• Unwarrantable condo</li> <li>• Log homes</li> </ul>  |



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|                                   | <ul style="list-style-type: none"> <li>• Timeshare units</li> <li>• Geothermal homes</li> <li>• Unique properties</li> <li>• Mixed Use properties</li> <li>• Commercially zoned properties</li> <li>• Agriculturally zoned properties</li> <li>• Properties with an oil or gas lease</li> <li>• Properties with more than 20 acres</li> <li>• Working farms</li> <li>• Properties located in Puerto Rico, Guam, and US Virgin Islands</li> </ul>  |
| <b>Debt-to-Income Ratio (DTI)</b> | <ul style="list-style-type: none"> <li>• 43% /Self-Employed 35%</li> </ul>  |
| <b>LTV/CLTV/HCLTV</b>             | <ul style="list-style-type: none"> <li>• As per Matrix on page 2</li> </ul>   |
| <b>Purchase Transactions</b>      | <ul style="list-style-type: none"> <li>• Must adhere to Agency Guidelines</li> <li>• LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property</li> <li>• If Seller has taken title to the subject property 90 days prior to the date of the sales contract, the following requirements apply: <ul style="list-style-type: none"> <li>○ Property seller on the purchase contract is the owner of record</li> <li>○ Combined LTV will be based on the lesser of the prior sales price or the current appraised value</li> </ul> </li> <li>• Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property for purposes of this section</li> </ul>  |
| <b>Refinance Transactions</b>     | <p><b>Rate and Term Refinance:</b></p> <ul style="list-style-type: none"> <li>• Minimum of 6 months seasoning from the note date of the new transaction required if previous refinance was cash-out, including the pay-off of a non-seasoned subordinate lien.</li> <li>• For properties purchased more than six (6) months prior to the closing date the current appraised value may be used to calculate LTV.</li> <li>• For properties purchased within six (6) months of closing date the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. Original sales price will be determined from the Closing Disclosure from the subject acquisition transaction.</li> <li>• Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.</li> <li>• Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing</li> <li>• The mortgage amount may include the: <ul style="list-style-type: none"> <li>○ Principal balance of the existing first lien.</li> <li>○ Payoff of a purchase second lien.</li> <li>○ Payoff of a co-owner pursuant to a written agreement.</li> <li>○ Financing of the payment of prepaid items and closing costs.</li> </ul> </li> </ul> |

- Payoff of a non-purchase second lien seasoned a minimum of 12 months exceeding \$2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit.
- Cash back to the borrower is limited to the lesser of \$2,000 or 1% of the new loan.
- Principal reduction is permitted up to the lesser of \$2,500 or 2% of the new loan.
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.

#### Cash-Out Refinance Requirements:

- Borrower must have held title for a minimum of 6 months from disbursement date
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn or expired prior to the date of closing
- Texas 50 (a) (6) refinances are ineligible
- Max cash-out \$300,000

#### Continuity of Obligation

For a refinance transaction to be eligible for purchase there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction.

Continuity of obligation is met when any of the following exists:

- At least one borrower is obligated on the new loan who was also a borrower obligated on the existing loan being refinanced.
- The borrower has been on title and residing in the property for at least 12 months and has either paid the mortgage for the last 12 months or can demonstrate a relationship (relative, domestic partner, etc.) with the current obligor.
- The loan being refinanced and the title to the property are the in the name of a natural person or a limited liability company (LLC) as long as the borrower owns at least 25% of the LLC prior to transfer. Transfer of ownership from a corporation to an individual does not meet the continuity of obligation requirement.

Loans with an acceptable continuity of obligation may be underwritten, priced, and delivered as either cash-out or limited cash-out refinance transactions based on the requirements for each type of transaction.

#### Delayed Financing Refinance

- Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are eligible for purchase. Cash back to the borrower in excess of the original purchase price or appraised value (whichever is less) is not allowed. 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 by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds were used to purchase the property may not be reimbursed

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|   | <p><b>with the proceeds of the new loan.</b> Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash-out refinancing program limitations. Property may not be located in Texas</p> <ul style="list-style-type: none"> <li>• A Closing Disclosure is required to document no mortgage financing was used to obtain the subject property</li> </ul>  |
| <p><b>Construction Loan Refinancing</b></p>     | <p><b>Construction loan refinances are eligible as rate and term or cash-out refinances and must meet the following criteria:</b></p> <ul style="list-style-type: none"> <li>• Only the permanent financing on a construction to perm loan is eligible. Single closing construction permanent loan refinances are ineligible</li> <li>• Borrower must have held title to the lot for a minimum of 6 months prior to the closing of the permanent loan</li> <li>• The LTV will be based on the current appraised value if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan</li> <li>• If the lot was acquired less than 12 months before the closing date of the permanent loan the LTV will be based on the lesser of a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or b) the current appraised value of the lot plus the total acquisition costs</li> <li>• Appraiser’s final inspection is required</li> <li>• A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided</li> <li>• Construction loan refinances in which the borrower has acted as builder are not eligible for purchase</li> </ul> |
| <p><b>Contract for Deed/Land Contracts</b></p>  | <ul style="list-style-type: none"> <li>• Contract for Deed/Land Contracts are ineligible</li> </ul>  |
| <p><b>Non-Arm’s Length Transactions</b></p>     | <p>All of the parties to a transaction should be independent of one another. Except as indicated below if a direct relationship exists between or among the parties, the transaction is a non-arm’s length transaction, and the related loan is not eligible for purchase. The following transactions are eligible provided that such transactions and the related circumstances are properly documented:</p> <ul style="list-style-type: none"> <li>• Sales or transfers between members of the same family. Transaction may not be due to any adverse circumstances.</li> <li>• Property seller acting as his or her own real estate agent</li> <li>• Borrower acting as his or her own real estate agent.</li> <li>• Borrower is the employee of the originating lender.</li> <li>• Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).</li> </ul>  |
| <p><b>Credit Documentation Requirements</b></p> | <p><b>Age of Credit Documents</b></p> <ul style="list-style-type: none"> <li>• Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Service Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the</li> </ul>  |



aforementioned Freddie Mac Guide, the guide requirements must be followed.

#### **Credit Tradelines/Score**

- The representative credit score for qualification purposes for an individual borrower is the middle score of three (3) scores reported.
- If only 2 scores reported the lower of 2 scores is used for qualification
- Credit Scores from all three (3) repositories must be requested (Equifax, Experian, and TransUnion).
- For multiple borrowers the credit score is the lowest of all representative credit scores.
- If only 1 score or no score is reported the borrower is not eligible. A minimum of 2 credit scores is required.
- Credit rescoring is not permitted unless the rescore is correcting erroneous line items or disputed accounts.
- No Borrower in a transaction may have frozen credit. If a borrower has frozen credit and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current updated information for evaluation.

#### **Minimum Credit Requirements**

- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Service Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the aforementioned Freddie Mac Guide, the guide requirements must be followed.

#### **Mortgage/Rental History**

- A minimum of twenty-four (24) months verified housing history is required; 0 X 30 lates.
- For rental verification
- Borrowers with no mortgage/rental history due to a residence scenario requiring no mortgage or rental payments are eligible with a satisfactory letter of explanation.
- If primary residence housing history reflects a forbearance arrangement, the payment history must reflect 0 X 30 lates in the most recent 24 months since exiting forbearance.

#### **Credit Inquiries**

- All inquiries that have taken place within 120 days of the credit report date must be explained by the borrower and documented accordingly.
- Borrower must be qualified with any new debt.

#### **Liens, Judgments, and Collections**

- Satisfactory explanation for any delinquent credit from the borrower is required.
- Borrower must pay off all delinquent credit that has the potential to impact lien position.
- Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than \$1000.00 or if there are multiple



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|   | <p>accounts and the total balance of all accounts cannot exceed \$2,500.00.</p> <p><b>Foreclosure, Deed-In-Lieu of Foreclosure, Bankruptcy, and Short Sales</b></p> <ul style="list-style-type: none"> <li>• At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale or deed-in-lieu measured from the date of completion to the date of application</li> </ul>   |
| <p><b>Employment and Income</b></p>             | <p>Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the aforementioned Freddie Mac Guide, the guide requirements must be followed. The loan file should include an Income Analysis form detailing income calculations.</p> <p><b>Employment and Income Stability</b></p> <ul style="list-style-type: none"> <li>• Borrower(s) must have a minimum of two years employment and income history on the URLA.</li> <li>• Gaps in employment over thirty days during the most recent two year period require a satisfactory letter of explanation from the Borrower</li> <li>• All Borrowers contributing income for qualification must be employed at present employment for a minimum of six months to qualify, if there is a gap in employment during the previous two years</li> </ul>  |
| <p><b>Income Documentation Requirements</b></p> | <p><b>Important Note Regarding Documentation:</b> Appendix Q states that a borrower with a 25 percent or greater ownership interest in a business is considered self-employed. Any borrower for whom the ownership of 25 percent or more of a corporation, limited liability company, partnership, sole proprietorship, or other entity appears in the loan file must have the supporting documentation that is required by the relevant portions of the “Self-Employed Borrowers” subsection below. This documentation is required even if the borrower is a salaried employee of such business entity and/or another company, and even if the lender only relied upon the borrower’s salary or other income to establish eligibility. <b>All required documentation as described here and in the following sections must be obtained prior to closing and submitted in the closed loan file</b></p> <p><b>Salaried Borrowers</b></p> <ul style="list-style-type: none"> <li>• Completed, signed, and dated final Uniform Residential Mortgage Application. Most current form must be used</li> <li>• Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the aforementioned Freddie Mac Guide, the guide requirements must be followed.</li> <li>• Signed IRS Form 4506C</li> </ul> <p><b>Salaried Borrowers with Commission/Bonus</b></p> <ul style="list-style-type: none"> <li>• Commission income must be documented with a written VOE breaking down the bonus or commission income for the past 2 years or year-to-date paystub and W-2’s supporting the income.</li> </ul> |



### Verbal VOE

- Verbal VOE of current employment documented in writing is required to be obtained either no more than ten (10) business days prior to the Note Date, or after the Note Date but prior to purchase. If the employer uses a third-party employment verification vendor, the verification must be obtained within the same time frame as the verbal VOE requirements above and the verification must evidence the information in the vendor's database was no more than 35 days old as of the Note Date. The verbal VOE must cover 24 months of employment. If the borrower has changed jobs during the past two years, the verbal VOE must show the start and end dates for each job. The VOE(s) documenting prior employment, not including the current employer, must be dated prior to closing, but are NOT required to be dated within ten (10) calendar days. Any employment gaps one (1) month or greater must be addressed with a satisfactory signed letter of explanation from the borrower.

### Tax Transcripts

- Tax Transcripts are required to be obtained from the IRS only for income for years being used for qualification.
- Wage transcripts are acceptable for W-2 Borrowers.
- Borrower pulled transcripts are not acceptable.
- The IRS transcripts and the supporting income documentation provided by the lender must be consistent.

### Self-Employed Borrowers

- Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes
- Completed, signed, and dated final Uniform Residential Mortgage Application. Most current form must be used
- Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the aforementioned Freddie Mac Guide, the guide requirements must be followed.
- If the tax return for the previous tax year is not filed, a 12-month P&L and balance sheet for this period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided.
- Signed IRS Form 4506C.

### Additional Requirements for P&L, Balance Sheet, and Business Bank Statements:

Lenders should apply due diligence and review the actions of the business and any impact the current economic environment has taken on the flow of income in order to determine if the borrower's income is stable and there is a reasonable expectation of continuance.

The underwriter must include comments/justification of their analysis to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on businesses, lenders are now required to obtain the following

documentation to support the decision that the self-employment income meets requirements:

- An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) a Balance Sheet; or
- (1) An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) business bank statements from the most recent three months represented on the year-to-date P&L and (3) a Balance Sheet.
  - For example, the business bank statements should be from March through May 2021 for a year-to-date profit and loss statement dated through May 31, 2021.
  - The three most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date P&L statement.

#### **Small Business Administration (SBA) Loans and Grants Requirements**

- The existence of a Paycheck Protection Program (PPP) loan or any other similar COVID related loan or grant could be helpful information in analyzing the borrower's business.
- PPP loan terms allow deferred payments for a specified period, no personal loan guarantee, and the potential for all or some portion of the loan to be forgiven. Therefore, a payment for the PPP loan does not need to be included in the borrower's liabilities at this time. Once it has been determined that any portion of the PPP loan must be repaid, follow the requirements of the "Employment and Income" and "Debts and Liabilities" sections of these guidelines.
- Proceeds from the PPP loan must not be included as business income or assets.
- PPP loan proceeds cannot be used for the subject transaction down payment, closing costs, prepaids or reserves.

Follow all requirements in this section for underwriting self-employed borrowers.

#### **Verification of Active Business**

- The lender must verify the existence of the borrower's business in writing either no more than ten (10) business days prior to the Note Date, or after the Note Date but prior to purchase. Methods of verifying business include:
  - Verification from a third party such as a CPA, regulatory agency or by an applicable licensing bureau. If CPA letter is used it must indicate the borrower has been self-employed for a minimum of 2 years. Internet listings are not an acceptable source of verification.

#### **Other Income**

For all other acceptable income sources:

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|                                     | <ul style="list-style-type: none"> <li>Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the aforementioned Freddie Mac Guide, the guide requirements must be followed.</li> </ul>   |
|                                     | <p><b>Unacceptable Income</b></p> <p>Unacceptable income sources include the following:</p> <ul style="list-style-type: none"> <li>Any source that cannot be verified</li> <li>Restricted stock income (RSU)</li> <li>Income that is temporary</li> <li>Rental Income (Boarder Income) received from the borrower’s primary residence</li> <li>Expense account payments</li> <li>Retained earnings</li> <li>Automobile allowances</li> </ul>  |
| <p><b>Debts and Liabilities</b></p> | <p><b>Debt-to-Income Ratio</b></p> <ul style="list-style-type: none"> <li>The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. All liabilities are included in qualifying. Refer to the Matrix on page 2 for the maximum allowable DTI</li> </ul>                                    |
|                                     | <p><b>Installment Debt</b></p> <ul style="list-style-type: none"> <li>Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the aforementioned Freddie Mac Guide, the guide requirements must be followed.</li> </ul>  |
|                                     | <p><b>Revolving Debt</b></p> <ul style="list-style-type: none"> <li>Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the aforementioned Freddie Mac Guide, the guide requirements must be followed.</li> </ul> <p><b>Home Equity Line of Credit (HELOC)</b></p> |

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|  | <ul style="list-style-type: none"> <li>For HELOC loans paid off at closing the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document</li> <li>Subordination of HELOC loans is permitted up to a maximum CLTV per matrix.</li> </ul> <p><b>Pending Sale of Departing Residence or Conversion of Departing Residence to Investment Property</b></p> <ul style="list-style-type: none"> <li>Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the aforementioned Freddie Mac Guide, the guide requirements must be followed.</li> </ul>  |
| <p><b>Assets and Source of Funds</b></p> | <p><b>Source of Funds</b></p> <ul style="list-style-type: none"> <li>Follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide, published June 3, 2020 or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single-Family Seller/Servicer Guide, published June 10, 2020. If a discrepancy exists between DU and the aforementioned Fannie Mae Guide or LPA and the aforementioned Freddie Mac Guide, the guide requirements must be followed.</li> <li>Gifts of equity are not allowed</li> </ul> <p><b>Cash Reserves</b></p> <ul style="list-style-type: none"> <li>Primary Residence- Purchase/Rate-Term Refinance = 12 months</li> <li>Primary Residence- Cash-Out Refinance = 18 months</li> <li>Second Home- Purchase/Rate-term Refinance/Cash-Out Refinance = 18 months</li> <li>Non-Owner Occupied- The greater of the AUS reserve requirements or below requirements: <ul style="list-style-type: none"> <li>Loan Amount &lt;= \$1,000,000 = follow AUS requirements</li> <li>Loan Amount &gt; \$1,000,000 and &lt;= \$2,000,000 = 3 months PITI reserves</li> <li>Loan Amount &gt; \$2,000,000 and &lt;= \$2,500,000 = 12 months PITI reserves</li> <li>Loan Amount &gt;\$2,500,000 and &lt;= \$3,000,000 = 18 months PITI reserves</li> <li>Cash- Out Refinance: Loan Amount &gt;\$2,000,000 and &lt;= \$2,500,000 = 18 months PITI reserves</li> </ul> </li> <li>Reserves must be verified and comprised of liquid assets that borrower can readily access. Vested retirement and mutual funds are acceptable at 70%</li> <li>Equity lines of credit, gift funds, business assets and cash out from the subject property on refinance transactions are not acceptable sources to meet the reserve requirement</li> </ul> |
| <p><b>Declining Markets</b></p>          | <ul style="list-style-type: none"> <li>Reduce maximum LTV/CLTV by 10% for any property located in an area of declining property values as reported by appraiser.</li> </ul>  |
| <p><b>Land-to-Value</b></p>              | <ul style="list-style-type: none"> <li>The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive</li> </ul>   |



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|   | <p>utilities, street improvements, adequate vehicular access, and other amenities. As amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.</p>   |
| <p><b>Appraisal Requirements</b></p>                | <ul style="list-style-type: none"> <li>• All appraisals must be completed on the most current Agency appraisal forms and conform to Agency appraisal practices.</li> <li>• Property Inspection Waiver (PIW) not allowed.</li> <li>• Properties must be appraised within the twelve months that precede the date of the Note and Mortgage.</li> <li>• Two (2) full appraisals are required for loan amounts &gt; \$1,500,000. LTV/CLTV will be based on the lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled</li> <li>• Appraisals transferred or assigned from another lender are not acceptable.</li> <li>• Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old a recertification of value needs to be performed.</li> </ul>  |
| <p><b>Third Party Appraisal Review</b></p>          | <ul style="list-style-type: none"> <li>• Appraisal desk review is required and will be ordered by FCM on all loans with a collateral underwriter score higher than 2.5. Loans with a collateral underwriter score of 2.5 or lower are exempt from the above appraisal desk review requirement.</li> <li>• The review must not be over 120 days old from the date of the Note.</li> <li>• If the desk review produces a value in excess of a 10% negative variance to the appraised value, FCM will order a field review. If the field review also produces a value in excess of 10% negative variance, the loan will be ineligible.</li> <li>• All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal including the underwriting thereof.</li> </ul> |
| <p><b>Properties Located in a Disaster Area</b></p> | <p>The following is required for properties located in a FEMA declared disaster zone to be eligible for purchase:</p> <ul style="list-style-type: none"> <li>• If the property is in a zone where a Disaster End Date has been declared by FEMA, MAXEX will order a post disaster inspection prior to loan purchase to confirm the property value has not been impacted by the disaster.</li> <li>• If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside of current known fire boundaries.</li> </ul>  |
| <p><b>Additional Loan Attributes/Policies</b></p>   | <p><b>Subordinate Financing</b></p> <ul style="list-style-type: none"> <li>• Allowed up to maximum CLTV per matrix. Secondary financing terms must conform to Agency guidelines</li> </ul> <p><b>Chain of Title</b></p> <ul style="list-style-type: none"> <li>• All transactions require a minimum twelve (12) month chain of title</li> </ul>  |

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|   | <ul style="list-style-type: none"> <li>For purchase transactions seller must have taken title to the subject property a minimum of ninety (90) days prior to the date of sales contract</li> </ul>  |
|   | <p><b>Balloon Mortgage</b></p> <ul style="list-style-type: none"> <li>Balloon mortgages are not eligible for purchase</li> </ul>  |
|   | <p><b>Recasting/Re-amortizing</b></p> <ul style="list-style-type: none"> <li>Recasting or re-amortized transactions are not eligible for purchase</li> </ul>  |
|   | <p><b>Temporary Buydown</b></p> <ul style="list-style-type: none"> <li>Temporary buydown mortgage loans are not eligible for purchase</li> </ul>  |
|   | <p><b>Prepayment Penalty</b></p> <ul style="list-style-type: none"> <li>Mortgage loans with prepayment penalties are not eligible for purchase</li> </ul>   |
|   | <p><b>Interested Party Contributions</b></p> <ul style="list-style-type: none"> <li>Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses <ul style="list-style-type: none"> <li>LTV between 75.01% - 80%: max 6% contribution allowed.</li> <li>LTV ≤ 75%: max 9% contribution allowed.</li> <li>NOO: max 2% contribution allowed.</li> </ul> </li> </ul>  |
|   | <p><b>Seller Concessions/Contribution</b></p> <ul style="list-style-type: none"> <li>Seller contributions in excess of the interested party contribution limits or contributions not being used for prepaid expenses or closing costs are considered seller concessions. The amount of the seller concession must be deducted from the purchase price and appraised value to determine the LTV.</li> </ul>  |
|   | <p><b>HERO/PACE/Solar Panels</b></p> <ul style="list-style-type: none"> <li>Any item that that will include a UCC associated with the property and/or will create an easement on title is ineligible</li> <li>Payoff of a HERO lien is considered cash-out</li> </ul>   |
|   | <p><b>Escrows</b></p> <ul style="list-style-type: none"> <li>It is recommended that escrow account be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable</li> <li>Properties where the insurance coverage on the declaration page does not cover the loan amount must have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost</li> <li>Hazard insurance must have the same inception date as the date of disbursement on purchase money mortgages. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy</li> <li>All applicable loans must adhere to HFIAA regarding flood insurance escrows</li> <li>Escrow holdbacks are not allowed</li> </ul> |
| <p><b>Title and Closing Documentation</b></p> | <p><b>Forms</b></p> <ul style="list-style-type: none"> <li>All Notes, security instruments, riders, addenda, and special purpose documents used in connection with fully amortizing one to two family conventional first mortgages must be prepared on approved Agency forms</li> </ul>   |





unless this guide specifically requires otherwise. See most recent Fannie Mae and Freddie Mac Selling Guides for reference

- Copy of security instrument submitted in the file must be a true and certified stamped copy of the original recorded security instrument

#### Title

- Title insurance must meet Agency requirements and be written on the 2006 American Land Title ALTA form providing gap coverage or the ALTA short form. Other state forms may be used in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted. If alternative forms are used, the lender must ensure that those amendments provide the same coverage
- The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including the endorsements for Condominiums, PUDs, and ARM loan types
- The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form)
- The title insurance policy must ensure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan
- A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related Mortgage Loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured
- Any existing tax or mechanic's liens must be paid in full through escrow