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1. Program Basics

1.1. Product Codes

Code	Description
JF30AG	Jumbo Fixed 30YR
JF20AG	Jumbo Fixed 20YR
JF15AG	Jumbo Fixed 15YR

1.2. Borrower Eligibility

Loans are not eligible if any company or individual who is a material party to the mortgage loan transaction is listed on the Department of Housing and Urban Development (HUD) Limited Denial of Participation List, Office of Foreign Assets Control (OFAC) Specially Designated Nationals and Blocked Persons List, the Freddie Mac Exclusionary List (if the Seller is a Freddie Mac approved Seller/Servicer with access to such list), or the General Services Administration (GSA) Excluded Party List System. All lists must be checked for all parties to the transaction. If any party's name appears on any list, the mortgage loan is not eligible.

1.3. Loan Application

The Fannie Mae/Freddie Mac redesigned Uniform Residential Loan Application must be used, and the loan application must be complete, including without limitation:

- A full two-year history of employment/income, residency, and all personal information for each borrower. If a borrower's employment history includes unemployment or insurance benefits, the application must reflect at least two years of previous employment, therefore covering a longer period of time.
- The Declarations Section must be answered for each borrower.
- The method of taking the application including face-to-face, by telephone, by fax or mail, by email or the internet.
- The Loan Originator's information, including name, telephone, and NMLS number must be completed.
- The Borrower's demographic information must be completed.
- The initial application must be signed and dated by the Loan Originator and all Borrowers when a power-of-attorney is being used for any of the applicants.

All loan applications must be reviewed by the Seller for reasonableness as part of the underwriting process, including without limitation:

- The feasibility of occupancy claims, and the overall financial picture of the borrowers must be reasonable.

- When conflicting information exists between or within documents, an adequate explanation must be provided, documented, and included in the mortgage loan file.
- All documents in the mortgage loan origination file that are relevant to underwriting must be reviewed by the Seller for signs of alteration or fabrication.
- The final application must be signed and dated by all borrowers, and comply with the requirements set forth above, including without limitation:
- The borrower's complete and accurate financial information relied upon by the underwriter.
- All debt incurred during the application process and through loan closing must be disclosed on the final application.
- A borrower's credit profile may be established by one of the following methods:
  - Submitting the loan to Desktop Underwriter.
  - Submitting the loan to Loan Product Advisor.

1.4. Identity Verification

The identity of each borrower whose credit is used for loan qualification must be confirmed in accordance with the applicable Agency guidelines unless otherwise stated within this guide.

1.5. Social Security Number Validations

- Evidence of a valid Social Security number is required for all borrowers. Any Social Security number discrepancies that are identified must be resolved.
- Loans to borrowers who have been issued an Individual Tax Identification Number (ITIN) in lieu of a Social Security number are ineligible for sale.

1.6. Electronically Signed Documentation

Electronic Signatures are acceptable on all documentation except on the Mortgage Note and any Power of Attorney (unless expressly permitted under applicable state law). All Electronic Signatures must comply with applicable federal and state law regarding enforceability. Documentation notarized via an e-notary service is ineligible as a replacement for traditional notary documents.

Documents on which electronic signatures are accepted include, but are not limited to:

- Purchase Contracts.
- Appraisal Reports.
- Origination Documentation.

1.7. Miscellaneous Closing Procedures

1.7.1. Leaseback Option

A Leaseback of the subject property to the seller is acceptable provided the period in which the lease is available does not exceed 60 calendar days from the note date and the terms are clearly specified on the purchase contract.

Builder leasebacks for the continued use of the subject property as a model home are ineligible.

1.7.2. Powers of Attorney

The use of a specific POA document is allowed, provided applicable Agency guidelines are followed.

1.7.3. Non-borrowing Spouse

A Non-Borrowing spouse or domestic partner who has an interest in the subject property must follow all applicable state laws to waive any property rights he/she may have by virtue of being the owner's spouse.

1.7.4. Recast Option

Recast options are not available.

1.7.5. Principal Curtailment

Principal curtailments may not exceed the lessor of $10,000 or 1% of the loan amount.

1.7.6. Escrow for Postponed Improvements

- Escrow for postponed improvements related to new construction which are exterior in nature and occur because of any of the following circumstances may be acceptable provided the guidelines in this Section are met:
    - Weather.
    - Shortage of building materials.
    - Water shortage.
    - Labor shortage, or
    - Third party contract delays.
- The uncompleted work must not prevent an occupancy certificate from being obtained for the subject.
- 120% of the proposed value of the improvements must be escrowed; however, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds escrowed only need to equal the full amount of the contract price.
- The closed loan package must contain a Final Inspection or appraisal report detailing the value of the postponed improvement as well as an escrow agreement signed by all parties.

- Escrows for postponed improvements must be satisfied by the date disclosed on the escrow holdback agreement and may not exceed 180 calendar days from the loan closing date.
- Evidence of funds release and property completion must be provided.

An escrow holdback related to the completion of in-ground pool installation is allowed. The criteria below are a minimum standard by which an escrow holdback will be considered for this reason:

- A pool must be common for the area in which the subject is located.
- The work must be completed within 120 calendar days of loan closing. Evidence of funds release and property completion must be provided.
- 120% of the proposed value of the improvements must be escrowed; however, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds escrowed only need to equal the full amount of the contract price.
- Pool installation must be included in the sales contract, an addendum to the sales contract, or in a fully executed separate contract with a licensed contractor.
- The work must be completed by a licensed contractor, pool installation-company, or the subject builder.
- The value of the pool improvements included in the purchase price must be no more than 10% of the total subject property value.

All other agency requirements must be met. Loans with escrows for postponed improvements for reasons other than those stated herein will be ineligible.

1.8. Escrows/Impounds

Escrow or impounds are defined as all funds collected by a mortgagee on a mortgage loan for the servicer to cover expenses of the borrower that are required to be paid under the security instrument. The funds may include, but are not limited to, taxes, homeowners association charges, special assessments, ground rents, water, sewer, and other governmental impositions or charges that are or may become liens on the subject property prior to that of the Mortgage Loan, as well as hazard, flood, and premiums.

An escrow of funds for the payment of property taxes, hazard insurance, flood insurance, and HO6 is required.

- A renewal policy is required for hazard and flood insurance policies expiring within 50 calendar days from the loan closing.
- Two months of escrow is required on all loans unless escrows have been waived or if otherwise mandated by federal or state law.
- Escrow of the HO6 policy is not required if coverage is for personal contents only.

- On a purchase transaction, if property taxes are due within 30 calendar days of the loan closing, the Settlement Statement or Closing Disclosure(s) should reflect the amount sufficient for the Seller to pay the taxes.
- On a refinance transaction, property taxes which are delinquent 60 days or more may not be paid with funds from the transaction and must be paid-current at time of consummation.
- Escrow of premiums and fees for flood insurance is required for all mortgage loans as mandated by the Flood Disaster Protection Act of 1973, as amended.

1.9. Escrow/Impound Waiver

- Mortgage loans with escrow waivers are eligible.
- Escrow waivers for homeowner's insurance or property taxes are eligible, except as to premiums and fees for flood insurance as mandated by the Flood Disaster Protection Act of 1973, as amended.
- Partial escrow waivers for the escrow of homeowner's insurance or property taxes only, are acceptable provided all other parameters allowing for an escrow waiver are met.

1.10. Fraud Reports

All loans must contain a Fraud Report. It is the Seller's responsibility to fully review, identify and address any potential issues or risks discovered on the fraud report. Each Fraud Report must include a minimum list of interested parties to the transaction as verified participants. Verified participants must be checked in accordance with Section 1.02 of these underwriting guidelines. The participants should include, but are not limited to:

- Borrower.
- Appraiser(s).
- Loan Originator.
- Seller (if applicable).
- Listing Agent (if applicable).
- Selling Agent (if applicable).

1.11. Subject Loan Payment History

A payment history is required when 15 days or more have elapsed since the first payment due date. The payment history should include all payments and disbursements from the new subject Mortgage Loan.

2. Transaction

2.1. Occupancy Type

2.1.1. Primary Residence

- A primary residence is a property in which all borrower(s) take title and occupy as his, her, or their primary residence for the majority of the year.
- Borrowers are required to occupy subject property within 60 calendar days of Consummation or as per the terms of the Mortgage/Deed of Trust.
- Gift funds are ineligible for use as reserves.

2.1.2. Second Home

- The property must be occupied by the borrower for some portion of the year.
- The property must be suitable for year- round occupancy.
- All borrowers must take title to the property
- Property cannot be subject to any agreements that give a management company control over the property.
- The property must be under the borrower's exclusive control (timeshares and rental agreements ineligible).
- Gift funds are ineligible and may not be used for down payment, closing costs, pre-paid interest, or reserves.

  If any of the first four requirements are not met, the borrower must give a satisfactory explanation for the use of the property as a second home, and the seller must carefully consider the property eligibility.

2.1.3. Investment Property

- An investment property is owned but not occupied by the borrower.
- All borrowers must take title to the property.
- Income from the subject investment property may not be used to qualify the borrower when the subject transaction is a purchase.
- Gift funds are ineligible and may not be used for down payment, closing costs, pre-paid interest, or reserves.

2.2. Loan Purpose

- Purchase Mortgage Loan.
- Refinance Mortgage Loan.
- Rate & Term Refinance Mortgage Loan.
  - Two Close Construction-to-Permanent Purchase Mortgage Loans.

2.3. Purchase Mortgage Loan Transactions

A transaction in which the proceeds received must be used to finance the acquisition of the subject property.

2.3.1. Acceptable Attributes for Purchase Mortgage Loan Transactions:

- Except as otherwise required by applicable laws, closing costs may not be financed as part of a purchase money transaction.
- Purchase money transactions do not allow cash back to the borrower at closing other than an amount representing:
  - A reimbursement for the borrower's overpayment of fees.
  - If property taxes are due within 30 calendar days of the purchase loan closing, the Settlement Statement or Closing Disclosure (s) should reflect the amount sufficient for the Seller to pay the taxes.
  - Costs paid by the borrower in advance (for example, earnest money deposit, appraisal, and credit report fees).
  - A legitimate pro-rated real estate tax credit in locales where real estate taxes are paid in arrears, unless restricted by the Loan Program.

2.3.2. Unacceptable Attributes for Purchase Mortgage Loan Transactions:

2.3.2.1. Purchasing in a Redemption Period

Certain state laws provide for a "redemption period" after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed under the related mortgage loan.

- The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner.
- Unexpired redemption periods are deemed to be an unacceptable title impediment, and a mortgage loan with an unexpired redemption period is not eligible.

2.3.2.2. Purchase transactions that include new subordinate financing

Transactions with new subordinate financing are ineligible.

2.3.2.3. Property Flips

If the seller has owned the property less than 180 calendar days from the date of the purchase contract and the new sales price is higher than the price paid by the seller to acquire the property, this transaction would be ineligible.

The following types of re-sale transactions are not considered property flips:

- Property being sold by a spouse who acquired the property through a divorce settlement.
- Property acquired by an employer through a relocation program.
- Property being sold by an administrator or executor of an estate.

- Property being sold by a lender, mortgage investor, or mortgage insurance company acquired through foreclosure or deed-in-lieu of foreclosure.

2.4. Refinance Mortgage Loan Transactions

Rate and term refinance transactions are the only refinance transaction allowed under this program. Cash-out refinances are NOT eligible.

2.4.1. Requirements for all Refinance Mortgage Transactions:

- There must be continuity of obligation.
- If the subject property was purchased in the previous 9 months, the Settlement Statement(s) or Closing Disclosure(s) must be provided in order to determine the subject property value.

2.4.2. Rate & Term Refinance

Acceptable Attributes for a Rate & Term Refinance Mortgage Loan:

- Paying off a mortgage loan secured by the subject property.
  - Closing costs, points, and pre-paid fees may be rolled into the loan amount.
  - Borrowers may receive cash back up to 1 percent of the new refinance loan amount at closing.
- Buying out the equity position of a co-owner as a result of a court ordered agreement.
- Property ownership resulting from a legal documented inheritance.
- Paying off a first lien and purchase money subordinate lien (Seller must document that the entire subordinate lien was used to purchase the property).
- Paying off a seasoned non-purchase money subordinate lien or first lien HELOC.
  - A seasoned non-purchase money subordinate lien or first lien HELOC is a mortgage that has been in place for a minimum of 12 months. Seasoning is based on the note date of the second lien to the application date of the subject Mortgage Loan. A seasoned equity line of credit is defined as not having cumulative draws greater than $2,000 in the past 12 months.
    - Withdrawal activity must be documented with a transaction history for the Line of Credit provided by the Note holder.
- Paying off a first lien HELOC used in its entirety to purchase the subject property.
- The payoff of a seasoned private mortgage lien, for which cancelled checks and/or bank statements supporting an acceptable payment history are provided by the Borrower.
- The payoff of a construction loan in a two-close-construction-to-permanent mortgage loan (see below for details).

Unacceptable Attributes for a Rate & Term Refinance Mortgage Loan:

- Loans with new subordinate financing.
- Paying off a purchase-money HELOC which has had subsequent non-purchase money draws exceeding $2000 cumulatively in the previous twelve months.
- Loans which include the payoff of delinquent real estate taxes, which are past due 60 calendar days or more (see Fannie Mae guidance related to this topic).
- Paying off debt at the time of consummation with any portion of the allowable 1% cash-back, from a rate and term refinance, will result in the loan being deemed a cash-out refinance, and will therefore be ineligible.
- Properties currently listed for sale.
- The payoff of a private mortgage lien for which cancelled checks and/or bank statements cannot be provided to support an acceptable payment history is ineligible for a rate and term refinance.
- The payoff of an unseasoned private mortgage is ineligible for a rate and term refinance.

Two Close Construction-to-Permanent Mortgage Loans:

Allowable Transaction Parameters						
Occupancy Type	**Transaction Type**	**Property Type**	**Maximum LTV/HCLTV**	**Maximum Loan Amount**	**Minimum Credit Score**	**Maximum DTI**
Primary Residence	Construction-Perm	SFR or PUD	80.00%	$1.5M	700	43%/38% FTHB
Primary Residence	Construction-Perm	SFR or PUD	80.00%	$850,000	680	43%/38% FTHB

Two-close construction loans are eligible when structured as a Rate & Term refinance. The following parameters must be met:

Determining Value:

- Lots owned 12 months or more at time of application will have the LTV/HCLTV based on the current appraised value.
- Lots owned less than 12 months at time of application will have the LTV/HCLTV based on the lesser of the appraised value or acquisition cost (cost of the documented construction and the documented purchase price of the lot).
- Lots owned less than 12 months from application date must have been purchased by the borrower and documented with a Settlement Statement or Closing Disclosure.
- Gifted lots titled to the borrower for less than 12 months are ineligible.

- Maximum cash back at time of closing may not exceed 1% of the final loan amount.

Documentation Requirements:

- File must contain an acceptable DU or LPA submission in accordance with the Correspondent Lending Jumbo Underwriting Guidelines.
- All properties must be fully complete with a final Certificate of Occupancy included in file.
- Appraisal reports completed for the construction loan may be used to determine value if (i) the Seller was the construction loan lender, (ii) all other Jumbo Underwriting Guidelines are followed including but not limited to secondary valuations, final inspections, and appraisal age standards.
- Construction contract and construction loan Note, CD and draw history are required.
- Construction loan payment history for the previous 12 months is required. When the construction phase is less than 12 months, provide full payment history.

Additional Requirements:

- All construction work, including any work that could entitle a party to file a mechanics' or materialman's lien, must be completed and paid in full, except for any weather-related work that cannot be completed in accordance with the Correspondent Lending Jumbo Underwriting Guidelines.
- All mechanic's liens, materialman's liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered, and title must certify no future mechanic's liens or materialman's liens possible.
- All construction contracts must include a general contractor. No self-builds allowed.
- All borrower(s) from the construction loan must be on the final financing; however, adding additional borrowers is not prohibited.
- Please refer to Fannie Mae's selling guide for criteria not addressed.

2.4.3. Pace/HERO Loans

- Paying off a PACE loan seasoned 12 months or more may be treated as a rate and term refinance.
- Paying off a PACE loan seasoned less than 12 months is considered a cash-out refinance.
- If the PACE loan is structured as subordinate financing, it may remain in the subordinate position provided all LTV/HCLTV product requirements are met. (The terms of the program may not provide for lien priority over the first mortgage lien in order to be eligible for purchase. Also, monitor State and local law to determine which jurisdictions offer PACE loans that may provide for lien priority).
- For PACE loans originated prior to July 6, 2010 must be paid off.

2.5. Homes Recently Acquired or Listed for Sale

- If the subject was acquired in the previous 9 months, the file must contain the Settlement Statement or Closing Disclosure from the previous transaction, and the LTV calculation would be based on the lesser of the purchase price or the current appraised value.
- If the subject was acquired in the previous 6 months as a result of an inheritance or the dissolution of a marriage or domestic partnership, then the file must be documented accordingly.
- Refinancing a home currently listed for sale is ineligible. Any home currently listed must be taken off the market prior to the new loan application date.

2.6. First-Time Home Buyer

Any borrower who has not owned a residential property at any time during the prior three years (prior ownership within the previous three years is measured from the

Settlement Statement or Closing Disclosure closing date [when the property was sold] to the date of the subject mortgage loan application).

First-time home buyer requirements do not apply to loans with multiple borrowers, when at least one borrower has owned a residential property at any time during the prior three years. The following requirements apply to first-time home buyer transactions:

- Primary residence only.
- 38% maximum DTI.
- 740 minimum FICO.
- 12 months' reserves.
- 24 months' rental history with no late payments (see Housing and Rental Payment History in Chapter 7 for more details).
- One-unit properties only.
- Loan amounts exceeding $1.5M are ineligible.

The following documentation may be necessary when attempting to show proof of previous/current residential property ownership:

- Evidence borrower(s) was responsible for the PITIA (if additional non-borrowing parties are or were on title to the property with the borrower).
- Evidence borrower(s) was the purchaser on the original Settlement Statement or Closing Disclosure for the purchase of the previous or current residential property, or.
- Evidence borrower has been on title to the property for the previous 12 months.

2.7. Delayed Financing

Loans with delayed financing are ineligible.

2.8. Third Party Originations (TPO)

A loan for which the loan origination (taking the loan application) is performed by an entity other than the Seller is considered a third-party origination. Mortgage service providers are not considered third-party originators if they do not take the loan application and are paid on an arm's-length fee basis for services performed, with payment of fees not being contingent on mortgage approval or closing.

2.9. Subordinate Financing

2.9.1. New Subordinate Financing

Transactions with new subordinate financing are ineligible.

2.9.2. Existing Subordinate Financing

Existing subordinate financing may be eligible, provided such financing is re-subordinated to the first lien of the Mortgage Loan. The HCLTV may never exceed the maximum LTV/HCLTV permitted with respect to the transaction type.

- Settlement Statement(s) or Closing Disclosure are required with respect to any transaction involving the property within the past 6 months.
- The terms of any existing subordinate financing must be fully disclosed, documented with a copy of the note, and compliant with all requirements.
- Regardless of the type of subordinate lien, the DTI must include all additional lien(s) monthly payment(s), and the LTV/HCLTV must include all subordinate financing loan limit(s).

2.9.3. Re-subordination Requirements for Refinance Transactions

- If subordinate financing remains in place in connection with a first mortgage loan refinance transaction, execution and recordation of a subordination agreement is required.
- If state law permits subordinate financing to remain in the same subordinate lien position established with the prior first mortgage loan being refinanced, re-subordination is not required. Seller is responsible for determining that the subordinate lien satisfies any specified criteria of applicable law.
- Insurance against a former junior lien not being properly subordinated to the refinance Mortgage Loan does not release Seller from its obligation to comply with these re-subordination requirements, or from the requirement that the subject property be free and clear of all encumbrances and liens having priority over the lien of the Mortgage Loan.
- When an existing HELOC credit line limit is reduced, it will be necessary to evidence the newly recorded second lien amount on title and provide a copy of the modified Note.

2.9.4. Ineligible Subordinate Financing

- Employer assistance secured by a subordinate lien against the subject property.
- Individual Development Accounts (IDAs) used for down payment and/or closing costs that require a subordinate lien against the subject property.
- Disaster Relief Grants or loans that require a subordinate lien against the subject property.
- Subordination of an existing PACE loan obtained prior to 7/6/10.
- Any other subordinate financing ineligible for sale to Agency.
- The terms of the subordinate financing may not provide for lien priority over first mortgage liens.
- Sellers must monitor State and local law to determine which jurisdictions offer PACE loans that may provide for lien priority.

2.10. Multiple Properties Financed/Owned

- The borrower may own a maximum of four financed, one- to four-unit residential real properties, including the subject property (regardless of occupancy type).
  - Borrowers on title to a property and not included on the property Mortgage Note as evidenced in the loan file would not be required to include said property in the maximum property count (see Asset Chapter for additional reserve requirements for such scenarios).
  - Co-signed Mortgage Notes must be included in the maximum property count.
- Borrowers must have six months PITIA in reserves for each additional property owned by the borrower; this is in addition to the reserves required for the subject property. If additional properties are owned free and clear, the six months of insurance, taxes, and association dues (when applicable) must be documented.
- Properties in the name of a borrower's business, commercial or residential, typically do not need to be included in this count, when the associated mortgage debt is not the borrower's personal obligation and thus not reported on the borrower's personal credit report or tax returns.
- Financed commercial properties that are the borrower's personal obligation must be included in the count of maximum financed properties owned by a borrower. When a commercial property is reported on the personal 1040 tax returns, the property is deemed a personal property unless sufficient evidence is provided to support otherwise.
- Vacant land is not typically considered in the count of maximum financed properties.

2.11. Ineligible Transaction Types

Mortgage Loans made for the following purposes are **not eligible**:

- Loans to Principal Owners of Business Lending Client—Mortgage Loans made to principal owners or majority shareholders (25 percent or greater ownership) of a Seller.
- Single-Close Construction-to-Permanent Mortgage—A single-close transaction that modifies the Mortgage Note and the 1st payment date.
- Installment Land Contracts.
- Principal curtailments that exceed the lessor of $10,000 or 1% of the loan amount.
- A Refinance of a Restructured Loan or Short Refinance Loan.
- Renovation or Rehabilitation Mortgages.
- Texas Section 50(a)(6) Loans, Texas Section 50(a)(3) and Texas Section 50(f)(2).
- Ineligible Property Flips
- A Refinance Transaction on a Property Currently Listed for Sale.
- Delayed Financing.
- Transactions that include the use of privately funded loans for the purpose of securing assets for the transaction.
- EEM Loans (Energy Efficient Mortgages).
- HUD-184 Mortgages.
- Loans exceeding 80% LTV/HCLTV.
- Transactions consisting of an Assignment of Sales Contract.
- Title held as Tenants in Common with unequal ownership.

2.12. Maximum Loan to Value / High Loan to Value (LTV/HLTV)

Jumbo mortgage loans with an HCLTV of up to 80% are eligible, subject to satisfaction of the other applicable requirements for such jumbo mortgage loans (see product matrix).

2.13. Determining Amount to be Financed

For any Mortgage Loan, the amount eligible for financing is determined by factors specific to that Mortgage Loan, including, but not limited to, the type of financing, LTV/HCLTV, loan amount, property type, income, credit, and asset determination.

2.14. Determining Value

2.14.1. Purchase Transactions

The LTV will be based on the lesser of the purchase price or appraised value.

2.14.2. Refinance Transactions

When the subject property has been purchased in the past 9 months, the lesser of the current appraised value or the purchase price will be used to calculate the LTV/HCLTV. Ownership date is measured from the date of acquisition (Settlement Statement or Closing Disclosure closing date) to the closing date of the subject mortgage.

2.15. CLTV/HCLTV

- CLTV is the combination of the outstanding first lien and the outstanding balance of all additional liens or line amounts from home equity lines of credit.
- HCLTV is the combination of the outstanding first lien with all outstanding additional liens or available credit limits from a home equity line of credit.
- The HCLTV is calculated by dividing the sum of the first mortgage amount and any additional lien balances (whether disbursed or not) by the value.

2.16. Treatment of Auctioneer Fees for LTV and HCLTV Purposes

In most cases (but not all), it is common and customary for the buyer to pay the auctioneer fee (buyer's premium). The table below outlines the most common to least common events and the required treatment of auctioneer fees (buyer's premium) in relation to total sales price, LTV, and interested party contributions:

Customary Payer of Auctioneer Fee (Buyer's Premium)	Actual Payer	Add Premium to Auction Price	Include Premium in LTV	Considered an IPC/Sales Concession
Buyer	Buyer	Yes*	Yes	N/A
Seller	Buyer	Yes*	Yes	N/A
Buyer	Seller**	No	No	Yes
Seller	Seller**	No	No	No

*The Value in the "Purchase Price" of the Details of Transaction of the application should be the total of the winning bid plus the auctioneer fee. If the borrower has pre-paid the auctioneer fee, it should be documented in the same manner as an earnest money deposit and the fee should be identified in the "other credits" section of the Details of Transaction.

**Highly unlikely the seller will ever pay the buyer's premium at auction.

2.17. Interested Party Contributions (IPCs)

2.17.1. Interested Party Contributions

Interested party contributions are used to cover costs that are normally the responsibility of the borrower that are paid directly or indirectly by someone else who has a financial interest in or can influence the terms and the sale or transfer of the subject property. Interested party contributions may be in the form of financing concessions or sales concessions.

Interested parties include, but are not limited to builders, realtors, brokers, and sellers.

IPCs are not permitted to be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

2.17.1.1. IPC Limits Based on Occupancy

- Primary Residence or Second Home: Cannot be greater than 3 percent of the lesser of the mortgaged property's sales price or its appraised value.
- Investment Properties: Cannot be greater than 2 percent of the lesser of the mortgaged property's sales rice or its appraised value.

2.17.1.2. Financing Concessions

Common and customary closing costs and pre-paid interest typical for the subject property location are acceptable. Financing concessions paid on the borrowers' behalf which include, but are not limited to, financial contributions from an interested party, payments related to pre-paid interest, financing terms, or other payments related to acquiring the property are subject to Agency guidelines limits, unless otherwise specified in these Guidelines.

Common and customary financing concessions may include, but are not limited to:

- Origination fees, discount points, commitment fees.
- Appraisal costs.
- Transfer taxes, tax stamps, tax service fees.
- Title insurance premiums, attorneys' fees.
- Survey fees.
- Pre-paid interest (30 calendar days maximum).
- Real estate taxes covering any period after settlement unless no escrow account established.
- Property insurance premiums (14 months).
- HOA assessments (limited to 12 months).

2.17.1.3. Sales Concessions

Non-realty items with real value, provided to the borrower within or outside a sales contract, are considered sales concessions and must be deducted from the sales price of the subject property in accordance with Agency guidelines.

2.17.1.4. Auctioneer Fees

See Section 2.16 for treatment of auctioneer fees as interested party contributions.

2.17.2. Ineligible Interested Party Contributions

- Down-Payment Assistance Programs.

- Payment Abatements.

2.17.3. Builders and Interested Parties Affiliated with Mortgage Lender

If an affiliation exists due to common ownership or control by a Seller (originating lender) over an interested party, or when there is common ownership by a third party over a Seller (originating lender) and interested party; then all sales and financing concessions from these parties are considered in the total allowable interested party contributions.

2.17.4. Repairs Noted within Purchase Contract

Follow applicable Agency guidelines related to those property repairs or improvements included in a purchase contract, as these amounts may impact subject sales price.

2.18. Monthly Housing Expense

Monthly housing expenses are required to calculate the anticipated total monthly housing expense-to-income ratio. Housing expense-to-income ratios compare monthly housing expenses to stable gross monthly income. Monthly housing expenses include the following:

- Principal and Interest Payments on the First Mortgage Loan.
- Financing Payments on Subordinate Lien Loans Secured by the Subject Property.
- Hazard Insurance Premiums.
- Flood Insurance Premiums.
- Real Estate Taxes (If new construction property; borrower(s) must be qualified with taxes based on full completion).
- Homeowners' Association Dues.
- Leasehold Payments.
- Ground Rent.
- Special Assessments.

2.19. Non-Arm's-Length Transactions

Follow applicable Agency guidelines requirements for non-arms-length transactions.

3. Property

3.1. Eligible Property Types

- Single-family residences.
- Two-to four-unit properties.
- Condominiums
  - Attached Condominiums (borrower does not own the land or the exterior walls of their unit).

  - Site Condominiums (borrower owns the land on which the structure is located. These properties do not require condominium documentation; however, in some instances they may be considered a PUD.)
  - Detached Condominiums (borrower does not own the land or the exterior walls of the structure. Property would be considered a detached condo and must meet standard condominium documentation requirements shown below).
- Planned Unit Development (PUD).

Note: Not all property types listed above are eligible under all Loan Programs. See the product matrix for specifics.

Single-Family Residence: single-family residence is an attached or detached single-family dwelling, including town homes, row homes, and site condominiums.

Two-to-Four Units: two-to-four unit is a residential structure with more than one unit, but not more than four units.

Condominiums: condominium is a unit in a project in which each unit owner has title to his or her individual unit, an undivided interest in the project's common areas, and in some cases, exclusive use of certain limited common areas. The information in this section applies to attached and detached condominiums but does not apply to site condominiums.

Additional Condominium requirements include but are not limited to:

- Condominiums can be both attached and detached and should have both a master deed and bylaws in association with the total project. Detached condominiums should not be confused with site condominiums.
- A condominium project must be created in accordance with local and state statutes and regulations.
- The structure must contain two or more units with the interior airspace individually owned.
- The balance of the property (land and building) must be owned in common by the individual unit owners.
- The condominium project must meet all applicable Fannie Mae requirements related to insurance.
- In order for a condominium to be eligible for purchase, it must be eligible for sale to Fannie Mae, based on their current published selling guide criteria and these Guidelines.

Condominium Overview

Seller must not be aware of any circumstances that would make the project ineligible for approval.

- A minimum of 50 percent of the units in a new condominium project or phase must be conveyed or under contract to purchasers who will occupy the units as a primary residence or second home.

- 2-4-unit condominium projects are eligible in accordance with Fannie Mae's Selling Guide.
- Follow Fannie Mae guidelines for investor concentration requirements on existing projects in which the subject property is a primary residence or second home.
- Investment property transactions must have a minimum 50 percent of the units in the project conveyed or under contract to purchasers who will occupy the units as a primary residence or second home.
- Non-realty limited common elements (for example, boat dock slips, cabanas) may not be financed with the property. Assigned parking spaces may be financed as a cost of the property.

Ineligible Condominium/PUD Projects

Mortgage Loans are not permitted if they are secured by a property located in a project identified in these Guidelines or by the applicable Agency as Ineligible, or within any of the following project types or units containing any of the following additional property characteristics:

- Cooperatives.
- Projects which include manufactured housing.
- Non-warrantable Condominium/PUD projects.
- A condominium which receives a single loan project eligibility waiver from an Agency because the project does not meet its published requirements.
- A condominium project with no master insurance policy for the project.
- A condominium located in a project which received a Project Eligibility Review Service (PERS) approval that allows exceptions to the Agency's published requirements.
- Live/Work projects.
- Conversion condominium projects that have not been fully converted or do not meet these Guidelines or the applicable Agency guideline requirements.
- A condominium project which contains more than 25 percent of its total space dedicated to non-residential or commercial use.
- Projects in which a single entity owns more than the limits established below:
    - Projects with 21 units or more with 10 percent or more of the units owned by one entity.
    - Projects with 5–20 units with more than 2 units owned by one entity.

Approval Authority and Process for Condominium Projects

- Sellers must follow the eligibility guidelines of the applicable Agency and as provided in this section with respect to condominium and PUD projects.
- Sellers are responsible for providing accurate condominium warranties for all transactions secured by condominiums.

- All condominium and PUD projects must be warrantable and comply with the applicable Agency requirements, except as otherwise specifically set forth herein. A warrantable condominium is a condominium project that meets Agency and these eligibility standards.
- A limited review is ineligible on loans.
  - **Warranting the Project**
    Sellers approved by Fannie Mae as a Seller/Servicer with a Seller/Servicer ID number, must warrant the condominium project's eligibility through one of the following methods:
    - **Previously Approved Projects**: If Fannie Mae has previously issued a Final Project Approval through (PERS) as listed at https://www.fanniemae.com/singlefamily/projecteligibility, print it, circle the project name that appears on the approval page, and place it in the Mortgage Loan file. If the project approval expires prior to the Note date or if the project was listed as ineligible, the Mortgage Loan will be ineligible. PERS approvals that allow exceptions to the Agency's published requirements are ineligible.
  - **Condominium Project Manager (CPM) Expedited Review**
    Condo Project Manager (CPM) Expedited Review is a Fannie Mae web-based tool that is used to provide Seller-specific project acceptance for attached, detached, new, and established condominium projects. Only Sellers with a Fannie Mae Seller/Servicer ID number will have access to the CPM system.

    The project must have a valid, unexpired CPM Seller Certification as of the date of the Note and a copy must be in the Mortgage Loan file prior to loan funding. In addition, the Seller must not be aware of any changes in circumstances since the project information was submitted to CPM that would result in the project's not satisfying Fannie Mae's eligibility criteria.
    - **Fannie Mae Project Eligibility Review Service (PERS):** Fannie Mae's Project Eligibility Review Service (PERS) is available to Sellers with a Fannie Mae Seller/Servicer ID number, for submission and review of existing, new, and newly converted condominium projects by Fannie Mae. PERS approvals that allow exceptions to the Agency's published requirements are ineligible.
    - PERS-approved projects are posted on the Fannie Mae website. Final Project Approval decisions will expire one year after issuance. PERS-reviewed projects determined to be ineligible for delivery are identified as well.
    - **Full Review:** The Seller Full Review process is another method for the review of new and established condos. Sellers performing a Full Review must ensure that the project meets all eligibility criteria of the applicable Agency.

- **Sellers not approved by Fannie Mae as a Seller/Servicer must warrant the condominium project's eligibility through the review of Fannie Mae Previously Approved Projects or a Full Review process.**
  - **Previously Approved Projects**: If Fannie Mae has previously issued a Final Project Approval through (PERS) as listed at https://www.fanniemae.com/singlefamily/project-eligibility, print, circle the project name that appears on the approval page and place in the mortgage loan file. If the project approval expires prior to the Note date or if the project was listed as ineligible, the mortgage loan will be ineligible.
  - **Full Review**: The Seller Full Review process is another method for the review of new and established condos. Sellers performing a Full Review must ensure that the project meets all applicable eligibility criteria of the applicable Agency. The warranty documentation must identify the warranty type of the project and be included in the Mortgage Loan file. A Mortgage Loan without a warranty form in the mortgage is not acceptable. Sellers must retain all project documentation that supports its warranty that the project meets the applicable Agency eligibility criteria and these Guidelines. This documentation must be retained from the time the Seller first originates mortgages secured by units in the project until all such mortgages have been liquidated. The project documentation must be available upon request for review by the Buyer. A project warranty is valid for three months preceding the date of the Mortgage Note. After the three-month expiration date, all appropriate documentation must be updated to verify that there have been no changes that would adversely affect the project.

Planned Unit Development (PUD): A PUD is a real estate project or subdivision in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (for example, parking space).

- **PUD Eligibility Requirements**

The individual unit owner must own a parcel of land improved with a dwelling. This ownership may not be in common with other unit owners. The development must be administered by a homeowners' association (HOA) that owns and is obligated to maintain the common elements (including greenbelts, recreation facilities, and parking areas) within the development for the common use and benefit of the unit owners.

The unit owners must have an automatic, non-severable interest in the HOA and pay a mandatory assessment.

- Must be a single-family residence.
- Must meet all applicable Agency insurance requirements.
- Must meet any additional requirements specific to these Jumbo Underwriting Guidelines.

A project or subdivision is not classified as a PUD solely based on zoning. If the units in a project or subdivision have the following characteristics, they would not be considered a PUD.

- There are no common improvements,
- There is no established HOA membership; and
- There are no required assessments paid.

3.2. Ineligible Property Types

Jumbo Mortgage Loans are not permitted if they are secured by a property identified by the applicable Agency as Ineligible or with any of the following additional property characteristics:

- Cooperatives.
- Group homes.
- Log homes.
- Live/Work Projects.
- Manufactured housing.
- Mixed use properties.
- Modular, prefabricated, and panelized homes.
- Properties deemed unique or consisting of unique characteristics (e.g., dome homes, berm homes, and geodesic).
- Properties comprising more than 15 acres of land.
- Properties with deed restrictions with the exception of properties that meet FNMA age-related deed restriction requirements and properties with deed restrictions specific to developer land-use or building code requirements for a subject development.

3.3. Environmental Hazard Assessment

If the Seller has identified environmental problems through the performance of its project review process and due diligence review, and an environmental assessment would be required, then the loan is ineligible.

3.4. Hazard and Flood Insurance Requirements

- Seller should follow the applicable Agency guidelines as they relate to Hazard and Flood Insurance requirements, unless otherwise specified in these Jumbo Underwriting Guidelines. Site condominiums may be treated as a single-family residence for purposes of hazard and flood insurance requirements.
- Documentation should be in the form of a declaration page or policy. Binders are not considered acceptable evidence of insurance.
- Maximum allowable deductible securing a first mortgage loan is 5 percent of the face value of the policy.
- Such flood insurance policy for each Mortgage Loan is in an amount representing coverage not less than the least of (A) the outstanding principal

balance of the Mortgage Loan (plus any additional amount required to prevent the Mortgagor from being deemed a co-insurer), (B) the full insurable value of the related Mortgaged Property, and (C) the maximum amount of insurance, which was available under the Flood Disaster Protection Act of 1973, as amended.

- A renewal policy is required for hazard and flood insurance policies expiring within 50 calendar days from the loan closing.

3.5. HOA Assessment Liens / Super Liens

Sellers should follow Fannie Mae guidelines relative to a subject property located in a PUD or condominium project in which the subject's HOA assessments have priority over or will not subordinate to, our subject Mortgage Loan first lien.

3.6. Multiple Parcels

Follow Fannie Mae guidelines with regard to multiple parcels.

3.7. Rural Properties

Comparable properties should be in similar rural locations and similar property styles. Appraiser must adequately explain the use of comparables not meeting these requirements.

3.8. Leased/Owned Utilities and Community Utilities

- Utilities owned, such as solar panels, must meet standard eligibility requirements, based on the applicable Agency.
- Leased utilities such as solar panels are acceptable provided the applicable Agency guidelines have been met, and the borrower is being qualified with any monthly obligation related to the lease. Additionally, the leased utility should be addressed by the appraiser in the property appraisal report.
- Community Utilities such as a shared well must follow the applicable Agency guidelines, which include, but may not be limited to the following standards:
    - Must meet community standards.
    - Must be adequate for the number of users of the shared utility.
    - Must be in service.
    - Must be accepted by area residents.
    - Must be accessible by the subject property owner.
    - If the shared utility is not located on the subject site, there must be a legally binding agreement for access and maintenance in place by the impacted parties.

3.9. Private Road Maintenance Agreement / Shared Driveways

If the subject property is located on a private road, or access to the property requires the use of a private road or shared driveway, the file must contain at a minimum, one of the following documents:

- Title policy with the private road maintenance agreement language contained within.
- Private road maintenance agreement.
- Evidence the property is located within a state or county that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private road; then no separate agreement or covenant is required.

3.10. Life Estate or Leasehold Estate

Loans secured by a life estate or leasehold estate are not eligible.

3.11. Condominium Owner's Association Obligation

If the subject property is part of a Condominium Association, which results in a financial obligation on the part of the borrower, provide the following information in the closed loan package.

- Name of Association or Management Company.
- Association or Management Company phone number and/or email address.
- Evidence of current status of dues (current, past due, etc.) if applicable.
- Amount and frequency of the dues payable for the Association or Management Company (if not provided on appraisal report.).

4. Appraisal

This section outlines the appraisal documentation and evaluation requirements that apply to all Loan Programs. Seller should follow the applicable Agency guidelines as they relate to Appraisal Documentation, Requirements, and Property Evaluation, unless otherwise specified in these Underwriting Guidelines. Generally, requirements that vary from one Loan Program to another are described in Chapter One, and in most cases, program-specific differences are not referenced in this section.

4.1. General Appraisal Requirements

- The appraisal report forms require the appraiser to certify that the appraiser did not base, either partially or completely, the analysis and/or opinion of value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
- A full Uniform Residential Appraisal Report (URAR), with interior and exterior inspections, is required. All other valuation methods are ineligible.
- The appraisal should fully analyze the neighborhood, site, physical characteristics, and condition of the property.
- Regardless of underwriting method, additional information may be requested at the discretion of the underwriter.

4.2. Appraiser Requirements

The appraiser must remain free of any outside influence in the valuation process. Appraisers must provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

The appraiser must comply with the independent appraiser requirements specified by the Office of the Comptroller of the Currency, the Board of Governors of the

Federal Reserve System, the FDIC, and the Office of Thrift Supervision, as well as Fannie Mae and Freddie Mac Appraiser Independence Requirements.

- The appraiser must comply with real estate appraisal regulations adopted in accordance with Title XI of the Financial Institutions Reform or Recovery and Enforcement Act of 1989 (regardless of whether Seller is subject to those regulations).
- The appraiser must be experienced in the appraisal of properties similar to the type being appraised.
- The appraiser must be actively engaged in appraisal work, licensed and in good standing.
- The appraiser may not be an interested party in the subject transaction.
- The appraiser must subscribe to a code of ethics that is at least as strict as the code of the American Institute of Real Estate Appraisers or the American Society of Appraisers.

4.3. Appraisal Report Requirements

Full Appraisal:
All files must contain a full appraisal report regardless of the loan amount or AUS finding's documentation requirements.

Secondary Valuation Products:
All files must contain a secondary valuation product. Select from either secondary valuation product below.

- **Desk Reviews**— if the initial appraisal's value will be supported by a Desk Review; the following Desk Review products are acceptable to satisfy this requirement:
  - Clear Capital © Collateral Desktop Analysis (CDA®).
  - Summit Valuations © (SVR).
  - Pro Teck Valuation Services © Appraisal Risk Review (ARR).
- **Field Reviews—** if the appraised value will be supported by a Field Review, the Field Review may not be prepared by the same appraisal company as the initial appraisal; however, the appraisal can be ordered through the same AMC.
  - If the secondary valuation report is greater than the appraised value, the LTV/HCLTV would be based on the initial appraised value.

- If the secondary valuation report is lower than the appraised value but within a 10% tolerance, the LTV/HCLTV would be based on the initial appraised value.
- If the secondary valuation report is lower than the appraised value by more than a 10% tolerance, a third valuation report must be provided.

Third Valuation (if applicable):
All files must contain a third valuation product if and when the secondary valuation product is lower than the appraised value by more than a 10% tolerance.

- **Field Review—** If a Desk Review was the secondary valuation product and was not within the allowable tolerance; a Field Review should be obtained, and the original appraised value supported within the 10% tolerance. The LTV/HCLTV would be based on the original appraisal value.
- **Second Appraisal**— If a second full appraisal is obtained as the supporting valuation product, the original appraised value must be supported within the 10% tolerance and the LTV/HCLTV would be based on the lower of the two appraisal reports.

  If the second full appraisal is more than 10% below the initial appraised value, the second full appraisal would then replace the initial appraisal and must be supported by a new secondary valuation product.

  The maximum number of <u>supporting</u> valuation products for any appraisal is two products.

4.4. Documentation Age and Standards

All appraisals must be performed in strict accordance with and comply with all applicable local, state, and federal laws, regulations, and orders and must conform to the current Uniform Standards of Professional Appraisal Practice adopted by the Appraisal Standards Board of the Appraisal Foundation.

Review each appraisal in detail for completeness, accuracy, and assessment of the current fair market value.

All appraisal reports must be prepared for the current transaction and in the name of the originating lender. No transfers or assignments allowed.

All versions of the subject valuation reports (full appraisal, desk review, or field review) must be included in the closed loan package and provided to the borrower no later than three business days prior to the consummation.

4.4.1. Age of Appraisal

If the appraisal report is more than 120 calendar days old as of the date of the note and mortgage, an appraisal update is required.

If the date of the appraisal report is more than 120 calendar days but less than 365 calendar days from the date of the Mortgage Note, the original appraiser must provide an update to the appraisal based on his or her knowledge of current market conditions. The appraiser must acknowledge that the value of the subject property has not declined since the date of the original appraisal. The update must be completed on Fannie Mae Form 1004D/Freddie Mac Form 442 and must be dated within 120 calendar days of the date of the Mortgage Note. A new appraisal is required when the appraiser indicates in an Appraisal Update that the property value has declined.

The use of a substitute appraiser to perform the appraisal update is acceptable. The substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. In addition, the loan file must contain a note explaining why the original appraiser was not used.

The appraisal date may not be more than 12 months prior to the date of the Mortgage Note.

4.4.2. Acceptable Appraisal Forms

The appraisal form must be prepared and signed by an approved appraiser. The appraisal report must be on the current version of the appropriate appraisal form listed below.

- **Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)—URAR**
  Used for appraisals of one-unit properties and units in PUDs, (including a one-unit property with an accessory apartment) based on interior and exterior property inspections. The URAR may also be used for units in a detached condominium project if the appraiser includes an adequate description of the project and information about the homeowner association fees and the quality of project maintenance. An interior and exterior inspection of the subject property is required. The appraisal report must be Uniform Appraisal Dataset (UAD) compliant.
  - If the transaction is a refinance of a one-unit investment property and rental income is being considered for qualifying, it is necessary to include a 1007.
- **Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 and Freddie Mac Form 465)**
  This report must be used for appraisals of one-unit properties in condominium projects. An interior and exterior property inspection is required. The appraisal report must be UAD compliant.
  - If the transaction is a refinance of a one-unit investment property and rental income is being considered for qualifying, it is necessary to include a 1007.

- **Small Residential Income Property Appraisal Report (Fannie Mae Form 1025 and Freddie Mac Form 72)**
  This report must be used for appraisals of two- to four-unit properties. An interior and exterior property inspection is required.

- **Appraisal Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442)**

  - **Appraisal Update-** When performing an appraisal update, the appraiser is expected to research, verify, and analyze current market data, and to perform at least an exterior-only inspection of the subject property.
  - **Completion Report**-The type of inspection required depends on the nature of the appraisal conditions or changes to the subject property.
    - If the appraisal is completed "as is," an interior inspection is not required unless there are any known changes to the subject property that would have an adverse effect on condition or marketability.
    - If the appraisal is subject to completion per plans and specifications, interior and exterior inspections are required. Exterior and interior photographs are required.
    - If the appraisal is subject to repairs that affect safety, soundness, or habitability, interior and exterior inspections are required if repairs are required for the interior of the dwelling. Exterior and interior photographs are required. Otherwise, an exterior-only inspection with exterior photographs is required.

Market Conditions Addendum (Fannie Mae Form 1004MC)

- This is required for all mortgage loans with appraisals of 1–4-unit properties. It is intended to provide the Seller with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

- **Field Review**
  An analysis comparing the original appraisal and the review appraisal must be performed. The original appraiser must address any significant differences or discrepancies. The following forms must be present when a field review appraisal is required by the Loan Program or at the discretion of the underwriter: Field Reviews may not be provided by the same appraisal company performing the full appraisal review.

  - **One-Unit Property**
    - A One-Unit Residential Appraisal Field Review Report (Fannie Mae Form 2000 or Freddie Mac Form 1032).
    - Original front and street photos of the subject property.
    - Photos that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the field review.

- Street map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.

- **Two- to Four-Unit Property**
  - Two- to four-unit Residential Appraisal Field Review Report (Fannie Mae Form 2000A or Freddie Mac Form 1072).
  - Original front and street photos of the subject property.
  - Photos that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the field review.
  - Street Map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.

4.5. Property Quality and Condition

- **Condition Rating**
  The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Condition rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:
  - Property condition ratings of C1, C2, C3, or C4 are acceptable in an "as is" condition.
  - Property condition ratings C5 and C6 carry additional risk, and therefore any appraisals with a C5 or C6 rating must include, but may not be limited to the following to be eligible:
    - An account of the condition items causing the C5 or C6 rating.
    - The initial appraisal must be "subject to completion of repairs."
    - Evidence of completion of repairs.
    - An updated minimum condition rating of C4.

- **Quality Rating**
  The appraisal should indicate that the property is in average or better condition. If the property condition is rated fair or poor, the appraisal should be made subject to repairs that will bring the property to an average or better condition. Additionally, when provided, the following Quality of Construction rating codes, as defined by the FHFA Uniform Appraisal Dataset used by Fannie Mae and Freddie Mac, must be considered as follows:
  - Quality of Construction ratings of Q1, Q2, Q3, Q4, or Q5 is acceptable.
  - Any appraisal report containing a Quality of Construction rating Q6 is ineligible as a result of an increased risk associated with this quality rating.

- When the appraisal is made subject to completion, repairs, or inspection, the lender must ensure that the construction is completed, the repairs are made, or the inspection is completed. If the inspection shows that additional repairs are required, those repairs must be completed prior to closing in order for the transaction to be eligible.

4.6. Disaster Policy

- When natural disasters, such as hurricanes, tropical storms, and tornadoes, occur, the Seller must take steps to ensure that the subject property secured by the loan is protected.
- Once the federal government has declared a disaster with individual assistance (assistance to individuals and households), a FEMA Disaster Notification is issued at http://www.fema.gov/.
- A disaster declared with public assistance (assistance to State and local governments and certain private nonprofit organizations for emergency work and the repair or replacement of disaster-damaged facilities) does not require a re-inspection.
- Unless otherwise specified, Seller should follow the applicable Agency guidelines as it relates to properties involved in a disaster.
- Loan fundings may be delayed as a result of properties located in a disaster area.

4.7. Improvements without Permits

- Unpermitted additions to a subject property should not be included in the overall square footage of the subject in the appraisal report.
- In order to include the unpermitted addition, the proper permits must be acquired, and evidence the addition is covered by an acceptable homeowner's insurance policy would be required.

5. The Borrower

5.1. Borrower Types

The loan originator must have conducted all origination and underwriting procedures without regard to the borrower's race, color, religion, national origin, age, sex, marital status, handicap, income derived from a public assistance program, or status in any other class of persons protected under any applicable federal, state, or local law.

- Any person signing an application for a loan is a borrower. All borrowers must sign the Mortgage Note.
- A borrower must be an individual. Non-individual legal entities, including but not limited to corporations, general partnerships, limited partnerships, real estate syndications, blind trusts, and investment trusts, are not eligible.
- Borrowers must meet credit and program eligibility requirements of the applicable Agency and as set forth in these guidelines.

- Inter Vivos and Land Trust requirements must meet the eligibility and documentation requirements as determined by the applicable Agency guidelines.

5.2. Non-Occupant Co-Borrower, Guarantor, and Co-Signer

Loans with non-occupant co-borrowers, guarantors, and co-signers are ineligible.

5.3. Citizenship Requirements

U.S. Citizens and Nationals

U.S. citizens and nationals (citizens of a U.S. possession or territory) are eligible borrowers.

Non-U.S. Citizens

- **Permanent Resident**
  A permanent resident is a non-U.S. citizen who is legally eligible to maintain permanent residency in the U.S. and holds a Permanent Resident card. A permanent resident is an eligible borrower, provided that legal residency is documented according to the applicable Agency requirements. Please see www.uscis.gov for more information.

- **Non-Permanent Resident Aliens**
  Loans which include a borrower with a residency status of non-Permanent resident are eligible provided the legal residency is documented and all the following criteria are met:
  - H1B and L1 Visas (only) are eligible when a copy of the document is provided in the closed loan package.
  - Loans must meet current guideline requirements.
  - All loans must meet QM compliance.
  - Maximum 75% LTV/HCLT
  - Maximum 38% DTI.
  - Primary residence only.
  - Social Security Number required.
  - Two full uninterrupted years of employment in the United States required for all borrowers whose income is being considered in qualifying.

- **Other Residency Statuses**
  Individuals classified under Diplomatic Immunity, Foreign Nationals with no residency status, Temporary Protected Status, Deferred Enforced Departure, or Humanitarian Parole are considered ineligible.

5.4. Loans to Trust

Inter Vivos Revocable Trust

- An Inter Vivos revocable trust (a "living trust") is a trust created by an individual during his/her lifetime and become effective during the creator's lifetime. An Inter Vivos revocable trust can be changed or cancelled by its creator at any time and for any reason during the creator's lifetime.
- The Inter Vivos revocable trust must meet the eligibility and documentation requirements as determined by the applicable Agency guidelines.
- The subject property must be a 1–2-unit primary residence.
- An attorney's opinion letter or a lender's legal attestation (signed by an officer of the company or Legal Counsel) stating the trust meets Secondary Marketing requirements as set forth by Fannie Mae or Freddie Mac and any applicable state requirements must be provided.

Community Land Trusts

A mortgage loan made to a community land trust is not eligible.

Blind Trusts

Blind trusts are ineligible for sale.

5.5. Ownership Interest

Title to the subject property must be in the borrower's name at the time of application for a refinance transaction (see exceptions below for title held by an LLC or an Inter Vivos Revocable trust at time of application) The following requirements must be met:

- Meet continuity of obligation guidelines provided in this chapter.
- Title to the property must be held as fee simple estate.
- All individuals signing the loan application are considered borrowers, and all borrowers must sign the mortgage Note.
- Additional individuals on the Settlement Statement or Closing Disclosure are not required to sign the Mortgage Note (must meet all applicable state laws).

In addition to the applicable requirements above, title to the subject property when held in an LLC or Inter Vivos Revocable Trust must meet the requirements below:

- Title held by a LLC, which is majority owned by the borrower, must meet continuity of obligation requirements.
- At the time of application an Inter Vivos Revocable Trust may hold the title when the borrower is the primary beneficiary and Trustor (or Settler) of the trust.

For all transactions, title must be in the borrower's name at the time of the closing.

5.6. Non-Borrowing Spouse

The non-borrowing/purchasing spouse or domestic partner who has an interest in the subject property must follow all applicable state laws to waive any property rights he/she may have by virtue of being the owner's spouse.

5.7. Power of Attorney

The use of a Power of Attorney (POA) is acceptable. The POA must be specific to the transaction and meet all applicable Agency and state requirements. POA documents are not reviewed prior to closing. A Power of Attorney is acceptable on transactions with an individual borrower.

The use of a Power of Attorney is prohibited when:

- Both borrowers on the transaction are relying upon the use of a Power of Attorney for consummation of the subject property.

5.8. Continuity of Obligation

- At least one borrower on the new loan must also be obligated on the current Note; or
- Borrower has been on title to the subject property for the previous 12 months; occupied the subject property for the previous 12 months; and can demonstrate having made the payments in the previous 12 months.

5.9. Exceptions to Continuity of Obligation

- The borrower acquired the subject property through an inheritance or was legally awarded the property through a court ordered agreement. This scenario requires no minimum waiting period for continuity of obligation.

6. Employment/Income

This section outlines the Employment and Income Analysis and Documentation requirements that apply to all Loan Programs. Generally, requirements that vary from one Loan Program to another are described in our Product Matrices and, in most cases; those program-specific differences will not be referenced in this section. See product matrices for specifics on the loan program.

Sellers may assume that employment is ongoing if a borrower's employer verifies current employment and does not indicate that employment has been or is set to be terminated. Sellers should not rely upon a verification of current employment that includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the employee has given (or been given) notice of employment suspension or termination. Sellers may favorably consider the stability of a borrower's income if he/she changes jobs frequently within the same line of work but continues to advance in income or benefits. In this analysis, income stability takes precedence over job stability.

In compliance with Appendix Q, it is important to note that all income documentation must be received and verified prior to the consummation date. Documentation received at consummation or post-consummation cannot be considered as verified in the credit decision.

As a result of inconsistencies or legibility concerns or at the discretion of the underwriter, additional information may be requested.

6.1. Documentation Standards

Please refer to the applicable Agency guidelines for specific standards which are not addressed below:

Income Documentation:

- **Paystubs—**a minimum of a full 30 calendar days of paystubs dated no earlier than 30 calendar days prior to the initial loan application date must be included in the file for non-self-employed borrowers. See agency standards for acceptable paystub documentation.
- **W2s—**two years of W2 statements must be provided for all non-Schedule C self-employed borrowers (if applicable). All salaried employees must also provide two years W2 statements unless a written verification of employment (WVOE) and YTD paystub are being provided.
- **W2 transcripts—**W2 transcripts may be used in lieu of W2s when necessary. A written explanation should be included in the closed loan package as to why the borrower's W2 statement was unavailable.
- **K1's—**All K-1's must be obtained regardless of the percentage of ownership.
- **Verbal Verifications of Employment** must be completed within ten business days of consummation.
- **Verbal Verifications of Prior Employment** must be completed within 120 days prior to the date of consummation.
- **Employment Gap-**length must be documented prior to consummation to verify the loan meets Appendix Q requirements.
- **Non-Arms-Length Verbal Verifications of Employment** are ineligible.
- **Third Party Verification of Employment—** a verbal verification of employment when provided by a third party and dated within ten business days of the date of consummation is acceptable. If the "information current as-of" date on the verification is older than 35 calendar days, updated verification documentation must be provided. Fannie Mae DU Validation Service (DVS) or Freddie Mac LPA Asset and Income Modeler (AIM) documentation is acceptable, in conjunction with any additional documentation required in these Guidelines.
- **Written Verification of Employment—**written verification of employment forms are acceptable provided they are accompanied by a minimum of one paystub dated within 30 calendar days of the application date. The paystub must include year to date earnings for the borrower. Written VOEs are not acceptable for a borrower employed by family or self-employed. Fannie Mae DU Validation Service (DVS) or Freddie Mac LPA Asset and Income Modeler (AIM)

documentation as applicable are acceptable, in conjunction with any additional documentation required in these Guidelines.

Tax Transcripts and Tax Returns:

- **Personal Tax Transcripts (1040)—**most recent two years 1040 transcripts for each borrower, regardless of income type, are required on all Jumbo Mortgage loans.
- **Personal Tax Returns (1040)—**most recent two years 1040 returns signed and dated prior to date of consummation are required (see Primary Employment-Base Earnings for exceptions to this rule).
- **Transactions Originated and/or Closed from January through mid-April** of any given year, we will consider using the most current year's tax returns for a self-employed borrower for which tax transcripts are not yet available. We would require a copy of the returns as well as confirmation of receipt from the IRS—either in the form of an e-file acceptance or stamp from the IRS and verification that any amount due has been remitted to the IRS and sourced in the file. Any significant increase or decrease in income from the prior year's returns must be satisfactorily explained.
- **Transactions Closed on or after October 15** of any given year (where the borrower had filed an extension for their previous year's return), we would require a copy of the returns as well as confirmation of receipt from the IRS—either in the form of an e-file acceptance or stamp from the IRS and verification that any amount due has been remitted to the IRS and sourced in the file. Any significant increase or decrease in income from the prior year's return must be satisfactorily explained.

Self-Employment:

- **Business Tax Returns—**most recent two years returns signed prior to date of consummation are required, to include all schedules and K-1s.
- **Business Tax Transcripts—**optional.
- **Year-to-Date Profit and Loss Statement—**required for all self-employed borrowers regardless of whether a borrower's business income is being considered for qualifying. Income from a Year-to-Date Profit and Loss may not be considered in the income calculation
- **Year-to-Date Balance Sheet—**required for all self-employed borrowers regardless of whether a borrower's business income is being considered for qualifying.
- Signed Tax Returns, P&L and Balance Sheets are required for all borrowers who have 25% or more ownership of a business, regardless of whether the income is being considered in qualifying. Profit and Loss Statements and Balance Sheets are not required to be signed.
- Third-party verification of self-employment must be completed within ten business days of consummation and include the name and phone number of the employee verifying the information. Examples of acceptable verification include CPA letters, Regulatory Agency verification, verification from the applicable licensing bureau, and website documentation.

PPP Loans:

- **PPP Cares Act Loans**--for self- employed income considerations (when the consumer is not a Sole Proprietor and the debt is not in the name of the consumer, nor has the consumer personally guaranteed repayment of the debt) the debt would be a liability of the business and subject to the business financial strength, it may or may not impact the use of income generated from that business in consumer qualifying considerations.
- **PPP Cares Act Loans (To a Sole Proprietor)**-could be in the individual's name. PPP loans to sole proprietors would be considered a liability with a 0.00 monthly payment unless there was evidence in the file that the loan was not forgiven and subject to a monthly payment from the consumer. (Unlike a typical SBA loan, the PPP loans are not personally guaranteed. The application indicates the Borrower's attestation that they are taking out the loan to use for purposes that would result in forgiveness.). There should be no additional liability considerations based on the business outstanding PPP loan.

General Requirements:

- Validation Service (DVS or AIM) are acceptable, in conjunction with any additional documentation required in these Guidelines.
- Full income documentation must be obtained prior to consummation and provided in the closed loan package.
- Taxpayer Consent Disclosures for each borrower must be provided in the closed loan package. The disclosure must provide express purpose and permission and should be signed at the time of application. Borrowers with multiple businesses must address each business on the Consent Disclosure. The redesigned URLA (Form 1003-Section 6) signed by all borrowers and included in the closed loan package will also satisfy this requirement.
- 4506C—required for all borrowers on each Jumbo Mortgage Loan.
- Income Analysis—Sellers must provide written documentation as to the borrower's ability to repay the mortgage debt.
- Desktop Underwriter (Fannie Mae)—Within 120 calendar days of the Note date.
- Loan Product Advisor (Freddie Mac)—Within120 calendar days of the Note date.

6.2. Stability and Continuance of Employment and Income

- Income may not be used in calculating the borrower's debt-to-income ratio if it comes from any source that cannot be verified, is not stable, or will not continue.
- Sellers must verify the borrower's employment for the most recent two full years, and the Seller must require the borrower to:
  - Indicate if the borrower was in school or the military for the recent two full years, providing evidence supporting this claim with college transcripts or military discharge papers.

6.3. Employment Gaps and New Employment

- Gaps in employment which exceed one month must be explained and documented prior to consummation to verify the loan meets Appendix Q requirements.
- Borrower's new employment must be documented with a WVOE and paystub, employment contract and paystub, or paystubs covering the most recent 30-day period.
- Verbal verification of employment dated within ten business days of the date of consummation.
- For information related to non-revocable guaranteed employment contracts, see "Projected Income for New Job" section within this chapter.

6.4. Extended Absences

Borrowers returning to work after an extended absence (defined as six months), may be considered as having stable income provided:

- They've been in their current employment position for a minimum of six months, and.
- The borrower can document a 2- year work history prior to an absence from employment.
  - A 2-year employment history must be documented with W2s and paystubs, or written employment verification and paystub.
  - It is acceptable to measure the length of employment from the date a borrower began or returned to work to the date of closing or loan consummation.

6.5. Projected Income from New Job (executed Employment Contracts)

- Projected income is acceptable for qualifying purposes for a borrower scheduled to start a new job within 60 calendar days of loan consummation if there is a guaranteed, non-revocable contract for employment.
- The creditor must verify that the borrower will have sufficient income or cash reserves to support the mortgage payment and any other obligations between loan closing and the start of employment. Examples of this type of scenario are teachers whose contracts begin with the new school year, or a physician beginning a residency after the loan closes.
- The income does not qualify if the loan closes more than 60 calendar days before the borrower starts the new job.
- Verbal verification of employment to confirm the borrower's employment has started must be provided prior to loan purchase.

6.6. Non-Reimbursed Business Expenses

Out of pocket, unreimbursed business expenses reported on a borrower's federal tax return, must be deducted from the borrower's qualifying income. If reported on the most recent two years tax returns, the expenses would be averaged over 24 months. If the unreimbursed expenses are higher in the most recent tax year, then a 12-month average of the expenses should be deducted from the qualifying income.

6.7. Tax Transcripts and IRS Rejection Code

If a request for tax transcripts has been rejected by the IRS by means of a rejection code, the applicable Agency guidelines should be followed. In addition, the Seller should obtain documentation which includes but is not limited to the following:

- IRS rejection documentation.
- Letter of explanation from the borrower.
- Transcripts obtained directly from the borrower.
- Form 14039 (IRS Identity Theft Affidavit) if applicable.

6.8. Income Types

Primary Employment (Base Earnings)

Borrowers whose income is reported solely from W-2, salaried, non-self-employed sources are not required to provide tax returns unless deemed necessary due to additional factors such as Unreimbursed Business Expenses; however, tax transcripts must be included for all borrowers.

Seasonal Employment

- The borrower must have worked in the same seasonal job for the previous two years. Confirm with the borrower's employer that there is a reasonable expectation that the borrower will be rehired for the next season.
- For seasonal unemployment compensation, verify that it is appropriately documented, clearly associated with seasonal layoffs, expected to recur, and reported on the borrower's signed federal income tax returns. Otherwise, unemployment compensation cannot be used to qualify the borrower.

Primary Employment Less than 40-Hour Work Week

When a borrower's primary employment is less than a typical 40-hour work week, the Seller should evaluate the stability of that income as regular, ongoing primary employment. If the hours are considered common and customary for the field, the borrower should have a demonstrated history in this line of work and the file should contain documentation to support this type of income for qualifying.

Part-Time Employment

- Part-time employment income can be used to qualify the borrower if the Seller documents that the borrower has worked the part time job uninterrupted for the past two years and plans to continue. For qualifying purposes, "part-time" income refers to employment taken to supplement the borrower's income from regular employment; part-time employment is not a primary job, and it is worked less than 40 hours per week.

- Part-time income received for less than two years but no less than 18 months may be included as effective income, provided that the Seller justifies and documents that the income is likely to continue.
- Part-time income not meeting these requirements may not be used in qualifying.

Bonus or Overtime Income

Bonus or overtime income is compensation in addition to an employee's straight salary or hourly wage. Automated underwriting must recognize bonus or overtime income.

- If used for qualifying, bonus and overtime income must be documented for the previous two or more years.
    - Bonus income should be averaged based on a minimum of two years receipt from the current employer.
    - Overtime income should be averaged based on a minimum of the previous two years plus year-to-date.
- The documentation submitted for the loan cannot indicate that this income source will likely cease.
- Bonus or overtime income received for less than two years, but equal to or more than 18 months may be eligible for qualifying provided the borrower has been with their current employer for 18 months or more and the file contains strong compensating factors and documentation.
- If the earning trend is stable or increasing, the income must be averaged. If the earning trend is declining, the use of this income should be carefully considered, and the file must contain strong rationalization for the use of this income for qualifying purposes. If the declining bonus or overtime income is used for qualifying, only the current lower earnings should be utilized.
- Bonuses may be eligible for use in qualification when a borrower recently changed employment within the same field and has a guaranteed bonus documented via an executed employment contract. The income calculation must be an average of the new and previous bonus when the guaranteed bonus is at the same or higher level as the previous bonus. If the guaranteed bonus is less than the previous bonus income, only the lower amount may be used and annualized.

Commission Income

- A commission borrower is one who receives more than 25% of his/her income from commissions.
- A minimum history of two years commission earnings is required. If a borrower has a history of commission income earnings with less than 24 months but equal to or more than 18 months and has been with their current employer for a minimum of 18 months the commission income may be considered for

qualifying, provided there are positive factors to reasonably offset the shorter history and a likelihood that the income will continue.

- Commission income must be averaged over the previous two years and year to date period using a minimum of two years 1040's, W2s and a year-to-date paystub. The file must clearly document the portion of earnings from commission. If the earnings trend is stable or increasing, the income must be averaged. If the earnings trend was declining but has since stabilized, only the current lower earnings may be used to qualify. The file must contain strong rationalization for the use of the lower income.
- All 2106 Expenses (non-reimbursed business expenses) must be averaged and deducted from the borrower's earnings. Providing tax transcripts in lieu of tax returns is not acceptable.
- A borrower's income may also qualify when the portion of earnings not attributed to commissions would be sufficient to qualify the borrower for the mortgage.
- Commission income earned for less than 18 months is ineligible for use in qualifying.

Rental Income
Rent received for properties owned by the borrower is acceptable, as long as the seller can document the stability of the rental income.

Self-Employment Income
A self-employed borrower is an individual who has a 25% or greater ownership interest in a business or receives 1099s to document income. The length of self-employment, type of business and business structure will be evaluated to assess stability and continuance of self-employment income.

Borrowers Working for a Family Business
Borrowers working for a business owned and/or operated by a family member, spouse, or domestic partner carry additional risk, and therefore the following qualifying documentation is required:

Income Documentation Requirement
A borrower employed by a family-owned business is required to provide evidence that he/she is not an owner of the business, which may include:

- Copies of signed personal tax returns, or
- A signed copy of the corporate tax return showing ownership percentage.
    - Must be qualified using a two-year average of W-2 earnings amortized over 24 months. If there has been a decline in earnings from one year to the next the Seller must use the more conservative lower income for qualifying.
    - Income must be reported on the borrower's most recent two years signed federal income tax returns, regardless of the type of income the borrower receives (commission, salary, overtime, or bonus).

Note: A tax transcript obtained directly from the IRS may not be used in lieu of tax returns.

6.9. Borrowers Planning to Retire

Sellers must provide the following documentation in the closed loan package for borrowers planning to retire during the first three-year period of the Mortgage Loan:

- Document retirement benefits.
- Document social security payments.
- Other payments expected to be received in retirement.

6.10. Retirement Income and Pension Income

Retirement income must be verified from the former employer or from Federal tax returns. Retirement income must continue for a minimum of three years from the date of the Mortgage Loan closing.

6.11. IRA and 401k Retirement Distribution Income

- Borrowers must have unrestricted access without penalty to the accounts.
- If the assets generating income are in the form of stocks, bonds, or mutual funds; 70% of the value (remaining after any applicable deductions for the subject transaction) must be used to determine the number of distributions remaining, in order to account for the market volatility.
- Multiple accounts can be combined in order to meet the required 3-year minimum continuance requirement. Document account distributions began prior to consummation and will continue for a minimum of three years from closing. In order to document the retirement distribution income, the file must contain one of the following:
    - The most recent 2 months of statements reflecting the dollar amount of the distribution being used for qualifying. If the distribution is received annually or quarterly, then a letter from the Account Custodian must be provided to evidence the annual or quarterly amount.
    - If the retirement income distribution was recently established, a letter from the Account Custodian indicating the amount, frequency and start date of the distribution is required in addition to evidence of the first month's distribution.
    - Two years tax returns and a letter from the Account Custodian indicating the current amount and frequency of the distribution or two years tax returns and the most recent account statement.
- Deferred Compensation Plans are ineligible as qualifying income.

6.12. Social Security Income

Social security income must be verified with the most recent Social Security Administrations benefit verification letter. Social security income must continue for a minimum of three years from the date of the Mortgage Loan closing. Non-taxed Social Security income may be “grossed-up” for qualifying (refer to Chapter 10 for additional guidance).

6.13. Self-Employed Co-Borrower Income/Loss

Co-borrowers jointly applying for a Mortgage Loan whose income is not being used for qualifying must provide the most recent two years signed tax returns, Profit & Loss, and Balance Sheet. Losses must be included in the ratios.

6.14. Trust Income or Loss

Losses reported from a trust must be factored into the qualifying ratios for a borrower.

6.15. Other Acceptable Income Sources

- Alimony, Child Support, and Maintenance Payments (must be received for a minimum of 10-12 months and continue for a minimum of three years from the date of closing). A legally binding court document supporting this income is required. There can be no evidence of arrearages.
- Annuity Income.
- Automobile Allowances.
- Capital Gains and Losses.
- Disability Income.
- Distribution Income.
- Employer Differential Payments
- Foster Care Income.
- Housing or Parsonage Allowances: If the clergy receives a housing or parsonage allowance, follow Freddie Mac’s Housing or Parsonage Allowance guidelines.
- Interest and Dividend Income.
- Military Income.
- Non-taxable Income.
- Note Receivable Income (with evidence of 3-year continuance from date of closing).
- Public Assistance and Mortgage Credit Certificates.
- Royalty Payment Income.
- State or Federally sponsored caregiver benefits.
- Temporary Leave and Short-term Disability Income.
- Tip and Gratuity Income.

- Union Member Employment income.
- VA Benefits.

6.16. Unacceptable Income Sources

Income from sources considered ineligible includes, but is not limited to the following:

- Asset Depletion Income.
- Border Income.
- Deferred Compensation Plans.
- Farm Income from the Subject Property.
- Foreign Income.
- Future Income.
- Gambling Income.
- Home Ownership Subsidies from any source other than the Public Housing Agency.
- Income Derived from the Subject Property with Land Being Leased to Another Party.
- Income Derived from the Sale or Distribution of Marijuana.
- Income Determined to be Temporary or One-Time in Nature.
- Lump Sum Payments such as Inheritances or Lawsuit Settlements.
- Lump Sum Payments of Lottery Earnings that are not ongoing.
- Non-Incidental Income Received from Farming or Agricultural Use of a Property.
- Rental Income Received from the Borrower’s Single-Family Primary Residence or Second Home.
- Rental Income from the Subject Investment Property on a purchase transaction.
- Rental Income from an Accessory Unit Associated with the Subject Property.
- Restricted Stock Units.
- Retained Earnings in a Company.
- Stock Options.
- Taxable Forms of Income not declared on Personal Tax Returns.
- Trailing Co-Borrower Income.
- Unverifiable Income.
- VA Education Benefits.

7. Credit and Liabilities

7.1. Documentation Age

The following documentation age limitations apply:

- Desktop Underwriter: The credit report must be dated no more than 120 calendar days prior to the Note date.
- Loan Product Advisor: The credit report must be dated no more than 120 calendar days prior to the Note date.

7.2. Documentation Standards

- All accounts, revolving and installment, reported by the borrower on the application must be verified on the credit report or directly by a credit reference.
- The following data is required for each trade line reported on the credit report:
  - Current balance.
  - Current status.
  - Current rating.
  - Monthly payment amount.
  - Payment history for the most recent 12 months.
- Written verifications of mortgage, rent, or credit must be sent by the Seller directly to the creditor or landlord. The return address on the verification must be the seller's address. The hand carrying of verifications by the borrower or interested party is strictly prohibited.

7.3. Credit Report Requirements

- Seller should follow the automated underwriting requirements and the applicable Agency guidelines as they relate to Credit Report Requirements, unless otherwise specified in these Underwriting Guidelines.
- The lowest mid-score(s) will be the qualifying credit score. Should a borrower have two credit scores, the lower of the two will be considered the borrower's qualifying credit score.
- All borrowers on a loan are required to have a valid Social Security number.
- Credit reports with partially displayed Social Security numbers are not considered eligible documentation due to the increased opportunity for fraud. The complete Social Security number is required to be displayed on the credit report.
- Loans to borrowers who have been issued an ITIN in lieu of a Social Security number are ineligible.
- Late payments unrelated to a mortgage, which occurred in the previous 12 months require a letter of explanation from the borrower.
- Self-reported tradelines such as utilities are not acceptable tradelines and should not be considered part of the borrower's credit score.

7.4. Credit Report Red Flags

Credit repositories have developed messages to identify potentially fraudulent activities perpetrated by individuals misusing others' identity information. The messages may pertain to the borrower's Social Security number, address, telephone number, etc.

All fraud alert messages appearing on the credit report need to be satisfactorily addressed to ensure the information presented on the loan application is true and correct.

7.5. Non-Traditional Credit

Any loan for which one or more borrowers do not have a valid credit score, or borrowers who do not have at least two valid credit scores, are considered "nontraditional" credit loans. All non-traditional credit loans are ineligible.

7.6. Foreign Credit References

If a borrower does not have sufficient trade line references in the United States, credit references from foreign countries may not be used.

7.7. Minimum Credit Score

Sellers should refer to the product matrix to determine the minimum credit score for a particular loan program, loan amount, and/or property type.

7.8. Authorized User Accounts

- The authorized user account cannot be considered part of the borrower's credit history when the borrower has several authorized user accounts, and only a few accounts of his/her own (see second bullet). Conversely, if the borrower has several trade lines in good standing and only a minor number of authorized user accounts, the seller may consider the information reported on the credit report as an accurate reflection of the borrower's credit history.
- If a borrower provides 12 months canceled checks as proof of payment on an authorized user account, the account may be considered part of the borrower's credit history. The required monthly payment must be included in the DTI calculation.
- Authorized user accounts are not required to be included in the borrower's DTI ratios, unless the debt was listed on the initial loan application, or if the borrower is responsible for making the payment.

7.9. Minimum Trade Line Requirement

All loans require a credit score based on the following minimum credit history and trade line requirements:

- The score for each borrower must be generated from a minimum of three traditional trade lines evaluated for at least 12 months. The three trade lines must reflect an acceptable payment history.
- Trade lines for closed accounts may be used to meet this requirement provided the payment history is acceptable.
- Authorized user accounts may not be used to satisfy this requirement unless the borrower can provide written documentation (such as canceled checks or payment receipts) proving that he or she has been the actual and sole payer of the monthly payment on the account for at least 12 months preceding the date of the application.

- A trade line for which a payment has never been made may not be used to satisfy this requirement (for example, a deferred student loan).
- Borrowers who do not meet the above requirements would be viewed as having a "thin file" credit history and would be ineligible.

7.10. Minimum Credit Score Requirement

A minimum of two credit scores per borrower is required. Borrowers who do not meet the minimum credit score and minimum trade line requirements are considered "non-traditional" or "thin file" credit borrowers and are ineligible.

7.11. Significant Adverse or Derogatory Credit

To conclude that the borrower's credit profile is acceptable despite previous financial mismanagement, the rationale supporting the determination that the financial mismanagement is unlikely to recur, and the borrower's credit profile is acceptable must be explained.

The following guidelines apply to individuals who have a significant adverse or derogatory credit incident such as a bankruptcy or foreclosure reporting in their credit history, or if it's determined that a borrower was personally obligated on a mortgage debt which was not reported.

- **Documentation Requirements**
  - Evidence that the borrower has re-established an acceptable credit profile. The borrower will be considered as having acceptable re-established credit if the credit report is free of late payments in the previous 24 months, and the borrower has at least three traditional credit references with activity during the most recent 24-month period.
  - Evidence on the credit report and other credit documentation of the length of time since completion of the significant derogatory event to the date of the loan closing, and of completion of the recovery time period requirements as identified below.

- **Reestablished Credit Requirements**

  After a bankruptcy, foreclosure, deed-in-lieu of foreclosure or short sale, or other significant derogatory credit, the borrower's credit will be considered reestablished if all of the following are met:

  - The waiting period and related additional requirements are met.
  - The minimum credit score requirements based on the loan parameters and established eligibility requirements are met.
  - The borrower has traditional credit. Non-traditional credit is not acceptable. The borrower will be considered as having acceptable reestablished credit if the credit report is free of late payments in the previous 24 months, and the borrower has at least three traditional credit references with activity during the most recent 24 months period. AUS approval based on credit profile.

- **Recovery Time Periods**
  Recovery time requirements are based on the discharge, dismissal, or completion date to the date of the loan closing.

  - **Bankruptcy Filing**
    For all bankruptcies discharged or dismissed, the following is required:
    - A 7-year waiting period from the date of discharge or dismissal to the date of closing to be eligible for purchase.
    - Mortgages discharged in bankruptcy require seven-year waiting period from the date of discharge to the date of closing.
    - Borrowers with multiple bankruptcy filings are ineligible.

  - **Foreclosures/Deeds-in-Lieu of Foreclosure/Pre-Foreclosure Notice of Default (NOD)/Short Sales/Real Property Settled Debts**
    Any of the above credit events require seven years' seasoning after the completion date or from the date of notification in the case of a Notice of Default, and satisfactory re-established credit must be verified.
    - Regardless of the borrower's credit score and/or payment history, the seven-year seasoning requirement applies for any reference to one of the above-mentioned events, whether via the credit report or other loan file documentation.
    - Manufactured housing/mobile home loans indicated as repossessions, collections, or charge-offs are considered foreclosures.

  - **Deed for Lease**
    Borrowers may have the opportunity to lease a property for which they have given a deed-in-lieu of foreclosure. When the borrower's loan file references a deed for lease, the underwriter must determine the completion date of the deed-in-lieu of foreclosure to ensure all requirements are met.

  - **Restructured Mortgage Loan**
    A borrower who has had a loan restructured, in which the original transaction has been changed, resulting in absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in any of the following is ineligible within seven years of the credit event:
    - Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
    - Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
    - Conversion of any portion of the original mortgage debt to a "soft" subordinate mortgage; or
    - Conversion of any portion of the original mortgage debt from secured too unsecured.
    - Short Refinance Mortgage Loan.

- A new transaction that includes any of the above is ineligible.

7.12. Consumer Credit Counseling

Loans with borrowers who have received credit counseling as a result of derogatory credit within the past four years are ineligible.

7.13. Past-Due Accounts

Past-due open accounts must be brought current prior to the loan closing and will be factored into the overall credit profile.

7.14. Collections/Charge-Offs/Liens/Judgements/Settled Debts

- Liens impacting title must be satisfied prior to closing.
- All collections and charge-offs must be paid if an individual collection or charge-off is equal to or greater than $1000 or if the cumulative total of collections and charge-offs per loan is equal to or greater than $2500.
- All settled debts reported in the previous 24 months must be fully explained and taken into consideration in the full credit review.

7.15. IRS Installment Plans

Loans with borrowers making monthly installment payments to the Internal Revenue Service (IRS) may be eligible provided the borrower is being qualified with the installment payment, and the following documentation is included in the loan file:

- Document a satisfactory payment history (account must be in good standing).
- Evidence of the approved installment agreement with the IRS.
  - If the installment debt is scheduled to be repaid in less than ten months, the debt may be excluded from the borrower's DTI, provided the obligation does not impact the borrower's ability to pay the mortgage after closing.
- IRS debts which have become liens or are past-due, are ineligible for qualifying as an installment plan and must be paid prior to consummation.

7.16. Housing and Rental Payment History

- An acceptable VOR or cancelled checks and/or supporting bank statements for the most recent 12 or 24 months (based on program requirements) must be provided.
- For homes owned free and clear, provide evidence of taxes, property insurance, and association dues. Past due amounts indicated on any of the documentation provided, must be satisfied.
- Borrowers renting from a private landlord must provide cancelled checks and/or bank statements for rental verification.
- For qualifying purposes, a first-time homebuyer's rental documentation requires at least one borrower has a 24-month rental history.

- Peer to peer payment methods can be considered if properly documented with monthly statements or detailed pay histories.
- A satisfactory payment history for privately financed mortgages must be documented with the most recent 12 months cancelled checks and/or bank statements.
- Borrowers living rent-free must meet the following requirements:
  - The rent-free period must be the months directly preceding or during the loan purchase application process.
  - The rent-free period is consecutive and does not exceed 12 months,
  - The lender obtains an acceptable 12- or 24-months rental history (based on specific program requirements) for the time frame immediately prior to the rent-free period, and.
  - The file contains an acceptable letter of explanation from the borrower.

7.17. Derogatory Housing Payment History

- Borrowers with late mortgage or rent payments in the previous 12 months from the date of the mortgage application are ineligible. Additionally, late mortgage or rent payments in the previous 24 months must be fully explained and carefully considered in the total credit analysis.
- First-time home buyers with late rental payments in the previous 24 months are ineligible.

7.18. Disputed Accounts

The Seller must follow the automated underwriting requirements and the applicable Agency guidelines to determine how to treat the disputed account. The disputed trade line must be considered in the overall AUS risk assessment.

7.19. Debts Paid by a business (Self-Employed Borrowers)

In order for a debt to be excluded from the borrower's total qualifying ratio calculation, evidence must be provided to show the business has paid the debt for the previous twelve-month period. Additional requirements in removing a business paid debt include but are not limited to the following:

- No history of delinquency on the account in question.
- Evidence the obligation was paid out of company or business funds.
- Tax returns or cash flow analysis to reflect the business making said payment.
- Applies to all business types, with the exception of Schedule C Sole Proprietorship.

7.20. Paying off Debt

Both installment and revolving debts may be paid off in order to remove the payment from the total qualifying ratios. The following documentation must be provided:

- Evidence the account has been paid in full.

- Source of funds to pay off the debt must be documented.
- Installment debts with less than ten payments remaining must be included in the DTI ratio unless sufficient reserves to cover the remaining debt, over and above those required by these guidelines, are evidenced in the loan file.
- Lease payments may not be paid down or paid off for qualifying purposes.
- Revolving debt must be documented as paid in full in order for the monthly obligation to be removed from the qualifying DTI. Paid in full revolving accounts may remain open with a zero balance at consummation.
- Paying off debt at the time of consummation with any portion of the allowable 1% cash-back, from a rate & term refinance, will result in the loan being deemed a cash-out refinance, and will therefore be ineligible.

7.21. Student Loans

All student loans regardless of their current status (forbearance, deferred, or in repayment) must be included in the borrower's recurring monthly debt for qualifying. The following options are eligible for qualifying a borrower with student or education loans:

- A payment that when made will fully amortize the loan and is documented by one of the following options:
  - The credit report, or
  - The student loan creditor documentation, or.
  - A payment based on 1% of the documented outstanding balance of the loan.

7.22. Qualifying with an Interest Only Mortgage

Borrowers who currently have any of the following, and will be retaining the property associated with this mortgage, must be qualified with the fully amortizing payment and not the interest only optional payment:

- Interest only first mortgage.
- Option ARM Mortgage (negatively amortizing).

7.23. Total Qualifying Debt-to-Income Ratios

- The maximum debt-to-income ratio is 43 percent.
- The maximum debt-to-income ratio for first time home buyers is 38 percent.
- The maximum debt-to-income ratio for loans involving gift funds is 40 percent (may be lower based on program specifications).

7.24. Alimony and Child Support

Borrowers making monthly child support or alimony payments must be qualified with the monthly payment:

- Arrearages must be satisfied prior to closing.
- Alimony and/or child support may not be considered a business debt when qualifying a self-employed borrower.

- If the alimony and/or child support debt is scheduled to be repaid in less than ten months, the debt may be excluded from the borrower's DTI, provided one of the following scenarios apply:
  - The obligation does not impact the borrower's ability to pay the mortgage (43% DTI) after closing; or the borrower has sufficient additional cash reserves to cover the remaining balance of the installment debt over-and-above the assets required for reserves based on these Underwriting Guides.
  - Evidence the account has been paid in full with an eligible source of funds.

7.25. Payment Shock

There are no specific requirements related to payment shock; however, payment shock is taken into consideration in the overall risk of the loan.

7.26. 30 Day Open Accounts

A payment equal to 5% of the current outstanding balance must be included in the qualifying ratios for any 30-day open account reflecting a zero-payment amount or a payment equal to the current outstanding balance on the credit report.

If the borrower paid off the account balance prior to closing, the lender may provide proof the account balance has been paid in full, in addition to the source of funds used to pay the account balance.

7.27. Separation Agreements

A legal separation agreement in lieu of a final divorce decree is acceptable, provided the agreement includes proper separation of assets and liabilities, and is signed by all parties.

7.28. Qualifying Payment (HELOC)

- The payment used for qualifying a borrower with an existing home equity line of credit (HELOC) must be based on the current balance owed on the HELOC documented by either the credit report or the current statement from the creditor dated after the date of the credit report.
- When funds drawn from an existing HELOC are being considered as assets for the transaction, the qualifying payment must be based on the new outstanding home equity line balance.
- The fully amortizing payment must be used for qualifying when an interest only HELOC or second lien will be converting to a fully amortized payment within 12 months of the note date.

7.29. Credit-Freeze

Frozen credit is only acceptable when one credit score is impacted. Each borrower must have a minimum of two current active credit scores in order to qualify for loans.

7.30. Re-Scored Credit Reports

New credit reports ordered specifically for the purpose of increasing a borrower's credit scores (such as Rapid Rescore©) are ineligible. A new credit report with updated credit scores may be provided if the initial credit report contained erroneous information and has since been corrected, provided the new credit report meets the Fair Credit Reporting Act with regard to the nature of the inquiry. All credit reports obtained in connection with the subject loan transaction must be provided, along with a letter of explanation and any supporting documentation regarding the reason for the new report.

7.31. Recurring Obligations-REO Split Ownership

The monthly housing obligation (PITIA) may not be reduced based on the percentage of ownership when ownership is split with non-borrowing individuals. Rental income will be based on the borrower's Schedule E income.

8. Assets

8.1. Documentation Age

The following documentation age limitations apply:

- Desktop Underwriter (Fannie Mae)—120 days prior to the Note date.
- Loan Product Advisor (Freddie Mac)—120 days prior to the Note date.

8.2. Minimum Down Payment and Cash to Close

- Evidence must be provided to determine that the borrower has sufficient funds to pay the down payment, prepaid items, and closing costs as well as adequate additional cash reserves as the Loan Program requires.
- Evidence of liquidation of funds necessary for closing must be provided.
- For all Loan Programs, the borrower is required to make a minimum down payment from his or her own assets.
- All down payment funds and cash to close must be documented and verified.

8.3. Verification

- All funds must be documented with a minimum of the most recent two months bank statements or most recent quarterly statement.
- A verification of deposit (VOD) form is acceptable if accompanied by a minimum of one full month bank statement.
- All funds from accounts opened for 90 calendar days or less, must be sourced if used for down payment, closing costs, or reserves.
- Large deposits exceeding 50 percent of total qualifying income must be sourced.
- If source of funds cannot be documented, it is acceptable to exclude a large deposit, so as not to consider these funds for qualifying.

- Fannie Mae DU Validation Service (DVS) or Freddie Mac LPA Asset Income Modeler (AIM) documentation is acceptable, in conjunction with any additional documentation required in these Guidelines. The validation documentation should include transaction histories, current balances, average balances, account numbers, account types, and borrower name & address. If transaction histories are not included, the Fannie Mae approved validation service documentation must be accompanied by a monthly bank statement.

8.4. Cash Deposits

Cash deposits are ineligible funds in a transaction and should be reduced from the amount of available funds, regardless of whether they are considered large deposits.

8.5. Co-Mingled Funds

- All funds must come from the borrower's own demonstrated savings.
- Borrowers using accounts in which their funds are co-mingled with a non-borrowing party or parties, have the burden of proving funds in those accounts are a result of their earnings/savings. In addition, the file must also contain appropriate authorization letters from all additional account owners.
- Funds from co-owned accounts that appear to have no connection to, or ownership by the borrower, will not be considered the borrower's own funds for use in the transaction.

8.6. Co-Mingled Funds – Non-Borrowing Spouse

- Provide account statements to support the borrower's history as an account holder, in addition to supporting the borrower's past and continued contributions to the account.
- All large (a-typical/non-payroll related) deposits must be sourced and will not be considered eligible if the funds are originally from a source solely associated with the non-borrowing spouse.

8.7. Gift Funds

Gift funds are eligible for down payment and closing costs when a borrower has met a minimum 5 percent contribution from their own funds.

Additional criteria for the use gift funds in any transaction are provided below:

- Primary residence only.
- Eligible for 80% LTV up to $2,000,000.
- Purchase and rate & term refinance.
- Single Family, PUD, and condominiums only.
- Maximum 38 percent DTI for first-time home buyer program; maximum 40 percent DTI for all other loan programs.
- Co-mingled accounts are an ineligible source of funds for the borrower's minimum required contribution.

- Relative, spouse, domestic partner, fiancé, or fiancée are all considered eligible donors.
- Gifts must be supported with a fully executed gift letter; proof of donor's ability to provide the gift (e.g., bank statements), and evidence the borrower has received the gift funds.
  - Gift funds are not eligible for reserves.
  - A donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

8.8. Gift Funds for the Purpose of Paying Off Debt

Gift funds for the purpose of paying off or reducing debt prior to or during the loan transaction would be considered eligible gift funds, provided all gift fund criteria are met.

8.9. Gifts of Equity

Gifts of equity are ineligible on jumbo loans.

8.10. Credit Card Deposits

It is acceptable for common and customary fees, typically paid outside of closing, to be paid via an initial credit card deposit.

8.11. Business Assets

Business assets are eligible for the borrower's down payment and closing costs. The percentage of business assets withdrawn from an account (for use in the transaction) should be equal to or less than the borrower's percentage of ownership in said business. Business assets are not eligible as reserves.

Evidence of the following must be included in the file:

- Evidence supporting the borrower has full access to their percentage of the funds.
- A cash-flow analysis or CPA letter stating the withdrawal of said funds will not negatively impact the business.

8.12. Foreign Assets

- All assets considered in the transaction must be located in US bank accounts. Funds in financial institutions located outside of the US will not be eligible for reserves.
- The borrower's source of funds for the down payment and/or closing costs must comply with the Office of Foreign Assets Control (OFAC) Sanctions Programs for funds originating from countries with OFAC sanctions.

8.13. 1031 Exchange

- 1031 exchange funds are an acceptable source of funds for a like kind of investment exchange, provided the transaction meets all applicable Agency guidelines. 1031 exchange funds are an ineligible source of funds for reserves.

8.14. Retirement Accounts

- Retirement accounts are an eligible source of funds for closing, down payment, and reserves. When accessing retirement funds for assets to close, evidence of liquidation and reduction of any applicable penalties must be fully documented.
- The portion of self-directed IRA accounts invested in real estate or other non-liquid assets are ineligible as reserves.
- If using funds from a retirement account for reserves, a discounted value of 70 percent of the vested balance must be used for qualifying based on market volatility.
- Any existing loans secured by a retirement asset must be deducted from the discounted value of the vested balance.
- Terms of withdrawal from the account program administrator should be provided when using the account for reserves.
- Terms of withdrawal are not required when the 401(k) funds are associated with a previous employer; however, a discounted value of 70 percent of the vested balance must be used for qualifying.
- Terms of withdrawal from IRA accounts are not required.

8.15. Reserve Requirements

Occupancy	Cash Reserve Requirement
Primary Residence (1 Unit) up to $1,000,000	6 Months
Primary Residence (1 Unit) $1,000,001 to $2,000,000	12 Months
Primary Residence (2-4) unit	12 Months
First-time home buyer	12 months
Investor/Second home	18 months

8.16. Additional Reserve Requirements

- Borrowers with other properties in addition to the subject property are required to have an additional six months of reserves for each additional property, based on the individual properties PITIA. Evidence of six months taxes, insurance, and association dues are required for properties owned free and clear, as well as for properties which the borrower(s) are on title but not included on the Mortgage Note.
- Borrowers who do not currently own a primary residence are required to have six months of rent payments in reserves when financing a second home or investment property.

- Reserve calculations for an existing rental property are based on the actual PITIA calculation for that property, rather than the negative cash flow from the property.

8.17. Retaining and Converting Departing Residence

If the borrower is retaining their current departing principal residence and converting it to a second home or investment property, reserve requirements of six months PITIA for the departing residence must be met. If a borrower has sold but not closed on the sale of their departing residence, the debt must be included in the qualifying ratios. To determine whether rental income can be considered for qualifying see **all** requirements for the exceptions below:

<table>
<tr><th>Exception</th><th colspan="2">Description</th></tr>
<tr><td rowspan="4">Relocation</td><td colspan="2">The consumer is relocating with a new employer or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.</td></tr>
<tr><td>Sufficient Equity in Vacated Property (Single-Family Residence Only)</td><td>The borrower has a loan-to-value ratio of 75 percent or less, as determined by:
A current (aged no more than six months) residential appraisal ordered by a mortgage lender.
Comparing the unpaid principal balance to the original sales price of the property is not permitted. Note: The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1073/Freddie Mac 465.</td></tr>
<tr><td>Leased to Unrelated Third Party</td><td>A properly executed lease agreement (that is, a lease signed by the consumer and the lessee) of at least one year's duration after the loan is closed is required. The current 12 month lease must be to an unrelated arm's-length third party and must be effective as of the first payment due date of the subject mortgage loan.</td></tr>
<tr><td>Additional Documentation</td><td>Underwriters should also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowners. Evidence must show received and deposited.</td></tr>
<tr><td>Conversion of Departing/ Vacating Property</td><td>Sufficient Equity in Vacated Property (Single-Family Residence Only)</td><td>The borrower has a loan-to-value ratio of 75 percent or less, as determined by:
A current (aged no more than six months) residential appraisal ordered by a mortgage lender.
Comparing the unpaid principal balance to the original sales price of the property is not permitted. Note: The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1073/Freddie Mac 465.</td></tr>
</table>

	Leased to Unrelated Third Party	The current 12-month lease must be to an unrelated arm's-length third party and must be effective as of the first payment due date of the subject mortgage loan.
	Additional Documentation	Must provide evidence the security deposit and/or first month's rent has been received and deposited.

8.18. Reported Non-Sufficient-Funds (NSF) Fees

Asset statements showing a history of non-sufficient-fund (NSF) fees present a layer of risk that must be weighed against the borrower's credit history from the credit report and all of the other risk factors in the file. Letters of explanation should be provided.

8.19. Stocks, Bonds, and Mutual Funds

Stocks, Bonds, and Mutual Funds must be reduced by 30 percent of the current market value, to account for market volatility. Stocks, Bonds and Mutual Fund asset liquidation must be fully documented when used for closing or down payment.

8.20. Employer Relocation Funds

- Funds provided toward the borrower's down payment from an employer-relocation or transfer, are ineligible assets.
- Funds provided toward the borrower's closing costs and/or pre-paid interest must meet interested party contribution (IPC) requirements.

8.21. Acceptable Assets

The following table indicates whether a particular asset type can be considered for borrower's minimum contribution, down payment, closing costs, or reserves. The asset must be properly documented and verified, in addition to meeting all applicable Agency guidelines.

Type of Asset	Minimum Contribution	Down Payment	Closing Costs	Reserves	Not Eligible
Anticipated Savings					X
Bank Accounts/Funds on Deposit in Financial Institutions	X	X	X	X	
Borrowed Funds Secured by Borrower's Own Financial Assets (See Margin Accounts Below)	X	X	X	X	
Borrower Earned Real Estate Commission from Subject Transaction (limited to primary residence transactions)	X	X	X		

ASSETS

Search Tip: Use the CTRL+F Key to find words within this document.

Type of Asset	Minimum Contribution	Down Payment	Closing Costs	Reserves	Not Eligible
Bridge Loan (Must be from a financial institution, and the borrower must qualify with the bridge loan payment.	X	X	X	X	
Business Assets (See Business Assets section for additional guidance)	X	X	X		
Cash-on-Hand					X
Cash-Out from Subject Transaction					X
Cash Value of Life Insurance	X	X	X	X	
College Savings Plans/529 Accounts for which borrower(s) is/are not the intended Recipient (*May only be used as reserves when account has been liquidated.)	X	X	X	X (*)	
Community Savings Plans and Lending Clubs					X
Cryptocurrencies such as Bitcoins					X
Irrevocable Custodial Accounts (UGMA/UTMA)					X
Disaster Relief Grant (Provided the funds are not considered loan funds and there is no subordinate lien to be recorded against the subject property)	X	X			
Earnest Money Deposit (EMD)	X	X	X		
Employer Assistance Programs (may not result in a lien against the property)				X	
Funds Drawn Prior to Consummation from an existing HELOC	X	X	X	X	
Gift Funds (See additional restriction in 8.07 within this section)		X	X		
Gifts of Equity					X
Individual Development Account (Provided the account does not require a subordinate lien to be recorded against the subject property.)	X	X	X	X	
Individual Development Account Matching Funds					X
Interested Party Contributions (IPCs)			X		

Type of Asset	Minimum Contribution	Down Payment	Closing Costs	Reserves	Not Eligible
Lot Value (when purchased or inherited by the borrower)	X	X			
Lot Value (when received as a gift)					X
Margin Accounts	X	X	X		
New Simultaneous Financing on Subject Property					X
Non-Vested Restricted Stock Units/Stock Options					X
Pension Funds					X
Private Funds (from a secured or unsecured loan)					X
Proceeds from sale of Borrower's own Real Estate or Assets	X	X	X	X	
Relocation: Down Payment					X
Rent Credit with Option to Purchase	X	X			
Retirement Accounts (401K and IRA) (See section 8.14 for additional guidance)	X	X	X	X	
Sales Concessions					X
Stocks/Bonds/Mutual Funds (70 Percent of current market value or evidence of liquidation required)	X	X	X	X	
Sweat Equity/Trade Equity					X
Trust Accounts for which the borrower is the owner and has Immediate Access to the funds	X	X	X	X	
Unsecured Line of Credit Financing					X
U.S. Savings Bonds	X	X	X	X	
Vested Stock options/Restricted Stock Units (file must contain evidence of liquidation of funds)	X	X	X	X	

9. AUS Requirements

The use of Fannie Mae's Desktop Underwriter® (DU® or Desktop Underwriter) or Freddie Mac's Loan Product Advisor® (LPA®) for automated underwriting decisions is required on all loans. DO® (Desktop Originator®) findings may not be considered a substitute for DU approval.

Regardless of underwriting method, a full manual underwrite will be required and additional information may be requested at the discretion of the underwriter.

9.1. Documentation Requirements

Loans underwritten by Desktop Underwriter or Loan Product Advisor may not follow the DU Underwriting Findings Report or LPA Feedback Certificate, including but not limited to Streamlined Accept or Streamline Refinance requirements. Documentation requirements for manual underwriting for the applicable agency must be provided unless otherwise stated in these Jumbo Underwriting Guidelines or in the Matrices in Chapter One.

9.2. DU and LPA Resubmission Requirements

Resubmission of a loan to DU or LPA is required if:

- The final DU and LPA decision does not reflect the proper risk-class and/or documentation.
- The findings are no longer valid due to an expired submission,
- Information on the previous submission was not true, complete, or accurate.

9.3. Desktop Underwriter (DU) Decisions

Acceptable Findings

When a loan is submitted to Desktop Underwriter, the only recommendation in the DU Underwriting Findings Report that is acceptable is the following:

Decision	Description
Approve/Ineligible	Based on the data submitted to DU, "Approve/Ineligible" findings would be the result of any of the following: loan amount, cash out amounts allowable in accordance with these jumbo underwriting guidelines, and cash-out amounts resulting from non-purchase money second lien payoffs as a rate and term refinance.
Approve/Eligible	Approve/Eligible findings are acceptable for Agency eligible high-balance loans ($548,251-$822,375) when submitted and locked on the jumbo loan program. These files will be manually underwritten and must meet all applicable jumbo loan guidelines.

Unacceptable Findings

Loans submitted to DU that receive other Desktop Underwriter Recommendations (including but not limited to the following) are ineligible:

- Refer with Caution.
- Out of Scope.

9.4. Loan Product Advisor (LPA) Decisions

Acceptable Findings

Decision	Description
Accept/Ineligible	Based on the data submitted to LPA, "Accept/Ineligible" findings would be the result of any of the following: loan amount, cash out amounts allowable in accordance with these jumbo underwriting guidelines, and cash-out amounts resulting from non-purchase money second lien payoffs as a rate and term refinance.
Accept/Eligible	Accept/Eligible findings are acceptable for Agency eligible "Super-Conforming" Loans ($548,251-$822,375) when submitted and locked on the jumbo loan program. These files will be manually underwritten and must meet all applicable jumbo loan guidelines.

When a loan is submitted to Loan Product Advisor, the only recommendation in the LPA Feedback Certificate that is acceptable is the following:

Unacceptable Findings

Any loans that are submitted to LPA that receive other Loan Product Advisor Recommendations (including but not limited to the following) are ineligible:

- Caution.
- Caution/500 A-Minus.
- Incomplete/Invalid.