



first community mortgage



FCM NMLS ID 629700



Non-Conforming Select 90 Jumbo Guidelines

Program Code
NCJSEL90

1.2022



Select 90 Eligibility Matrix				
Fixed Rate (30 year)				
Primary Residence/Purchase, Rate and Term Refinance				
Transaction Type	Units	FICO	Maximum LTV/CLTV/HCLTV	Maximum Loan Amount ¹
Purchase R/T Refinance	1	740	90% ³	\$1,500,000 ²

¹Minimum Loan Amount- \$1 over conforming limits

²First-Time Homebuyers are subject to maximum loan amount of \$1,000,000. Loan amounts up to \$1,500,000 allowed in CA, CT, and WA for First-Time Homebuyers. See Eligible Borrower Section for specific requirements for First-Time Homebuyers

³MI not Required; Escrow/Impound accounts required for LTV's greater than 80%, unless prohibited by applicable laws



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 = $APR \leq 225$ basis points above the applicable APOR (HPCT)
- QM designation must be provided in the loan file.
- In all cases, the loan file must document the eight (8) ATR rules.
- In some cases, exceptions to program eligibility requirements may be acceptable when strong compensating factors exist to offset the risk. Prior exception required by Investor/FCM.

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. For the Select 90 QM program:
 - QM designation is QM Safe Harbor-APOR (price-based).
 - QM designation is QM Rebuttable Presumption if the loan is a Higher-Priced Covered Transaction (HPCT).

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. Select 90 does not allow secondary financing.
- 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.
- Borrower Affidavit specific to COVID-19 pandemic for loan with application dates on or after June 1st, 2020.

Debt to Income Ratio

- 38% for First-Time Homebuyers
- 43% for Non-First-Time Homebuyers
- Additional reserves are required for DTI's between 38.01% and 43.00%, please see Assets section of this guide for additional reserve requirements.



Refinance Transactions

Calculating LTV

- If the subject property is owned more than twelve (12) months, the LTV is based on the current appraised value. The twelve (12) month time frame may be based on subject transaction Note date.
- If the subject property is owned less than twelve (12) months, the LTV is based on the lesser of the original purchase prices 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 the subject transaction Note date.

Rate and Term Refinance & Cash-Out Refinance Requirements

- 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

Delayed Purchase Refinancing

- 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.



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

- Not Allowed

Multiple Financed Properties

- The borrower(s) may own a total of two (2) financed, 1–4-unit residential properties including the subject property on the Select 90 program.
- All financed 1–4-unit residential properties require six (6) months reserves for each property, unless exclusions below apply.
- 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 for refinance transactions.
- Properties listed for sale within six (6) months of the application date are acceptable if the following requirements are met:
 - Rate and Term refinance only



- Primary Residence only
- Documentation provided to show cancellation of listing
- Acceptable letter of explanation from the borrower detailing the reason for cancelling the listing

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 is limited to 3%

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.

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.

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.
- Borrower purchasing from their landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord).



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Select 90 Jumbo Underwriting

- 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

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 reflecting 0X30 in the last twenty-four (24) months. The mortgage rating may be on the credit report or a VOM. Applies to all borrowers on the loan.
- 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 reflecting 0X30 in the last twelve(12) months. Applies to all borrowers on the loan.
- 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 – Not Allowed
- Foreclosure/Notice of Default – Not Allowed
- Short Sale/Deed-in-Lieu- Not Allowed
- Mortgage accounts that were settled for less, negotiated or short payoffs -Not Allowed
- Loan Modification – Not Allowed unless the modification is unrelated to hardship and there is no debt forgiveness as evidenced by supporting documentation.



- 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.”
- 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.

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 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.

Asset Type	% Eligible for Calculation of Funds	Additional Requirements
Checking/Savings/Money Market/CD's	100%	<ul style="list-style-type: none"> • Two (2) months most recent statements.



Publicly Traded Stocks/Bonds/Mutual Funds	100%	<ul style="list-style-type: none"> 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.)	If borrower is >59 ½, then 70% of the vested value after the reduction of any outstanding loans.	<ul style="list-style-type: none"> 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 for employer-sponsored retirement accounts. Retirement accounts that do not allow for any type of withdrawal are ineligible for reserves.
	If borrower is <59 ½, then 60% of the vested value after the reduction of any outstanding loans.	
Cash Value of Life Insurance/Annuities	100% of value unless subject to penalties	<ul style="list-style-type: none"> Most recent statement(s) covering a Two (2) month period.
Business Funds	<ul style="list-style-type: none"> Allowed for down payment/closing costs Cannot be used for reserves 	<ul style="list-style-type: none"> 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 NSF's (non- sufficient funds) or overdrafts. If borrower(s) ownership in the business is less than 100%, the following requirements must be met: <ul style="list-style-type: none"> 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).
Gift Funds	Not allowed on Select 90 QM	N/A

Reserve Requirements (# of Months of PITIA)*		
Transaction	DTI	# of Months
First-Time Homebuyer	DTI ≤ 38 %	15
Non-First-Time Homebuyer	DTI ≤ 38 %	12
	DTI 38-43%	18
Self-Employed Borrower	Additional three (3) months reserves required.	



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 two (2) financed properties may be owned.
Non-Retirement Assets	Primary Residence: 3 months
*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.
- **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

When the borrower has less than a two (2) year history of receiving income, the lender must provide a written analysis to justify the determination that the income used to qualify the borrower is stable.

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 and the borrower must be employed with their current employer for a minimum of six (6) months to include as qualifying income.

General Documentation Requirements

- Residual Income Calculation required. All Select 90 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.
- W-2 transcripts for two (2) years are required to validate W-2 wages if the tax transcripts are not provided and the borrower does not have any other income source or loss. The following W-2 type earnings will require tax transcripts:
 - Borrower with commission-based income that is greater than 25% of borrower’s total pay.
 - Borrower with 2106 expenses (unreimbursed business expenses).
 - Borrower employed by family.
 - Borrower with ownership in the company.
- 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 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.
 - 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 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.
- 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 personal tax returns- two (2) years
- W-2 transcripts or tax transcripts. See specific requirements under General Documentation Requirements in Income/Employment section
- VVOE

Hourly/Part-Time Income

- YTD Paystub
- W-2's or personal tax returns- two (2) years



- W-2 transcripts or tax transcripts. See specific requirements under General Documentation Requirements in Income/Employment section
- VVOE
- Stable to increasing income should be averaged for the two (2) years.

Commission Income

- Follow DU Findings or Fannie Mae Selling Guide.
- YTD Paystub
- Two (2) Years W-2's if commissions are less than 25% of total income OR
- Two (2) years tax returns and W-2's required if commissions are $\geq 25\%$ of total income.
- W-2 transcript or tax transcripts. See specific requirements under General Documentation Requirements in Income/Employment Section of this guide.
- VVOE
- Stable to increasing income should be averaged over a two (2) year period.

Overtime and Bonus Income

- YTD Paystub
- W-2's or personal tax returns- two (2) years
- W-2 transcript or tax transcripts. See specific requirements under General Documentation Requirements in Income/Employment Section of this guide.
- 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 2106 expenses 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 twelve (12) months.
- Two (2) years tax transcripts.

Asset Depletion

- Eligible assets must be held in 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 1/2, all post-closing retirement and liquid assets may be used in the calculation if the assets are fully vested and unrestricted.
- For borrowers < 59 1/2, 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 three (3) 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 – Three (3) 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 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 FNMA Rental Income Guidelines:
 - Current lease for each rental property, including commercial properties listed in Part 1 of Schedule E of the 1040s
- OR**
- Form 1007 or Form 1025 market rent survey



- If the current lease amount is less than the rental income reported on the tax returns, justification for using the income from the tax returns must be provided and warrant the use of the higher income; if there is no justification, the lease amount less expenses will be considered for rental income/loss.
- For leases that have a roll over clause, or the property is in a state where all leases roll over, the following requirements must be met:
 - Copy of most recent lease
 - Current documentation to evidence receipt of rent (copy of check or deposit into bank account) must be consistent with most recent lease.
- 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:
 - Most recent two (2) years tax returns reflect the property on Schedule E with consistent rents from year to year.
 - The county/city where the property is located does not have prohibitions or restrictions on short-term rentals that impacts rental income received
 - If the property is a condominium or attached PUD, the HOA must allow for short-term rentals and verification included in the loan file.
 - Form 1007 or Form 1025 market rent survey to be in closed loan file.
 - Copy of property management agreement to rent property.
 - Copy of most recent lease agreement for property.
- 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.

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:
 - Copy of current lease agreement, copy of security deposit, and evidence of deposit to borrower's account.
 - In lieu of current lease agreement, Form 1007 or Form 1025, as applicable to support rents being used for departing residence, is acceptable.
 - Rent calculation is 75% of the market rent less PITIA.
 - 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.
 - 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.
- Two (2) years tax transcripts.

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) months must be documented.
- 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 on or before the closing date.
 - In lieu of a signature, personal tax transcripts for the corresponding year maybe provided on or before the closing date.
- 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:

- Schedule C in Block 28 (Total Expenses) must be analyzed in relation to income in Block 7 (Gross Income). Expenses are less than 5% of income.
- Analysis of Blocks 8 (Advertising), 11 (Contract Labor), 16a(Mortgage Interest), 20 (Rent/Lease) 26 (Wages) must indicate the borrower does not have expenses in these categories.



- Analysis of Blocks 17 (Legal and Professional Services) and Block 18(Office Expense) indicate nominal or \$0 expense.
- Block C (Business Name) does not have a separate business name entity.
- 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.
- YTD balance sheet 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 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

- 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
 - Reserve requirements met for FTHB as specified in the Asset section.
 - 740 Minimum FICO score
- US Citizens
- Permanent Resident Aliens with evidence of lawful residency.
 - Must be employed in the US for the past twenty-four (24) months.
 - Documentation evidencing lawful residency must be met (see Jumbo Program Eligibility Supplement for requirements)
- Inter Vivos Revocable Trust (see Jumbo Program Eligibility Supplement for requirements).
- All borrowers must have a valid Social Security Number.

Ineligible Borrowers

- Non-Occupant Co-Borrowers
- Non-Permanent Resident Aliens
- 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 Unit

Eligible Properties

- 1 Unit Owner Occupied Properties
- 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.
- 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 ≤20 Acres
 - Properties >10 acres ≤20 acres must meet the following:
 - Maximum land value 35%
 - No income producing attributes
- 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.

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.

Ineligible Properties

- 2-4-unit second home properties
- 3-4-unit owner occupied properties
- Second Home 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 >20 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



Appraisal Requirements

- Transferred appraisals are not allowed.
- Appraisals must be completed for the subject transaction. Use o 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 120days 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 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 Transaction Type:

Transaction Type	
Purchase	1 Full Appraisal
Rate and Term Refinance	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