



PROGRAM BASICS

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1. Program Basics

1.1. Product Codes

Code	Description
JF30M	Jumbo Fixed 30YR M

1.2. Transaction Type

- Purchase
- Rate/Term Refinance
- Cash-Out

Note: ARMs are ineligible.

1.3. Eligible States

[Eligible States Matrix](#)

1.4. LTV/CLTV

[See LTV Matrix](#)

1.5. Maximum Loan Amount

- \$3,000,000.00.
- \$2,000,000.00 for first-time homebuyers.

1.6. Eligible Property Types

Primary Residence

- 1-4 units detached, attached, PUD
- Eligible condominiums

Second Homes

- 1 unit detached, attached, PUD
- Eligible condominiums
- Property may not be a time share, subject to a rental agreement or other shared ownership arrangements.
- The property must be a reasonable distance from the borrower's primary residence.
- Rental income and expenses on Schedule E of the borrower's personal tax return(s) must not exceed 30 rental days.
- Rental income from a second home cannot be used to qualify the borrower.

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Investment Property (Non-Owner Occupied)

An investment property is owned by the borrower but is not occupied by the borrower.

- 1 - 4 Unit detached, attached, PUD, and eligible condominiums. For cash out refinance transaction of an investment property a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the acquisition improvement or maintenance of a rental property is required.
- Cash Out loan proceeds used for any personal use are not eligible.

1.7. Ineligible Property Types

- Properties acquired by seller less than 90 days from the date of purchase contract.
- Manufactured Homes
- Factory built housing
- Properties with income producing attributes
- Condo hotel units
- Log homes
- Unwarrantable condominiums
- Condominiums with HOA in litigation
- Timeshare units
- Geothermal homes
- Unique properties
- Mixed use properties
- Working farms
- Hobby farms
- Commercial properties
- Agriculturally zoned properties (agricultural/residential eligible)
- Properties with an oil and gas lease
- Properties with more than 20 acres
- Properties held as leasehold
- Co-ops Rural Zoned Properties Hobby Farms

1.8. Mortgage Insurance

Not required

1.9. Escrow Holdbacks

Not Allowed

1.10. Temporary Buydowns

Not Allowed

**BORROWER ELIGIBILITY**

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1.11. Subordinate Financing

- New subordinate financing is permitted up to the maximum allowable LTV/CLTV. Only institutional financing is permitted.
- Maximum LTV / CLTV / HLTV for subordinated HELOCS will be based on the fully drawn balance.
- Subordination of an existing loan is permitted up to maximum LTV / CLTV allowed in the program matrix.
- Cash-out transactions are not eligible for subordination of existing liens.
- Subordinate liens must not have negative amortization, no balloon within 5 years, and no prepayment penalties.
- In cases in which a HELOC is resubordinated to the subject mortgage, monthly amount on credit report will be used. If no monthly payment amount is shown on credit report, 1% minimum payment of the maximum line amount will be used for qualifying. A credit report supplement showing the minimum monthly payment is also acceptable. If HELOC has a zero balance and no draws within 24 months of application, no payment need be include in DTI. Withdrawal activity must be documented with a transaction history for the line of credit.

2. Borrower Eligibility**2.1. Eligible Borrowers**

All borrowers must have a valid social security number.

- U.S. Citizen
- Permanent Resident Alien
 - Copy of valid resident alien card must be provided.

2.2. Non-Permanent Resident Alien

- Must be legally present in the U.S with an acceptable visa type. Acceptable visa types are as follows:
 - E Series (E-1, E-2, E-3)
 - G Series (G-1, G-2, G-3, G-4, G-5)
 - H Series (H-1B, H-1C)
 - L Series (L-1, L-1A, L-1B, Spouse L-2 with EAD)
 - NATO Series (NATO 1 - 6)
 - O Series (O-1)
 - TN-1, Canadian NAFTA visa
 - TN-2, Mexican NAFTA visa
- Must have a valid Social Security Number.
- Must have a minimum of two (2) year employment history in the U.S and qualifying income must be from the U.S.

**TRANSACTION TYPES**

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- Must be able to verify that current employment has a probability of three (3) year continuance. VOE form may be used to document.
- Must have a two (2) year credit history in U.S. and must meet minimum credit requirements as set forth in section 8.0.
- Funds to close must be deposited in a U.S. financial institution. No funds to close from outside the U.S are allowed.

2.3. Maximum Number of Borrowers

Maximum number of borrowers is four (4).

2.4. Ineligible Borrowers

- Borrowers with only an ITIN (individual taxpayer identification number).
- Irrevocable trusts.
- Corporations, limited partnerships, general partnerships, and limited liability companies.
- Borrowers who are party to a lawsuit.
- Borrowers with Diplomatic Immunity.
- Foreign Nationals.

3. Transaction Types**3.1. Purchases**

- Must adhere to Agency guidelines.
- LTV/CLTV is calculated using the lesser of the purchase price or the appraised value of the subject property.
- If the seller has taken title to the subject property ninety (90) days or less prior to the date of the sales contract the following requirements apply:
 - Property seller on the purchase contract is owner of record.
 - LTV/CLTV will be based on the lesser of the prior sales price, current purchase price, or the current appraised value.
- Loans that are bank or relocation sales are exempt from the above requirements.
- Personal property may not be included in the purchase agreement/sales contract. Personal property items should be deleted from the sales contract or reasonable value must be documented and the sales price adjusted. Items that are customary to residential real estate transactions such as lighting fixtures, kitchen appliances, window treatments and ceiling fans are not considered personal property.

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3.2. Rate and Term Refinance

- Minimum of 6 months seasoning from the note date of the new transaction required if previous refinance was cash-out, including the pay-off of a non-seasoned subordinate lien.
- For properties purchased more than six (6) months prior to the closing date the current appraised value may be used to calculate LTV.
- For properties purchased within six (6) months of closing date the LTV will be based upon the lesser of the original sales price or the current appraised value conclusion from the appraiser. Original sales price will be determined from the Closing Disclosure from the subject acquisition transaction.
- Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.
- The mortgage amount may include the:
 - Principal balance of the existing first lien.
 - Payoff of a purchase second lien with no draws exceeding \$2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit. 12 months seasoning is not required.
 - Payoff of a co-owner pursuant to a written agreement.
 - Financing of the payment of prepaid items and closing costs.
 - Payoff of a non-purchase second lien seasoned a minimum of 12 months from date of application. The second lien must not evidence draws exceeding \$2,000 within the past 12 months from date of application. Withdrawal activity must be documented with a transaction history of the line of credit.
- Cash back to the borrower is limited to the lesser of \$2000 or 1% of the new mortgage loan.
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of application.
- A principal reduction up to the lesser of \$2,500 or 2% of the loan is permitted.

3.3. Cash-Out Refinance

- Borrower must have held title for a minimum of 6 months from closing date. Inherited properties are exempt from this seasoning requirement. LTV will be calculated off current appraised value.
- Texas Cash-Out refinances are ineligible.
- Properties listed for sale are ineligible for refinance unless the listing was withdrawn (or expired) prior to the date of closing.
- Investment Properties
 - For cash out refinance transactions of an investment property a borrower signed Business Purpose & Occupancy Affidavit indicating the loan purpose is for the acquisition, improvement, or maintenance of a rental property is required.



TRANSACTION TYPES

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- Cash out loan proceeds used for any personal use are not eligible.

3.4. Continuity of Obligation

For a refinance transaction to be eligible there must be a continuity of obligation of the outstanding lien that will be paid through the refinance transaction. Continuity of Obligation is met when any one of the following exists:

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

3.5. Delayed Financing Refinance

Delayed financing refinances in which the borrowers purchased the subject property for cash within ninety days (90) from the date of the application are allowed. Cash back to the borrower in excess of the original purchase price or appraised (whichever is less) is not allowed. Delayed financing refinances are underwritten as rate and term refinances and are not subject to cash out refinancing program limitations. All proceeds must be used to pay off or pay down the secured or unsecured loans used to acquire the property. Funds received as gifts used to purchase the property may not be reimbursed with the proceeds of the new loan. Funds received as gifts used to purchase the property may not be reimbursed with the proceeds of the new loan. If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash out proceeds were used to pay off or pay down the loan used to purchase the property.

A Closing Disclosure is required to document no mortgage financing was used to obtain the subject property.

3.6. Construction Loan Refinancing

Construction loan refinances are eligible as rate and term or cash out refinances and must meet the following criteria:

- Only the permanent financing on a construction to perm loan is allowed. Single closing construction permanent loan refinances are not allowed.



TRANSACTION TYPES

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- Borrower must have held title to the lot for a minimum of 6 months prior to the closing of the permanent loan.
- The LTV will be based on the current appraised value if the borrower has held title to the lot for 12 or more months prior to the closing date of the permanent loan.
- If the lot was acquired less than 12 months before the closing date of the permanent loan, the LTV will be based on the lesser of a) the original purchase price of the lot plus the total acquisition costs (sum of construction costs) or b) the current appraised value of the lot plus the total acquisition costs.
- Appraiser's final inspection is required.
- A certificate of occupancy is required from the applicable governing authority. If the applicable governing authority does not require a certificate of occupancy proof must be provided.
- Construction loan refinances in which the borrower has acted as builder are not allowed.

3.7. Non-Arm's Length Transactions

All of the parties to a transaction should be independent of one another. Except, as indicated below, if a direct relationship exists between or among the parties the transaction is a non-arm's length transaction and the related loan is not eligible. The following transactions are eligible provided that such transactions and the related circumstances are properly documented:

- Sales or transfers between members of the same family. Transaction may not be due to any adverse circumstances.
- Property seller acting as his or her own real estate agent.
- Borrower acting as his or her own real estate agent.
- Borrower is the employee of the originating lender.
- Borrower purchasing from his or her current landlord (cancelled checks or bank statements required to verify satisfactory pay history between borrower and landlord for the most recent 12 months).
- Investment Transaction must be arm's length.

3.8. Multiple Financed and Owned Properties

Follow AUS guides.

3.9. Inter-Vivos Revocable Trusts

- Trust must be established by one or more natural persons, individually or jointly.
- The individual(s) establishing the trust must be the primary beneficiary/beneficiaries.
- If the trust is established jointly, there may be more than one primary beneficiary as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage.

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- At least one of the trustees must be either the individual establishing the trust, or an institutional trustee that customarily performs the duties of a trustee and is duly authorized to act as a trustee under applicable state law.
- The mortgage and trust documents must meet agency eligibility criteria including title and title insurance requirements, as well as applicable state laws that regulate the making of loans to inter-vivos revocable trusts.
- The trustee(s) must have the power to mortgage the security property for the purpose of securing a loan to the party (or parties) who are the borrower(s) under the mortgage or deed of trust note.

3.10. HERO/PACE/Solar Panels

- Any item that will include a UCC associated with the property and/or will create an easement on title is not allowed. UCC Filing needs to be removed prior to the loan being submitted for underwriting.
- Payoff of a HERO lien is considered cash-out refinance transaction. The HERO lien may not be subordinated. Cash out cannot be used for payoff. It cannot be a rate and term refinance.
- Payoff must be completed prior to closing of transaction.

4. Underwriting**4.1. AUS Approval**

Must receive an Approve/Accept Eligible or Approve/Accept Ineligible due to loan amount only or maximum LTV on cash-out refinances.

4.2. Credit**4.2.1. Credit Documents Age**

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

4.2.2. Credit Score

The representative credit score for qualification purposes for an individual borrower is the middle score of the three (3) scores reported. If two (2) scores are reported the representative credit score is the lower of the two scores. Credit scores from all three repositories must be requested (Equifax, Experian and TransUnion).

- For multiple borrowers, the credit score is the lowest of all representative credit scores.
- If only one credit score or no credit score is reported borrower is not eligible.
- A minimum of two credit scores is required.

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- No borrower in a transaction may have frozen credit. If a borrower has frozen credit and unfreezes their credit after the original credit report was ordered, a new credit report must be obtained to reflect current updated information for evaluation.
- Credit rescues are not permitted unless the rescore is correcting erroneous line items or disputed accounts.

4.2.3. Minimum Credit Requirement

- Minimum credit requirement determined by AUS.

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

4.2.4. Mortgage/Rental History

- A minimum of twenty-four (24) months verified housing history is required; 0 X 30 late payments.
- If primary residence housing history reflects a forbearance arrangement, the payment history must reflect 0 X 30 late payments in the most recent 24 months since exiting forbearance.
- Borrowers with no mortgage/rental history due to a residence scenario requiring no mortgage or rental payments are eligible with a satisfactory letter of explanation.
- A standard VOR completed by a professional management company or twenty-four (24) months bank statements or canceled checks are required for rental verification.

4.2.5. Credit Inquiries

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

4.2.6. Liens, Judgments and Collections

- Satisfactory explanation for any delinquent credit from the borrower is required.
- Borrower must pay off all delinquent credit that has the potential to impact lien position.
- Collection accounts or charged-off accounts do not need to be paid off if the balance of an individual account is less than \$1,000.00 or if there are multiple accounts, the total balance of all accounts cannot exceed \$2,500.00.

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4.2.7. Bankruptcy, Foreclosure, Notice of Default (NOD), Deed-In-Lieu of Foreclosure and Short Sales

- At least seven (7) years must have elapsed since bankruptcy discharge or dismissal, foreclosure, notice of default (NOD), short sale or deed-in-lieu measured from the date of completion to the date of application.
- A satisfactory letter of explanation for the event from the borrower is required.

4.3. Income / Employment**4.3.1. Capital Gains 3 years tax returns required****4.3.2. Income Sources and Calculation of Income**

- All income sources and method of income calculation must meet most recent Agency/Appendix Q Standards for Determining Monthly Debt and Income. Loan file should include an Income Analysis form detailing income calculations.
- The nontaxable portion of fixed income such as Social Security income, VA benefits, Pensions and Annuity income may be grossed up twenty five percent (25%).
- Foreign income used for qualifying must be supported by the most recent two (2) years U.S. tax returns.

4.3.3. Employment and Income Stability

Borrower(s) must have a minimum of two (2) years employment and income history. Gaps in employment over thirty (30) days during the most recent two (2) year period require a satisfactory letter of explanation from the borrower. All borrowers contributing income for qualification must be employed at present employment for a minimum of six (6) months to qualify if there is a gap in employment during the previous two (2) years.

4.3.4. Documentation Requirements

A borrower with a 25 percent or greater ownership interest in a business is considered self-employed. Any borrower for whom the ownership of 25 percent or more of a corporation, limited liability company, partnership, sole proprietorship or other entity appears in the loan file must have the supporting documentation that is required by the relevant portions of the "Self-Employed Borrowers" subsection below. This documentation is required even if the borrower is a salaried employee of such business entity and/or another company, and even if the lender only relied upon the borrower's salary or other income to establish eligibility.

4.3.4.1. Salaried Borrowers:

- Completed, signed and dated final Uniform Residential Mortgage Application. Most current form must be used.



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- W-2's from all employers for the past two (2) years. All W-2's must be computer generated.
- If the borrower does not have 2 years of employment due to previously being in school a copy of the school transcript is required.
- Most recent paystubs, covering a thirty-day (30) period with YTD earnings. All paystubs must be computer generated.
- Tax returns are not required for salaried borrowers if wage income is the only source of income used for qualification.
- Unreimbursed business expenses prior to 2018 must be deducted from income.
- Borrowers employed in a family business must provide evidence that they are not owners of the business with a CPA letter from the business and personal tax returns.
- Signed IRS Form 4506-C.
- Two years tax transcripts are required to be obtained from the IRS. Wage transcripts are acceptable for W-2 borrowers. The IRS transcripts and the supporting income documentation provided must be consistent.

Salaried Borrowers who also file Self-Employed and/or Supplemental Income/Loss Tax Return Schedules:

- Salaried borrowers who also own 25% or more of a business or other entity are required to provide a year-to-date P&L and balance sheet for that business or entity even if the income from that business or entity is not being used to qualify. This requirement includes all businesses and entities including those organized as pass through entities.
- Salaried borrowers who file a schedule C (sole proprietorship) will be considered as self-employed and required to provide a year-to-date P&L and balance sheet. This includes borrowers who may be filing the Schedule C as a tax write off for accounting purposes.
- Most recent signed two (2) years business tax returns are required for businesses where the borrower owns 25% or more and the business reports an income loss on the schedule K-1. Loss must be deducted from income.

Salaried Borrowers with Commission/Bonus:

- For borrowers receiving bonus, commission, or any other non-base salary compensation in addition to base salary, a 2-year history of the receipt of the income is required.
- This must be addressed with a written VOE breaking down the bonus or commission income for the past 2 years, further supported by a year-to-date paystub.

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Verbal VOE:

- For Salaried Borrowers, the Verbal VOE of current employment must be obtained no more than (10) business days prior to the Note Date, or after the Note Date but prior to purchase.
- For Self-Employed Borrowers, the Verbal VOE of the borrower's business must be obtained no more than (10) business days prior to the Note Date, or after the Note Date but prior to the purchase.
- Verbal VOE dated within ten (10) calendar days prior to closing documented in writing. The verbal VOE must cover 24 months of employment, if the borrower has changed jobs during the past two years, the verbal VOE must show the start and end dates for each job. Any employment gaps one (1) month or greater must be addressed with a satisfactory signed letter of explanation from the borrower. Closing in this section is defined as the notary date on the Security Instrument.
- If the employer uses a third-party employment verification vendor, the verification must be obtained within the same time frame as the verbal VOE requirements and the verification must evidence the information in the vendor's database was no more than 35 days old as of the Note date.

4.3.4.2. Self Employed Borrowers

- Borrowers with a 25 percent or greater ownership interest in a business are considered self-employed and will be evaluated as a self-employed borrower for underwriting purposes.
- For business income being used for qualifying the most recent signed two (2) years tax returns, including all schedules, both individual and business returns are required. All personal and business tax returns must be signed and dated prior to closing.
- Self-employed borrowers using wage income to qualify paid by their business need to fully document the income with W-2's for the past two (2) years and most recent paystubs, covering a thirty-day (30) period with year-to-date earnings. W-2 and paystubs must be computer generated.
- If tax return schedules show a loss in the prior year for any business where the borrower owns 25% or more, business tax returns including all schedules are required for this business in order to calculate the average loss. This is required regardless of this business income being used to qualify. Tax returns must be signed and dated prior to closing.
- Signed IRS Form 4506-C.
- Tax transcripts are required to be obtained from the IRS only for the income for the years being used for qualification. Borrower pulled transcripts are not acceptable. The transcripts will be used to validate the income documentation used to underwrite the loan. The IRS transcripts and the supporting income documentation provided must be consistent.
 - If the tax return for the previous tax year is not filed, a 12-month P & L Statement and Balance Sheet for this period is required.

**UNDERWRITING**

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- If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower extension request for both personal and business tax returns must be provided.

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

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

The underwriter must include comments/justification of their analysis to clearly explain their conclusion of the effect to the business. Due to the pandemic's continuing impact on businesses, lenders are now required to obtain the following documentation to support the decision that the self-employment income meets requirements:

- (1) An audited year-to-date P&L, no older than 60 days from the Note date, reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) a Balance Sheet; or
- (1) An unaudited year-to-date P&L, no older than 60 days from the Note date, signed by the borrower reporting business revenue, expenses, and net income up to and including the most recent month preceding the loan application date, and (2) business bank statements from the most recent three months represented on the year-to-date P&L and (3) a Balance Sheet.
 - For example, the business bank statements should be from March through May 2021 for a year-to-date profit and loss statement dated through May 31, 2021.
 - The three most recent bank statements must support and/or not conflict with the information presented in the current year-to-date P&L statement. Otherwise, the lender must obtain additional statements or other documentation to support the information from the current year-to-date P&L statement.
- All borrowers owning 25% or more of a business or entity must provide a year-to-date P&L statement and balance sheet for that entity, regardless of whether or not the business income is being used to qualify. This requirement includes all business entities including those organized as pass through entities.
- If the tax return for the previous tax year is not filed, a 12-month P&L and balance sheet for this period is required.
- If the most recent year's tax returns have not been filed by the IRS deadline, an executed copy of the borrower's extension request for both personal and business tax returns must be provided.
- The P&L and balance sheet is required even if the borrower does not have a business checking account.

**UNDERWRITING**

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- P&L and tax returns must show stable or increasing income from all business entities and income sources for the period relative to previous periods. Income cannot decline by 20% or more from the prior tax period.

4.3.6. Small Business Administration (SBA) Loans and Grants Requirements

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

4.3.7. Verification of Active Business

The lender must verify the existence of the borrower's business within ten (10) calendar days prior to closing. Methods of verifying business include:

- Verification from a third party such as a CPA, regulatory agency or by an applicable licensing bureau. If CPA letter is used it must indicate the borrower has been self-employed for a minimum of 2 years.
- Closing in this section is defined as the notary date on the Security Instrument.
- Internet listings are not an acceptable source of verification.

4.3.8. Other Income Follow the DU or LPA Finding requirements.

For all other acceptable sources of income follow the DU and the requirements in chapters B3-3 through B3-6 of the Fannie Mae Single Family Selling Guide or follow the LPA and the requirements in Sections 5102 through 5500 of the Freddie Mac Single Family Seller/Service Guide. If a discrepancy exists between DU and the Fannie Mae guide or LPA the Freddie Mac guide the guide requirements must be followed. The loan file must include an Income Analysis form detailing income calculations.

4.3.9. Unacceptable Income

Unacceptable income sources include the following:

- Any source that cannot be verified.
- Restricted stock income (RSU).

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- Income that is temporary.
- Rental Income (Boarder Income) received from the borrower's primary residence.
- Expense account payments.
- Automobile allowances.
- Retained earnings.

4.3.10. Commission Income

Commission income must be averaged over the previous two years.

Required Documentation:

- Copies of signed tax returns for the last two years, and
 - Most recent pay stub.
- Borrowers whose commission income was received for more than one year, but less than two years may be considered favorably if the underwriter can:
- Document the likelihood that the income will continue, and
 - Soundly rationalize accepting the commission income.

Notes:

- Unreimbursed expenses must be deducted from gross income.
- Commissioned borrower is one who receives more than 25 percent of his/her annual income from commissions.
- A tax transcript obtained directly from the IRS may be used in lieu of signed tax returns.

4.4. Assets**4.4.1. Source of Funds**

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

Gifts of equity are not allowed.

4.4.2. Cash Reserves

Follow Product Matrix for Reserve requirements. Reserves must be verified and comprised of liquid assets that borrower can readily access. Equity lines of credit, gift funds, Business Funds, and cash out from the subject property on refinance transactions are not acceptable sources to meet the reserve requirement.



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4.4.3. Interested Party Contributions

Interested party contributions include funds contributed by the property seller, builder, developer, real estate agent or any other party with an interest in the real estate transaction. Interested party contributions may only be used for closing costs and prepaid expenses.

- LTV between 75.01% - 89.99% max 6% Contribution.
- LTV less than 75% max 9% Contribution.
- Non-Owner ALL LTV's max 2% Contribution.

4.5. Liabilities

4.5.1. Debt-to-Income Ratio

The Debt-to-Income (DTI) ratio is based on the total of existing monthly liabilities and any planned future monthly liabilities divided by gross monthly income. Liabilities include but are not limited to all housing expenses, revolving debts, installment debts, other mortgages, rent, alimony, child support, and other consistent and recurring expenses. The seller must ensure that all liabilities are included in qualifying. This includes debts paid by another entity such as the borrower's business or debts being paid by a family member. Refer to the Product Matrix for the maximum allowable DTI.

4.5.2. Home Equity Line of Credit (HELOC)

For HELOC loans paid off at closing the line must be closed to any future draws. Requirement on title commitment for payoff and cancellation of HELOC is acceptable to document.

Subordination of HELOC loans is permitted up to maximum CLTV per the [Jumbo M Product Matrix](#). CLTV should be calculated using the full amount of any HELOCs (whether or not funds have been drawn).

4.5.3. Conversion of Departing Residence to Investment Property

Follows agency guidelines.

4.6. Property/Appraisal

4.6.1. Appraisal Requirements

- All appraisals must be completed on the most current Agency appraisal forms as stipulated in the Seller's Guide and conform to Agency appraisal practices.
- Property Inspection Waiver (PIW) **not allowed**.
- Properties must be appraised within the twelve months that precede the date of the Note and Mortgage
- Two (2) full appraisals are required for loan amounts > \$1,500,000. LTV/CLTV will be based on the lower of the two values. All inconsistencies between the two appraisals must be addressed and reconciled.
- Appraisal transferred or assigned from another are **not allowed**.

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- Appraisals must not be over 120 days old from the date of the Note. If appraisal is over 120 days old a recertification of value needs to be performed.

Third Party Appraisal Review

- A Collateral Desktop Analysis (CDA) from Clear Capital is required for each loan with a collateral underwriter score greater than 2.5.
- A copy of the appraisal desk review report is to be submitted in the loan file. The review must not be over 120 days old from the date of the Note.
- If the desk review produces a value in excess of a 10% negative variance to the appraised value, the loan is not eligible for purchase; provided, the seller has the option to then ask the Exchange to order a Field Review to support the appraised value. If the field review also produces a value in excess of a 10% negative variance to the appraised value, then the loan will remain ineligible for purchase.
- All appraisals are reviewed for eligibility as well as value support. However, the use of an appraisal review product does not relieve the seller of its representations and warranties relating to the property and the appraisal including the underwriting thereof.

4.6.2. Properties Located in a Disaster Area

For properties located in a FEMA declared disaster area:

- If the property is in a zone where the Disaster End Date has been declared by FEMA, investor will order a post disaster inspection prior to loan purchase to confirm the property value has not been impacted by the disaster.
- If the property is in a zone where a Disaster End Date has not been declared by FEMA, in addition to the above inspection requirement, a date and time stamped area map from a state or county agency or similar, showing the subject property in relation to the disaster area is required to evidence that the property is outside or current known fire boundaries.

4.6.3. Land to Value

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. As amenities, easement, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, or if any, on the value and marketability of the property.

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4.7. Hazard Insurance

- Properties where the insurance coverage on the declaration page does not cover the loan amount must have a cost estimate from the insurance company or agent evidencing the property is insured for its replacement cost.
- Hazard insurance must have the same inception date as the date of disbursement on purchase money mortgages. This may be documented with a post-closing Closing Disclosure or the correction of the inception date on the hazard policy.

4.8. Escrows

- Escrow accounts may be created for funds collected by the originator to pay taxes, hazard insurance, flood insurance, special assessments, water, sewer, and other items as applicable.
- All applicable loans must adhere to HFIAA regarding mandatory flood insurance escrow requirements for properties located in a Special Flood Hazard Area.
- Escrow holdbacks are not allowed.

4.9. Title and Closing Documentation**4.9.1. Forms**

- All Notes, security instruments, riders, addenda, and special purpose documents used in connection with fully amortizing one to two family conventional first mortgages must be prepared on approved Agency forms unless this guide specifically requires otherwise. See most recent Fannie Mae and Freddie Mac Selling Guides for reference.
- Copy of security instrument submitted in the file must be a true and certified stamped copy of the original recorded security instrument.

4.9.2. Title

Title insurance must meet Agency requirements and be written on the 2006 American Land Title ALTA form providing gap coverage or the ALTA short form. Other state forms may be used in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not been adopted. If alternative forms are used, those amendments must provide the same coverage.

- The title policy should include all applicable endorsements issued by a title insurer qualified to do business in the jurisdiction in which the mortgage insured property is located, including endorsements for Condominiums, PUDs, and ARM loan types.
- The title insurance coverage must include an environmental protection lien endorsement (ALTA 8.1-06 or equivalent state form.)

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- The title insurance policy must ensure the mortgagee and its successors and assigns as to the first priority lien of the loan amount at least equal to the outstanding principal balance of the loan.
- A statement by the title insurance company or closing attorney on such binder or commitment that the priority of the lien of the related Mortgage during the period between the date of the funding of the related Mortgage Loan and the date of the related title policy (which title policy shall be dated the date of recording of the related Mortgage) is insured.
- Any existing tax or mechanic's liens must be paid in full through escrow.

4.9.3. Fraud Report

Acceptable DRIVE report must be included in each file and is to include a comparison of all participant names against industry watch and exclusionary lists such as OFAC.