Table of Contents

TABLE OF CONTENTS

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

TABLE OF CONTENTS

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

1. Program Basics

1.1. Product Codes

Code	Description
JF30RR	30 Year Jumbo Fixed RR

1.2. Eligible Transaction Type

- Purchase
- Rate/Term Refinance
- Cash-out Refinance

1.3. Eligible States

Eligible States Matrix

1.4. LTV/CLTV

See Jumbo RR LTV Matrix

1.5. Minimum Loan Amount

$100,000

1.6. Maximum Loan Amount

$2,000,000

1.7. Eligible Property Types

- 1-4 Unit Primary
- SFR
- PUDs
- FNMA Approved Condo
  - Properties ≤ 20 Acres
- Properties > 10 acres <acres must meet the following:
  - Maximum Land Value 35%
  - No income producing attributes
- Properties Subject to Existing Oil/Gas Leases must meet the following:
  - Title endorsement providing coverage to the lender against damage to existing improvement resulting from the exercise of the right to use the surface of the land which is subject to an oil and/or gas lease.
  - No active drilling. Appraiser to comment or current survey to show no active drilling.

- No lease recorded after the home construction date. Re-recording of a lease after the home was constructed is permitted.
- Must be connected to public water.
- Properties with leased solar panels must meet Fannie Mae requirements.
- Non Warrantable Condominiums - **PRIMARY RESIDENCE ONLY**
  - Only one (1) non warrantable feature is allowed and LTV must be 10%below product/program maximum. For example, if borrower qualifies for a loan at 90% LTV based on FICO score, loan amount and reserves, then the maximum allowed would be 80%
  - **Commercial Space** - Commercial space includes space above and below grade. Commercial space must be compatible with the residential use of the project. For example, restaurants, small shops, business offices, small market/grocery store that complement the neighborhood.
  - **Maximum 50%** commercial space is allowed
  - **Maximum ownership by one (1) entity** is 25% for projects with more than ten (10) units.
    - Units owned by the developer, sponsor, or succeeding developer that are vacant and being actively marketed for sale are not included in the calculation
    - Units currently leased must be included in the calculation
    - For projects with ten (10) units or less, Fannie Mae guidelines apply for the number of units owned by one (1) entity and would not be considered non warrantable
- **Pre Sale** - New projects or converted projects (as defined by Fannie Mae) must have at least 30% of the unis sold or under contract to owner occupants or second home purchasers for the subject phase; common areas/amenities must be complete for the subject phase.
- **Budget** - for projects with line item for replacement reserves of less than 10%;
  - Less than 10% but greater than 7$ replacement reserves allowed if current reserve balance exceeds 10% of operating expenses
  - Less then 7% replacement reserves allowed if current reserve balance exceeds 20% operating expenses
  - Project balance sheet must be provided and within 120 days of the Note date.
- The subject legal phase and any other legal phases in which units have been offered for sale are substantially complete (common elements complete and units complete subject to selection of buyer upgrades/preference items).
- **All other Fannie Mae condo requirements must be met.**

1.8. Ineligible Property Types

- Second home properties

- Investment properties
- Manufactured Homes/Mobile Homes
- Mixed-Use Properties
- Properties with condition rating of C5/C6
- Properties with construction rating of Q6
- Condotels / Condo Hotels
- Properties > 20 acres
- Unique properties
- Working farms, ranches or orchards
- Properties with a private transfer fee covenant unless the covenant is excluded under 12CFR1228 as an excepted transfer fee covenant

1.9. Temporary Buydowns

Not Allowed

1.10. Interest Only

Not Allowed

1.11. Escrow Waivers

Allowed

1.12. Secondary Financing

Not Allowed

1.13. General Refinance Guidelines

1.13.1. Existing Properties

For existing properties, borrowers must occupy at the time of the transaction.

1.13.2. Calculations

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

1.13.3. Properties Listed for Sales

- Properties currently listed for sale (at the time of application) are not eligible for refinance transactions.
- Properties listed for sale within six (6) months of the application date are acceptable if the following requirements are met.
  - Rate and Term refinance only.
  - Documentation provided to show cancellation of listing.
  - Acceptable letter of explanation from the borrower detailing the rationale for cancelling the listing.
- Cash-out refinances are not eligible if the property was listed for sale within twelve (12) months of the application date.

1.14. Rate/Term Refinance

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

1.15. Cash-out Refinance Requirements

- Borrower must have owned the property for at least six (6) months.
- Maximum cash-out limitations include the payoff of any unsecured debt, unseasoned liens and any cash in hand.
- Inherited properties may not be refinanced as a cash-out refinance prior to twelve (12) months ownership. See Rate and Term Refinances for requirements.

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

1.16. Delayed Financing

Delayed Purchase Refinancing is not allowed.

1.17. Continuity of Obligation

When at least one (1) borrower on the existing mortgage is also a borrower on the new refinance transaction, continuity of obligation requirements have been met. If continuity of obligation is not met, the following permissible exceptions are allowed for the new refinance to be eligible:

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

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

2. Borrower Eligibility

2.1. Eligible Borrowers

- U.S. Citizens
- Permanent Resident Aliens
- Non-Permanent Resident Aliens
- Inter Vivos Revocable Trust
- All borrowers must have a valid social security number

2.2. Ineligible Borrowers

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

2.3. Permanent Resident Alien

- Permanent Resident Aliens with evidence of lawful residency
- Borrower must have a current 24 month employment history in the US.

2.4. First Time Home Buyer

First-Time Homebuyer is defined as a borrower who has not owned a home in the last three (3) years. For loans with more than one (1) borrower, where at least one (1) borrower has owned a home in the last three (3) years, first-time homebuyer requirements do not apply.

- Maximum loan amount is $1,000,000.
- Reserve requirement met for FTHB.
- For transactions located in California the maximum loan amount is $1,500,000 if the following requirements are met:
- Primary residence only
- Maximum LTV 80%
- Reserve requirement met for FTHB

2.5. Non Arm's Length Transactions

A non-arm's length transaction exists whenever the borrower has a personal or business relationship with parties to the transaction which may include the seller, builder, real estate agent, appraiser, lender, title company or other interested party. The following non-arm's length transactions are eligible:

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

3. Occupancy

3.1. Multiple Financed Properties

- The borrower(s) may own a total of four (4) financed, 1-4 unit residential properties including the subject property on the Redwood Renew program.
- All financed 1-4 unit residential properties require an additional three (3) months reserves for each property, unless the exclusions below apply.
- 1-4 unit residential financed properties held in the name of an LLC or other corporation can be excluded from the number of financed properties only when the borrower is not personally obligated for the mortgage.
- Ownership of commercial or multifamily (five (5) or more units) real estate is not included in this limitation.

4. Underwriting

4.1. Eligible Underwriting Methods

- Manual Underwrite only
- AUS findings are not considered
- No Documentation wavers are considered

4.2. Credit

4.2.1. Documentation

- All loans must be manually underwritten and fully documented. No documentation waivers based on AUS recommendations permitted.
- Income calculation worksheet or 1008 with income calculation. Current Fannie
- Mae Form 1084, Freddie Mac Form 91 or equivalent is required for self-employment income analysis.
- Full income and asset verification is required.
- All credit documents, including title commitment must be no older than ninety
- (90) days from the Note date.
- QM designation must be provided in the loan file. For the Redwood Renew program;
- QM designation is QM Safe Harbor if the loan is not a Higher- Priced
- Covered Transaction (HPCT).
- QM designation is QM Rebuttable Presumption if the loan is a Higher-
- Priced Covered Transaction (HPCT).
- QM designation is Non-QM/ATR

- Loan file must document the eight (8) Ability to Repay (ATR) rules identified in Part 1026-Truth-in-Lending (Regulation Z).
- Residual income calculation must be provided and meet the residual income requirements indicated in the Income/Employment section of this guide.
- If subject transaction is paying off a HELOC the loan file must contain evidence the HELOC has been closed.
- If the 1003, title commitment or credit documents indicate the borrower is a party to a lawsuit, additional documentation must be obtained to determine no negative impact on the borrower's ability to repay, assets or collateral.

4.2.2. Minimum Trade Line Requirements

- Minimum three (3) tradelines are required. The following requirements apply:
    - One (1) tradeline must be open for twenty-four (24) months and active within the most recent six (6) months.
    - Two (2) remaining tradelines must be rated for twelve (12) months and may be opened or closed.
- --OR--
- Minimum two (2) tradelines are acceptable if the borrower has a satisfactory mortgage rating for at least twelve (12) months (opened or closed) within the last twenty-four (24) months and one (1) additional open tradeline.
- Each borrower contributing income for qualifying must meet the minimum tradeline requirements; however, borrowers not contributing income for qualifying purposes are not subject to minimum tradeline requirements.
- Authorized user accounts are not allowed as an acceptable tradeline.
- Non-traditional credit is not allowed as an acceptable tradeline.

4.2.3. Disputed Derogatory Credit

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

4.2.4. Mortgage/Housing Payment History

- If the borrower(s) has a mortgage history in the most recent twelve (12) months, a mortgage rating must be obtained. The rating may be on the credit report or a VOM. Applies to all borrowers on the loan.
- No more than 1x30 in the last twelve (12) months. No 60-day lates or greater allowed in the most recent 12 months..

- If the mortgage holders is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory mortgage history is required.

4.2.5. Rental History Requirements

- If the borrower(s) has a rental history in the most recent twelve (12) months, a VOR must be obtained. Applies to all borrowers on the loans.
- No more than 1x30 in the last twelve (12) months. No 60-day lates or greater allowed in the most recent twelve (12) months.
- If the landlord is a party to the transaction or relative of the borrower, cancelled checks or bank statements to verify satisfactory rent history is required; otherwise if not related or a party to the transaction a satisfactory VOR can be provided.

4.2.6. Derogatory Credit

Derogatory Event	**Waiting Period**
Bankruptcy: Chapter 7, 11, 13	2 years since discharge/dismissal date
Foreclosure	2 years since completion date
Notice of Default	1 years since completion date
Short Sale/Deed-in-Lieu	2 years since completion/sale date
Mortgage accounts that were settled for less, negotiated or short payoffs	2 years since settlement date
Loan Modification	1 years since modification.
Medical collections	Allowed to remain outstanding if the balance is less than $10,000 in aggregate.

4.2.7. Frozen Bureaus

- Credit reports with bureaus identified as “frozen” are required to be unfrozen and a current credit report with all bureaus unfrozen is required.

4.2.8. Inquiries

- If the credit report indicates recent inquires within the most recent 120 days of the credit report, MWF must confirm the borrower did not obtain additional credit that is not reflected in the credit report or mortgage application. In these instances, the borrower must explain the reason for the credit inquiry.
- If additional credit was obtained, a verification of that debt must be provided and the borrower must be qualified with the monthly payment.
- Confirmation of no new debt may be in the form of a new credit report, pre-close credit report or gap credit report.

4.2.9. Outstanding Judgments/Tax Liens/Past Due Accounts

Tax liens, judgments charge-offs and past-due accounts must be satisfied or brought current prior to or at closing. Cash-out proceeds from the subject transaction may not be used to satisfy judgments, tax liens, charge-offs or past-due accounts.

- Payment plans on prior year tax liens/liabilities are not allowed, must be paid in full.
- If the most recent tax return or tax extension indicate a borrower owes money to the IRS or State Tax Authority, evidence of sufficient liquid assets to pay the debt must be documented if the amount due is within ninety (90) days of loan application date or if tax transcripts show an outstanding balance due.

A payment plan for the most recent tax year is allowed if the following requirements are met:

- Payment plan was set up at the time the taxes were due.
- Copy of payment plan must be included in loan file.
- Payment is included in the DTI.
- Satisfactory pay history based on terms of payment plan is provided.
- Payment plan is only allowed for taxes due for most recent tax year, prior years not allowed. For example, borrower files their 2019 return or extension in April 2020. A payment plan would be allowed for taxes due for 2019 tax year. Payment plans for 2018 and prior would not be allowed.
- Borrower does not have a prior history of tax liens.

TEMPORARILY SUSPENDED

4.3. Income / Employment

4.3.1. Overview

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

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

4.3.2. General Documentation Requirements

4.3.2.1. Paystubs

Paystubs must meet the following requirements:

- Clearly identify the employee/borrower and the employer.
- Reflect the current pay period and year to date earnings.
- Computer generated
- Paystubs issued electronically vie email or internet, must show the URL address, date and time printed and identifying information
- Years to Date pay with mort recent pay period at the time of application and no earlier than ninety (90) days prior to the Note date

4.3.2.2. W-2's

W-2 forms must be complete and be a copy provided by the employer.

4.3.2.3. Verification of Employment

Verbal Verification of Employment (VVOE) must be performed no more than ten (10) business days prior to the Note date. The VVOE should include the following information for the borrower:

- Date of contact
- Name and title of person contacting the employer
- Name of employer
- Start date of employment
- Employment status and job title
- Start date of employment
- Employment status and job title
- Name, phone #, and title of contact person at employer
- Independent source used to obtain employer phone number

4.3.2.4. Verification of the Existence of Borrower's Self-Employment

- Existence of borrower's self-employment must be verified through a third party source and no more than thirty (30) calendar days prior to the Note Date
- Third party verification can be from a CPA, regulatory agency or applicable licensing bureau. A borrower's website is not an acceptable third party source
- List and address of the borrower's business
- Name and title of person completing the verification and date of verification

4.3.2.5. Written Verification of Employment

- A written verification of employment may be required for a borrower's income sourced from commissions, overtime, bonus, and /or other income when the income detail is not clearly documenated on W-2 forms or paystubs
- Written VOE's cannot be used as a sole source for verification of employment, paystubs and W-2's are still required

4.3.2.6. W-2 Transcripts

W-2 transcripts for two (2) years are required to validate W-2 wages if tax transcripts are not provided and the borrower does not have any other income source or loss. The following W-2 type earnings will require tax transcripts:

- Borrower with commission-based income that is greater than 25% of borrower's total pay.
- Borrower with 2106 expenses (unreimbursed business expenses).
- Borrower employed by family.
- Borrower with ownership in company
- Tax transcripts for personal tax returns for two (2) years are required when tax returns are used to document borrower's income or any loss and must match the documentation in the loan file.

4.3.2.7. 4506-T

4506-T must be signed and completed for all borrowers. IRS will require the latest form completed in full.

4.3.2.8. Salaried Income

- YTD paystub
- W-2s or personal tax returns
- Two (2) years VVOE

4.3.2.9. Hourly and Part-Time Income

- YTD paystub
- W-2s or personal tax returns

- Two (2) years VVOE
- Stable to increasing income should be averaged over a two (2) year period.

4.3.2.10. Self-Employment

Self-Employed borrowers are defined as having 25% or greater ownership or receive 1099 statement to document income. The requirements below apply for Self –Employed borrowers.

Income calculations should be based on the Fannie Mae 1084 Form or Freddie Mac Form 91 or equivalent income calculation form.

4.3.2.11. Sole Proprietorship

- 2 years personal tax returns, signed on or before the closing date.
- YTD profit and loss statement through most recent quarter.
- YTD balance sheet through most recent quarter.
- Stable to increasing income should be averaged for 2 years.

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

- Schedule C in Block 28 (Total Expenses) must be analyzed in relation to income in Block 7 (Gross Income). Expenses are less than 5% of income.
- Analysis of Blocks 8 (Advertising), 11 (Contract Labor), 16a (Mortgage Interest, 20 (Rent/Lease) 26 (Wages) must indicate the borrower does not have expenses in these categories.
- Analysis of Blocks 17 (Legal and Professional Services) and Block 18 (Office Expense) indicate nominal or $0 expense.
- Block C (Business Name) does not have a separate business name entity.
- Year-to-date income in the form of a written VOE or pay history is provided by the employer paying the 1099. YTD income must support prior year's income.

4.3.2.12. Partnership/S-Corporate

- 2 years personal tax returns, signed on or before the closing date.
- 2 years K-1s reflecting ownership percentage if counting any income from this source in qualifying (K-1 income, W-2 income, capital gains or interest/dividends) or if Schedule E reflects a loss.
- 2 years business tax returns (1065s or 1120s) signed if 25% or greater ownership. Business returns are not required if the income reporting is positive, not declining and not counted as qualifying income.
- YTD profit and loss statement through most recent quarter if 25% or greater ownership.

- YTD balance sheet through most recent quarter if 25% or greater ownership.
- Stable to increasing income should be averaged for 2 years
- Self Employment documentation to include a copy of the liquidity analysis if self employment income (qualifying) analysis includes income from boxes 1, 2 or 3 on the K-1 that is greater than distributions indicated on K-1. Additionally, if a liquidity analysis is required and the borrower is using business funds for down payment or closing costs, the liquidity analysis must consider the reduction of those assets.
- Year to date income and verification of employment to be verified for borrowers with less than 25% ownership if the most recent K-1 is more than 90 days old prior to Note date.

4.3.2.13. Corporation

- 2 years personal tax returns, signed on or before the closing date. 2 years business returns (1120) signed if 25% or greater ownership. Business returns must reflect % of ownership for borrower. YTD profit and loss statement through most recent quarter statement if 25% or greater ownership.
- YTD balance sheet through most recent quarter if 25% or greater ownership.
- Stable to increasing income should be averaged for 2 years.

4.3.2.14. Tax Returns

Tax returns must meet the following requirements when used for qualifying

- Personal income tax returns (if applicable) must be complete with all schedules (W-2 forms, K-1s etc.) and must be signed and dated on or before the closing date.
- Business income tax returns (if applicable) must be complete with all schedules and must be signed.

Tax transcripts (personal and business) may be used in lieu of a signature on the corresponding tax return. Tax returns are still required.

4.3.3. Maximum DTI

- LTV ≤ 80% - 38%
- LTV > 80% - 43%

4.3.4. 2106 Expenses

- Employee business expenses must be deducted from the adjusted gross income.
- Two (2) years tax returns are required. If 2017 tax returns reflect 2106 expenses and 2018 tax returns show no expenses (due to tax law

change), a 12-month average of expenses must be based on 2017 tax return and deducted from qualifying income.
- Two (2) years tax transcripts.

4.3.5. Alimony, Child Support and Separate Maintenance

- Considered with a divorce decree, court ordered separation agreement, or other legal agreement provided the income will continue for at least three (3) years.
- If the income is the borrower's primary income source and there is a defined expiration date (even if beyond three (3) years) the income may not be acceptable for qualifying purposes.
- Evidence of receipt of full, regular and timely payments for the most recent twelve (12) months.
- Two (2) years tax transcripts.

4.3.6. Asset Depletion

Not Allowed.

4.3.7. Capital Gains

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

4.3.8. Corporation

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

4.3.9. Commission

- YTD paystub
- Two (2) years W-2s if commissions are less than 25% of total income or
- Two (2) years tax returns and W-2 forms required if commissions are ? 25% of the total income.
- W-2 transcripts or tax transcripts.
- VVOE
- Stable to increasing income should be averaged for the two (2) years.

4.3.10. Declining Income

Declining Income: When the borrower has declining income, the most recent twelve (12) months should be used.

In certain cases, an average of income for a longer period may be used when the decline is related to a one-time capital expenditure and proper documentation is provided.

In all cases, the decline in income must be analyzed to determine if the rate of decline would have a negative impact on the continuance of income and the borrower's ability to repay. The employer or the borrower should provide an explanation for the decline and the underwriter should provide a written justification for including the declining income in qualifying.

4.3.11. Dividends and Interest Income

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

4.3.12. Employed by Family

- YTD paystub
- 2 years W-2s and
- 2 years personal tax returns
- VVOE
- Borrower's potential ownership in the business must be addressed.

4.3.13. Foreign Income

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

4.3.14. Gaps in Employment

Gaps in Employment: A minimum of two (2) years employment and income history is required to be documented.

- Gaps more than thirty (30) days during the past two (2) years require a satisfactory letter of explanation and the borrower must be employed with their current employer for a minimum of six (6) months to include as qualifying income.
- Extended gaps of employment (six (6) months or greater) require a documented two (2) year work history prior to the absence.
- Exceptions may be considered on a case-by-case basis when the borrower is on the job less than six (6) months, and the gap is less than six (6) months.

4.3.15. K1 Income

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

4.3.16. Long Term Disability from a Private Policy or Employer Sponsored Policy

- Copy of the policy or benefits statement must be provided to determine current eligibility for disability payments, amount of payments, frequency of payments, and if there is an established termination date.
- Termination date may not be within 3 years of Note date; please note reaching a specific age may trigger a termination date depending on the policy

4.3.17. Non Taxable Income

Child support, military rations, disability, foster care, etc.

- Documentation must be provided to support continuation for three (3) years. Income may be grossed up by applicable tax amount. Tax returns must be provided to confirm income is non-taxable. Two (2) years tax transcripts to support tax returns.

- If the borrower is not required to file a federal tax return, gross-up to 25%.

4.3.18. Note Income

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

4.3.19. Overtime and Bonus

- YTD paystub
- W-2s or personal tax returns-2 years
- W-2 transcripts or tax transcripts
- VVOE
- Stable to increasing income should be averaged for the 2 years.

4.3.20. Partnership/S-Corporation

- Two (2) years personal tax returns, signed on or before the closing date. In lieu of a signature, personal tax transcripts for the corresponding year may be provided on or before the closing date.
- Two (2) years tax transcripts to support.
- Two (2) years K-1s reflecting ownership percentage if counting any income from this source in qualifying (K-1 income, W-2 income, capital gains or interest/dividends) or if Schedule E reflects a loss.
- Two (2) years business tax returns (1065s or 1120s) signed if 25% or greater ownership. In lieu of a signature, business tax transcripts for the corresponding year may be provided on or before the closing date.
- Due date for business returns for Partnerships and S-Corporations is typically
- March 15 with an extension for six (6) months or typically September 15. After the extension date, the loan is not eligible without the filed tax return.
- Business returns and YTD financials are not required if the income reporting is positive, not declining and not counted as qualifying income.
- YTD profit and loss statement if 25% or greater ownership.
- YTD balance sheet if 25% or greater ownership.
- Stable to increasing income should be averaged for two (2) years.

4.3.21. Projected Income

Not Allowed

4.3.22. Rental Income

All properties (except departing primary residence)

- Lease agreements must be provided if rental income is used for qualifying purposes.
  - Current lease for each rental property, including commercial properties listed in Part 1 of Schedule E of the 1040s. Rent rolls are not allowed.
  - If the current lease amount is less than the rental income reported on the tax returns, justification for using the income from the tax returns must be provided and warrant the use of the higher income. If there is no justification, the lease amount less expenses will be considered for rental income/loss.
  - For leases that have a roll over clause or the property is in a state where all leases roll over, the following requirements must be met:
    - Copy of most recent lease
    - Current documentation to evidence receipt of rent (copy of check or deposit into bank account) must be consistent with most recent lease.
- Personal tax returns - Two (2) years
  - For properties listed on Schedule E, rental income should be calculated using net rental income + depreciation + interest + taxes + insurance + HOA divided by applicable months minus PITIA.
  - If rental income is not available on the borrower's tax returns, net rental income should be calculated using gross rents X75% minus PITIA.
  - Two (2) years tax transcripts.
- Net rental income may be added to the borrower's total monthly income. Net rental losses must be added to borrower's total monthly obligations.
- If the subject property is the borrower's primary residence (one (1) unit property or one (1) unit property with an accessory unit) and generating rental income, the full PITIA should be included in the borrower's total monthly obligations.
- If the subject property is the borrower's primary residence with 2-4 units, rental income may be included for the unit(s) not occupied by the borrower if the requirements for a lease agreement and/or tax returns above are met.

4.3.23. Rental Income-Departing Primary Residence

If the borrower is converting their current primary residence to a rental property and using rental income to qualify or offset the payment the following requirements apply:

- Borrower must have documented equity in departure residence of 25%.
- Documented equity may be evidenced by an exterior or full appraisal dated within six (6) months of subject transaction OR

- Documented equity may be evidenced by the original sales price and the current unpaid principal balance.
- Copy of current lease agreement.
- Copy of security deposit and evidence of deposit to borrower's account.

4.3.24. Residual Income

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

# in Household	**1**	**2**	**3**	**4**	**5**
Required Residual	$1,550	$2,600	$3,150	$3,550	$3,700

Note: Add $150 for each additional family member.

4.3.25. Restricted Stock and Stock Options

May only be used as qualifying income if the income has been consistently received for two (2) years and is identified on the paystubs, W-2s and tax returns as income and the vesting schedule indicates the income will continue for a minimum of two (2) years at a similar level as prior two (2) years.

A two (2) year average of prior income received from RSUs or stock options should be used to calculate the income, with the continuance based on the vesting schedule using a stock price based on the lower of the current stock price or the 52-week average for the most recent twelve (12) months reporting at the time of application. The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule.

Additional awards must be similar to the qualifying income and awarded on a consistent basis.

There must be no indication the borrower will not continue to receive future awards consistent with historical awards received.

Borrower must be currently employed by the employer issuing the RSUs/stock options for the RSUs/stock options to be considered in qualifying income.

Stock must be a publicly traded stock.

Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify.

4.3.26. Retirement Income

- Existing distribution of assets from an IRA, 401(k) or similar retirement asset must be sufficient to continue for a minimum of three (3) years.

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

4.3.27. Self-Employment

Self-Employed borrowers are defined as having 25% or greater ownership or receive 1099 statement to document income.

The requirements below apply for Self-Employed borrowers.

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

For example: 2018 returns in file and Note date is 7/14/2019 would require 2019 YTD documentation through Q1 or through March 31, 2019. Note date of 8/14/2019 would require YTD documentation covering Q1 and Q2 or through June 30, 2019.

4.3.28. Social Security Income

Social Security income must be verified by a Social Security Administration benefit verification letter. If benefits expire within the first three (3) years of the loan, the income may not be used.

Benefits (children or surviving spouse) with a defined expiration date must have a remaining term of at least three (3) years.

4.3.29. Sole Proprietorship

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

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

- Schedule C in Block 28 (Total Expenses) must be analyzed in relation to income in Block 7 (Gross Income). Expenses are less than 5% of income.
- Analysis of Blocks 8 (Advertising), 11 (Contract Labor), 16a (Mortgage Interest), 20 (Rent/Lease) 26 (Wages) must indicate the borrower does not have expenses in these categories.
- Analysis of Blocks 17 (Legal and Professional Services) and Block 18 (Office Expense) indicate nominal or $0 expense.
- Block C (Business Name) does not have a separate business name entity.
- Year-to-date income in the form of a written VOE or pay history is provided by the employer paying the 1099. YTD income must support prior year's income.

4.3.30. Trust Income

- Income from trusts may be used if guaranteed and regular payments will continue for at least three (3) years.
- Regular receipt of trust income for the past twelve (12) months must be documented.
- Copy of trust agreement or trustee statement showing:
  - Total amount of borrower designated trust funds
  - Terms of payment
  - Duration of trust
  - Evidence trust is irrevocable
- If trust fund assets are being used for down payment or closing costs, the loan file must contain adequate documentation to indicate the withdrawal of the assets will not negatively affect the income.

4.3.31. Unacceptable Sources Income

- Any unverified source

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

4.4. Assets

4.4.1. Checking, Savings & CDs

- Two (2) months most recent statements.
- Large deposits inconsistent with monthly income or deposits must be verified if using for down payment, reserves or closing costs. Documentation is required to verify large deposits did not result in any new undisclosed debt.
- Asset verification by a Fannie Mae approved asset validation provider is allowed in lieu of 2 months statements provided by the borrower. The asset verification must provide 60 days of account activity and include all items normally indicated on bank statements.

4.4.2. Cash Value of Life Insurance/Annuities

- Most recent statement(s) covering a two (2) month period

4.4.3. Gifts

Gift funds may be used once borrower has contributed 5% of their own funds.

- Cannot be used for reserves.
- Not allowed on LTVs > 80%

Subject to the following requirements:

- Donor must be family member, future spouse or domestic partner.
- Executed gift letter with gift amount and source, donor's name, address, phone number and relationship.
- Seller must verify sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:
    - Copy of donor's check and borrower's deposit slip.
    - Copy of donor's withdrawal slip and borrower's deposit slip.
    - Copy of donor's check to the closing agent.
    - A settlement statement/CD showing receipt of the donor's gift check.

4.4.4. Interested Party Contributions

Interested party contributions include funds contributed by the property seller, builder, real estate agent/broker, mortgage lender or their affiliates and/or any other party with an interest in the real estate transaction. The following restrictions for interested party contributions apply:

- May only be used for closing costs and prepaid expenses and **may not** be used for down payment or reserves.

- Maximum interested party contribution is limited to 6% with LTVs ? 80%; 3% for LTVs >80%.

4.4.5. Seller Concessions

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

4.4.6. Personal Property

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

4.4.7. Reserves

Scenario	Loan Amount	# Months
Primary	≤ $1,000,000 LTV ≤ 80%	3
	≤ $1,000,000 LTV > 80%	6
	$1,000,000 - $1,500,000	6
	$1,500,001 - $2,000,000	6
First Time HomeBuyer	≤ $1,000,000 LTV ≤ 80%	6
	≤ $1,000,000 LTV > 80%	9
	$1,000,000 - $1,500,000	9
Additional 1-4 Unit Financed Properties	Additional three (3) months reserves PITIA for each property. Max of four (4) financed properties may be owned. If eligible to be excluded from the count of multiple financed properties, reserves are not required.	

4.4.8. Retirement Accounts

- Most recent statement(s) covering a two (2) month period.
- Evidence of liquidation if using for down payment or closing costs.
- Evidence of access to funds required for employer-sponsored retirement accounts.
- Retirement accounts that do not allow for any type of withdrawal are ineligible for reserves.
- If borrower is > 59½, then 70% of the vested value after the reduction of any outstanding loans.

- If borrower is < 59 1/2, then 60% of the vested value after the reduction of any outstanding loans.

4.4.9. Publicly Traded Stocks/Bonds/Mutual Funds

- Two (2) months most recent statements. Non-vested stock is ineligible. Margin accounts and/or pledged asset balances must be deducted

4.4.10. Use of Business Funds

- Cash flow analysis required using most recent three (3) months business bank statements to determine no negative impact to business.
- Business bank statements must not reflect any NSFs or overdrafts,.
- If borrower(s) ownership in the business is less than 100%, the following requirements must be met:
- Borrower(s) must have majority ownership of 51% or greater.
- The other owners of the business must provide an access letter to the business funds.
- Borrower(s) % of ownership must be applied to the balance of business funds for use by borrower(s).
- Business funds for reserves or a combination of personal/business funds for reserves will require the total amount of reserves to be 2X or double the regular requirement for the subject property and any additional financed REO.

TEMPORARILY SUSPENDED

4.5. Liabilities

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

4.5.1. Alimony Payments

Alimony payments may be deducted from income rather than included as a liability in the DTI for divorces prior to 1/1/2019. For borrowers with a divorce on or after 1/1/2019, the alimony payment must be treated as a liability.

If the most recent tax return or tax extension indicate a borrower owes money to the IRS or State Tax Authority, evidence of sufficient liquid assets to pay the debt must be documented if the amount due is within ninety (90) days of loan application date.

4.5.2. Assumption with No Release of Liability

The debt on a previous mortgage may be excluded from DTI with evidence the borrower no longer owns the property. The following requirements apply:

- Payment history showing the mortgage on the assumed property has been current during the previous twelve (12) months or
- The value on the property, as established by an appraisal or sales price
- on the HUD-1/CD results in an LTV of 75% or less.

4.5.3. Co-Signed Loans

The monthly payment on a co-signed loan may be excluded from the DTI if evidence of timely payments made by the primary obligor (other than the borrower) is provided for the most recent twelve (12) months and there are no late payments reporting on the account.

4.5.4. Court Ordered Assignment of Debt

If the obligation to make payments on a debt has been assigned to another person by court order, the payment may be excluded from the DTI if the following documents are provided:

- Copy of court order.
- For mortgage debt, a copy of the document transferring ownership of property.
- If transfer of ownership has not taken place, any late payments associated with the repayment of the debt owing on the mortgage property should be taken into account when reviewing the borrower's credit profile.

4.5.5. Departure Residence Pending Sale

If a borrower has a departure residence that will not be sold prior to the subject transaction closing, the borrower must qualify with the full payment in the DTI and have three (3) months reserves for the departure residence.

4.6. Appraisal Requirements

- Transferred appraisals are not allowed.
- Appraisals must be completed for the subject transaction. Use of a prior appraisal, regardless of the date of the prior appraisal, is not allowed.
- Appraisal Update (Form 1004D) is allowed for appraisals that are over 120 days aged but less than 180 days aged from Note date.
  - The appraiser must inspect the exterior of the property and provide a photo.
  - Appraiser must review current market data to determine whether the property has declined in value since the date of the original appraisal. If the value has declined since the original appraisal, a new full appraisal is required.
  - The Appraisal Update (1004D) must be dated within 120 days of the Note date.
- Collateral Desk Analysis (CDA) ordered from Clear Capital are required to support the value of the appraisal. MWF is responsible for ordering the CDA.
  - If the CDA returns a value that is "Indeterminate" or if the CDA indicates a lower value than the appraised value that exceeds a 10% tolerance, then one (1) of the following requirements must be met:
  - A Clear Capital BPO (Broker Price Opinion) and a Clear Capital Value Reconciliation of Three Reports is required. The Value Reconciliation will be used for the appraised value of the property. The Seller is responsible for ordering the BPO and Value Reconciliation through Clear Capital.
  - A field review or 2nd full appraisal may be provided. The lower of the two values will be used as the appraised value of the property. The Seller is responsible for providing the field review or 2nd full appraisal.
  - If two (2) full appraisals are provided, a CDA is not required.
- For properties purchased by the seller of the property within 90 days of the fully executed purchase contract the following requirements apply:
  - Second full appraisal is required.
  - Property seller on the purchase contract is the owner of record.
  - Increases in value should be documented with commentary from the appraiser and recent paired sales.
  - The above requirements do not apply if the property seller is a bank that received the property as a result of foreclosure or deed-in lieu.
- Higher-Priced Mortgage Loans (HPML)
  - If the property was acquired by the seller less than 90 days from the purchase agreement and the purchase price exceeds the seller's acquisition price by more than 10% then a second full appraisal is required. Bank owned properties are not exempt.
  - If the property was acquired by the seller between 91-180 days from the purchase agreement and the purchase price exceeds the seller's

acquisition price by more than 20% then a second full appraisal is required. Bank owned properties are not exempt.

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

4.6.1. Appraisal Requirements

<table>
<tr><th>Purpose</th><th>Loan Amount</th><th># Appraisals</th></tr>
<tr><td>Purchase</td><td>≤ $2,000,000</td><td>1 Full Appraisal + CDA</td></tr>
<tr><td>Refinance</td><td>≤ $1,500,000
> $1,500,000</td><td>1 Full Appraisal + CDA
2 Full Appraisals</td></tr>
<tr><td colspan="3">When two (2) appraisals are required, the following applies:
• Appraisals must be completed by two (2) independent companies
• LTV will be determined by the lower of the two (2) appraised values, if the lower appraisal supports the value conclusion.
• Both appraisal reports must be reviewed and address any inconsistencies between the two (2) reports and all discrepancies must be reconciled.
• If the two (2) appraisals are done “subject to” and 1004Ds are required, it is allowable to provide one (1) 1004D. If only one (1) 1004D is provided, it should be for the appraisal that the value of the transaction is being based upon</td></tr>
</table>

4.6.2. Investor Prior Approval

The appraisal will be submitted to investor for review prior to loan docs. Estimate of 3 - 5 days for review by investor.