



first community mortgage



FCM NMLS ID 629700

Non-Conforming Select AUS Jumbo Guidelines



| Select AUS Eligibility Matrix | | | | | |
|---|-------|-------|-------------------------|----------------------------------|-------------------|
| Fixed Rate (30 year) | | | | | |
| Primary Residence/Purchase, Rate and Term Refinance | | | | | |
| Transaction Type | Units | FIC O | Maximum LTV/CLTV/HCL TV | Maximum Loan Amount ¹ | |
| Purchase R/T Refinance | 1 | 700 | 80% | \$1,500,000 | |
| | | 720 | 75% | \$2,000,000 | |
| | 2 | 720 | 65% | \$1,000,000 | |
| | | 720 | 60% | \$1,500,000 | |
| Primary Residence/Cash-Out Refinance | | | | | |
| Transaction Type | Units | FIC O | Maximum LTV/CLTV/HCL TV | Maximum Loan Amount ¹ | Maximum Cash-Out |
| Cash-Out Refinance | 1 | 720 | 70% | \$1,000,000 | Follow Fannie Mae |
| | | 700 | 65% | \$1,000,000 | |
| | | 720 | 65% | \$1,500,000 | |
| | | 720 | 60% | \$2,000,000 | |
| | 2 | 720 | 60% | \$1,000,000 | Follow Fannie Mae |
| Second Home/Purchase, Rate and Term Refinance | | | | | |
| Transaction Type | Units | FICO | Maximum LTV/CLTV/HCL TV | Maximum Loan Amount ¹ | |
| Purchase or Rate and Term Refinance | 1 | 740 | 80% | \$1,000,000 | |
| | | | 70% | \$1,500,000 | |
| | | | 65% | \$2,000,000 | |
| Second Home/Cash-Out Refinance | | | | | |
| Transaction Type | Units | FICO | Maximum LTV/CLTV/HCL TV | Maximum Loan Amount ¹ | Maximum Cash-Out |
| Cash-Out Refinance | 1 | 740 | 60% | \$1,500,000 | Follow Fannie Mae |
| | | | 50% | \$2,000,000 | |

¹Minimum Loan Amount- \$1 over conforming limits



Overlays

- Minimum Credit Score is 700
- Maximum LTV/CLTV based on transaction type and credit score
- Reserve Requirements- Refer to Reserve Table in Assets
- Credit History Requirements- Refer to Credit Section

Underwriting Requirements/AUS

Follow FNMA Seller Guide and DU Findings, subject to FCM Overlays

- The loan must meet the Price Based QM definition; Safe Harbor = <150 basis points above the applicable APOR.
- In all cases, the loan file must document the eight (8) ATR rules.
- Loans must be fully underwritten to just one of the applicable guidelines; Fannie Mae (chapters B3-3 through B3-6 of the FNMA Single Family Selling Guide) or Freddie Mac (sections 5102 through 5500 of the FHLMC Single Family Seller/Servicer Guide).
 - One guideline per loan
- Although these guidelines are defaulted to Fannie Mae, Fannie Mae DU or Freddie Mac LPA are acceptable AUS programs.
- AUS Findings with an Approve/Ineligible due to loan amount, must be present in all closed loan files.

Documentation

- 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.
- All credit documents, including title commitment, must be no older than 120 days from the Note date.
- All loans must meet the Price-Based QM Safe Harbor definition. Safe Harbor = APR<150 basis points above the applicable APOR.
- QM designation must be provided in the loan file. For the Select QM program:
 - QM designation is QM Safe Harbor- APOR (*price-based*)
- Loan file must document the eight (8) Ability to Repay (ATR) rules identified in Part 1026-Truth-in-Lending (Regulation Z).
- 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.

Debt to Income Ratio

- 45% max DTI for all transactions.

Refinance Transactions

- Follow FNMA/FHLMC Seller Guide and DU/LP Findings, subject to FCM overlays, for LTV/CLTV/HCLTV refinance calculation.



Rate and Term Refinance & Cash-Out Refinance Requirements

- Follow FNMA Seller Guide and DU Findings, subject to FCM overlays.

Delayed Purchase Refinancing

- Follow FNMA Seller Guide and DU Findings, subject to FCM overlays.
 - 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.

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.

Subordinate 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 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.

Financing/Seller Concessions and Personal Property

- Follow FNMA Seller Guide and DU Findings, subject to FCM Overlays.



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.



Credit

Derogatory Credit:

- Follow FNMA Seller Guide and DU Findings subject to FCM Overlays.

Additional Credit Guidelines- Follow Fannie Mae Selling Guide and DU Findings

- **Bankruptcy:** Chapter 7, 11, or 13: Seven (7) year waiting period from the discharge or dismissal date.
- **Foreclosure:** Seven (7) year waiting period measured from the completion date of the foreclosure reported on the credit report or other foreclosure documents.
- **Deed-in- Lieu, Pre-foreclosure, and Charge-Off of a Mortgage Account:** Seven (7) year waiting period is required from the completion date as reported on the credit report or other documents.
- **Multiple Credit Events:** Not Allowed.

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.

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

- Follow Fannie Mae.

Credit Inquiries:

- If the credit report indicates inquiries within the most recent 120 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.

Assets

Asset Requirements: Follow Fannie Mae Selling Guide for guideline details

- 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.



| Reserve Requirements (# of Months of PITIA)* | |
|--|---|
| Loan Amount | # of Months |
| ≤ \$1,000,000 | 6 |
| >\$1,000,000 | 12 |
| Additional 1-4 Unit Financed REO | Additional three (3) OR 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. |
| | Max of ten (10) financed properties may be owned. |
| *Borrowed funds (secured or unsecured) are not allowed for reserves | |

Liabilities

Follow FNMA Seller Guide and DU Findings, subject to Redwood Overlays for the following:

- Liability Requirements
- Contingent Liabilities
- Departure Residence Pending Sale
- Departure Residence Subject to Guaranteed Buy-out with Corporation Relocation.



Income/Employment

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.

General Documentation Requirements

- 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.
- Tax Transcripts required.
- 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 must be used based on application date. Instructions per Form 1084 or Form 91 must 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-1 that 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 ninety (90) 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 Thirty (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 on W-2 forms or paystubs.

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 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.
- 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 on or before the closing date.
- For unfiled tax returns for the prior year's tax return, please see the Jumbo Program Eligibility Supplement.

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/Hourly Income

- Follow DU Findings or Fannie Mae Selling Guide.
- Most recent paystub, Written Verification of Employment, The Work Number report, or Payroll Direct Report.
- W-2
 - W-2 is not required if a Written Verification of Employment, The Work Number report, or Payroll Direct Report is in the file.
- Verification of Employment within 10 days of closing.

Part-Time Income

- Follow DU Findings or Fannie Mae Selling Guide.
- Verification of a minimum history of two (2) years secondary employment income is recommended; however, income that has been received for a shorter period of time, but less than 12 months, may be considered as acceptable income, as long as there are positive factors to reasonably offset the shorter income history.
- VVOE
- Stable to increasing income should be averaged for the two (2) years.

Commission Income

- Follow DU Findings or Fannie Mae Selling Guide.
- A Written VOE or:
 - YTD Paystub
 - Two (2) Years W-2's
 - VVOE
 - Stable to increasing income should be averaged over a two (2) year period.

Overtime and Bonus Income

- Follow DU Findings or Fannie Mae Selling Guide.
- YTD Paystub
- W-2's
- VVOE
- Stable to increasing income should be averaged over a two (2) year period.

Alimony/Child Support/Separate Maintenance

- Follow DU Findings or Fannie Mae Selling Guide.
- Considered with a divorce decree, court ordered separation agreement, or other legal agreement provided the income will continue for at least three (3) years.
- Evidence of receipt of full, regular, and timely payments for the most recent six (6) months.



Asset Depletion

- Follow Fannie Mae Employment- Related Assets as Qualifying Income.

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 three (3) continuous years to be considered qualifying income.
- Personal tax returns – Two (2) years with a consistent history of gains from similar assets.
- Document assets similar to the assets reported as capital gains to support the continuation of the capital gain income.

NOTE: Capital losses identified on IRS Form 1040, Schedule D, do not have to be considered when calculating income or liabilities, even if the losses are recurring.

Disability Income – Long Term

(Private policy or employment-sponsored policy)

- Follow DU Findings or Fannie Mae Selling Guide.
- 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

- Follow DU Findings or Fannie Mae Selling Guide.
- 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

- Follow DU Findings or Fannie Mae Selling Guide.
- 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

- Follow DU Findings or Fannie Mae Selling Guide.
- If the Schedule K-1 reflects a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then no further documentation



of access to the income or adequate business liquidity is required. The Schedule K-1 income may then be included in the borrower's cash flow.

- If the Schedule K-1 does not reflect a documented, stable history of receiving cash distributions of income from the business consistent with the level of business income being used to qualify, then the lender must confirm the business has adequate liquidity to support the withdrawal of earnings. The lender may use discretion in the method used to confirm the business has adequate liquidity.

Non-Taxable Income

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

- Follow DU Findings or Fannie Mae Selling Guide.
- 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

- Follow DU Findings or Fannie Mae Selling Guide.
- 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. Note income must have a three (3) year continuance.
- Payments on a note executed within the past 12 months, regardless of the duration, may not be used as a stable income.

Projected Income

- Follow DU Findings or Fannie Mae Selling Guide.

Rental Income

- Follow DU Findings or Fannie Mae Selling Guide.

Refinance

- Borrower has a previous history of rental income:
 - Form 1007 or Form 1025 and either one of the following:
 - Most recent year of signed 1040's including Schedule 1 or Schedule E.
 - Signature requirement can be waived if the tax transcripts are obtained to support the tax return.
- Borrower does not have a previous history of rental income:
 - Form 1007 or 1025
 - Copies of current executed lease agreement(s)

Purchase

- Form 1007 or 1025
- Copies of current executed lease agreement(s)
- Personal tax returns –
 - 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.
- 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 two (2) units, rental income may be included for the unit not occupied by the borrower if the requirements for a lease agreement and/or tax returns above are met.

Rental Income- Departing Primary Residence

- Follow DU Findings or Fannie Mae Selling Guide.

Restricted Stock and Stock Options

- Not Allowed

Retirement Income

- Follow DU Findings or Fannie Mae Selling Guide.
- Document current receipt of the income, as verified by:
 - a statement from the organization providing the income,
 - a copy of retirement award letter or benefit statement,
 - a copy of financial or bank account statement,
 - a copy of signed federal income tax returns,
 - an IRS W-2, or
 - an IRS 1099 form

Note: The borrower must have unrestricted access to the accounts without penalty.

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

Social Security Income

- Follow DU Findings or Fannie Mae Selling Guide.
- 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.

Trust Income

- Follow DU Findings or Fannie Mae Selling Guide.
- Income from trusts may be used if guaranteed and regular payments will continue for at least three (3) years.
- 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



Self-Employment Documentation Requirements:

- Follow DU Findings or Fannie Mae Selling Guide.
- 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 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.

Two-year History is generally required

- 12-24 months self-employment history may be considered as long as the client's most recent tax returns reflect income at the same or greater level in a field that provides the same products or services as the current business or in an occupation in which he or she had similar responsibilities to those in connection with the current business.
- 1-2 year signed 1040's and K-1's depending on DU findings.
 - Signature requirement may be waived if tax transcripts are obtained to support the 3 years of 1040's.
- If one (1) year is required per DU findings the following requirements apply:
 - Signed 1040's and business tax returns for the most recent year.
 - Confirm the tax returns reflect at least 12 months of self-employment income.
- Two (2) years business tax returns required unless all the following are true:
 - Borrower is using his or her own personal funds for the down payment, closing costs, and reserves.
 - Borrower has been self-employed for at least five years.
 - Borrower's individual tax returns show an increase in self-employment income over the past two (2) years.

Verification of Employment

- Verify the existence of the borrower's business within 120 calendar days prior to the note date.

Year-To-Date Profit & Loss Statement:

- Year-to-date Profit & Loss is only required if self-employment income is the primary income source used to qualify.
- Must be updated through the most recent quarter prior to application.
- Prior to the end of the first quarter, a year-to-date Profit & Loss is required for the following year. No current year-to-date Profit & Loss is required.
- If the year-to-date Profit & Loss statements reflect a downward income trend, the lower income reporting on the YTD Profit & Loss must be used for qualification.
- May be either audited or unaudited.

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



Secondary Self-Employment Income:

- Business income reported on a borrower's individual tax returns is not required to be used in qualification, if the borrower is only using income not derived from self-employment and self-employment is a secondary and separate source of income.
- Secondary and separate sources of self-employment losses reporting on 1040 tax transcripts greater than 5% of the borrowers total qualifying income must be deducted from the qualifying income. Additional self-employment documentation is not required.
- Examples of income not derived from self-employment include salary and retirement income.

Income from Self-Employed Co-Borrower:

- When co-borrower income is derived from self-employment is not being used for qualifying purposes, the Lender is not required to document or evaluate the co-borrower's self-employment income.
- Co-borrower self-employment losses reporting on 1040 tax transcripts greater than 5% of borrowers total qualifying income must be deducted from qualifying income. Additional self-employment documentation is not required.

Sole Proprietorship

- Follow DU Findings or Fannie Mae Selling Guide.

Partnership/S-Corporation

- Follow DU Findings or Fannie Mae Selling Guide.

Corporation

- Follow DU Findings or Fannie Mae Selling Guide.



Eligible Products

- Fixed Rate 30-year term

Ineligible Products

- High-Cost Loans (Federal, State, Local)
- Higher-Priced Mortgage Loans (HPML) (TILA 1026.35)
- Non-Standard to Standard Refinance Transactions (ATR Exempt)
- Higher-Priced Covered Transactions (HPCT QM-Rebuttable Presumption) (TILA 1026.43 (b)(4))
- Balloons
- Graduated Payments
- Interest Only Products
- Temporary Buy Downs
- Texas 50(a)(6) / Texas 50(f) (2) Refinances (Texas Equity Loans)
- Construction to Permanent Loans
- Loans with Prepayment Penalties
- Convertible ARMs
- 5/1, 7/1, 10/1 ARM Fully Amortizing, 30-year term

Eligible Borrowers

- 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.
 - Borrower must have a current twenty-four (24) month employment history in the US.
 - History of at least one visa renewal.
- Inter Vivos Revocable Trust (see Jumbo Program Eligibility Supplement for requirements).
- All borrowers must have a valid Social Security Number.
- Non-Occupant Co-Borrowers.

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

- Follow FNMA/FHLMC Seller Guide and DU/LP Findings subject to FCM Overlays



Eligible Properties

- 1-2 Unit Owner Occupied Properties
- 1 Unit Second Homes
- Condominiums – Attached – Warrantable- Follow Fannie Mae Guidelines
 - 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
- Full Review allowed. Warranty to Fannie Mae full review guidelines.
- Projects with 2-4 units – no condominium review or condominium warranty is required. Fannie Mae basic requirements apply.
- Condominium documents to support condominium eligibility review must be no older than 120 days from Note date.
- Condominiums – Detached (including site condominiums)
 - No condominium review or condominium warranty is required. Fannie Mae basic requirements apply.
- Modular homes
- Planned Unit Developments (PUDs)
- Properties with ≤40 Acres
 - Properties >10 acres ≤20 acres must meet the following:
 - Maximum land value 35%
 - No income producing attributes

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
- Deed/Resale Restrictions must meet Fannie Mae requirements.

Ineligible Properties

- 2-4-unit second home properties
- 3-4-unit owner occupied properties
- Investment Properties
- Condotels / Condo Hotels
- Co-ops
- Manufactured Homes/Mobile Homes
- Mixed-Use Properties
- Model Home Leasebacks
- Non-Warrantable Condominiums
- 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
- Leasehold Properties
- Solar panels with UCC filing associated with the property and/or will create an easement on title.
- 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



Appraisal Requirements

- Transferred appraisals are not allowed.
- Appraisal waivers/PIW 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 appraisal over 120 days aged but less than 180 days aged from Note.
 - Appraisal Update (Form 1004D) must be dated within 120 days of the Note date.
- The appraisal 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 the original appraisal.
 - If the value has declined since original appraisal, a new full appraisal is required.
- Collateral Underwriter (CU) score in lieu of CDA is allowed with the following requirements:
 - UCDP SSR included in loan file with a Fannie CU score of 2.5; or
 - Loan Collateral Advisor (LCA) with a score of 2.5 or less
 - **Note:** (CU/LCA) score cannot be used if a CDA has been pulled and value is not supported within 10% tolerance, further value support is required by either a Value Reconciliation from Clear Capital, Field Review, or 2nd full appraisal.
- Collateral Desktop Analysis (CDA) ordered from Clear Capital is required to support the value of the appraisal if the CU score is not being applied. The seller is responsible for ordering the CDA.
 - If the CDA returns a value that is “Indeterminate” or if the CDA 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 (Broker Price Opinion) and a Clear Capital 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.
- 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.

Disaster Policy

- Follow FCM Disaster Policy