

Non-Conforming LTV Matrix 950

Primary Residence – Purchase and rate/term refinance

The LTV/CLTV matrix below is allowed with the following products:

- Fixed rate (15- to 30-year)
- ARMs (5-year, 7-year, and 10-year ARMs)

For Loans with LTVs greater than 80%, refer to **Section 825.50: Loans with LTVs Great then 80%**.

Loan Amount ¹ / combined loan amount ²	Single family detached/attached, PUD, Co-op ³ , Detached condo	Attached Condo	2-unit	3- to 4-unit	Min. Loan Score
	Max. LTV/CLTV ⁴	Max. LTV/CLTV ⁴	Max. LTV/CLTV	Max. LTV/CLTV	
≤\$2,000,000	80%	80% with Loan Score ≥720 75% with Loan Score <720	75%	70%	700 – Fixed rate 720 – ARMs
>\$2,000,000 – \$2,500,000	75%	75% with Loan Score ≥720 70% with Loan Score <720	Not Permitted		
1. First loan amounts must be greater than the standard maximum contiguous U.S. one-, two-, or three- to four-unit conforming loan limit (as applicable). Loans must be submitted in whole dollar amounts.					
2. Combined loan amount is the total of all loans and lines against the subject property and applies when secondary financing exists					
3. Refer to Section 825.12(c): Specific Property Types – Cooperatives for eligible geographic locations.					
4. Maximum 70% LTV/CLTV for condos (attached or detached) in Miami-Dade County (FL).					

Primary residence – Purchase and rate/term refinance (continued)

Loan Amount ¹ / combined loan amount ²	Single family detached/attached, PUD, Co-op ³ , Detached condo	Attached Condo	2- to 4-unit	Min. Loan Score
	Max. LTV/CLTV	Max. LTV/CLTV	Max. LTV/CLTV	
>\$2,500,000 – \$3,000,000	70%	70% with Loan Score ≥720 65% with Loan Score <720	Not Permitted	700 – Fixed rate 720 – ARMs
1. First loan amounts must be greater than the standard maximum contiguous U.S. one-, two-, or three- to four-unit conforming loan limit (as applicable). Loans must be submitted in whole dollar amounts. 2. Combined loan amount is the total of all loans and lines against the subject property and applies when secondary financing exists 3. Refer to Section 825.12(c): Specific Property Types – Cooperatives for eligible geographic locations.				

Non-Conforming LTV Matrix 950

Primary Residence – Cash-out refinance

The LTV/CLTV matrix below is allowed with the following products:

- Fixed rate (15- to 30-year)
- ARMs (5-year, 7-year, and 10-year ARMs)

Loan Amount ¹ / combined loan amount ²	Single family detached/attached, PUD, Co-op ³ , Condo	2- to 4-unit	Min. Loan Score
	Max. LTV/CLTV	Max. LTV/CLTV	
≤ \$1,500,000	70%	Not Permitted	720
>\$1,500,000 – \$2,000,000	65%		

1. First loan amounts are limited to:

- \$2 million maximum loan amount
- Must be greater than the standard maximum contiguous U.S. one-unit conforming loan limit
- Must be submitted in whole dollar amounts

2. Combined loan amount is the total of all loans and lines against the subject property and applies when secondary financing exists.

3. Refer to **Section 825.12(c): Specific Property Types – Cooperatives** for eligible geographic locations.

Non-Conforming LTV Matrix 950

Second home – Purchase and rate/term refinance

The LTV/CLTV matrix below is allowed with the following products:

- Fixed rate (15- to 30-year)
- ARMs (5-year, 7-year, and 10-year ARMs)

Loan Amount ¹ / combined loan amount ²	Single family detached/attached, PUD, Co-op ³ , Detached condo	Attached condo	Min. Loan Score
	Max. LTV/CLTV ⁴	Max. LTV/CLTV ⁴	
≤ \$1,500,000	80%	80% with Loan Score ≥720 75% with Loan Score <720	700 – Fixed rate 720 – ARMs
>\$1,500,000 – \$2,000,000	75%	75% with Loan Score ≥720 70% with Loan Score <720	

1. First loan amounts are limited to:

- \$2 million maximum loan amount
- Must be greater than the standard maximum contiguous U.S. one-unit conforming loan limit
- Must be submitted in whole dollar amounts

2. Combined loan amount is the total of all loans and lines against the subject property and applies when secondary financing exists.

3. Refer to **Section 825.12(c): Specific Property Types – Cooperatives** for eligible geographic locations.

4. Maximum 70% LTV/CLTV for condos (attached or detached) in Miami-Dade County (FL).

Non-Conforming LTV Matrix 950

Second home – Cash-out refinance

The LTV/CLTV matrix below is allowed with the following products:

- Fixed rate (15- to 30-year)
- ARMs (5-year, 7-year, and 10-year ARMs)

Loan Amount ¹ / combined loan amount ²	Single family detached/attached, PUD, Co-op ³ , Condo	Min. Loan Score
	Max. LTV/CLTV	
≤ \$650,000	70%	720
>\$650,000 – \$1,500,000	65%	
>\$1,500,000 - \$2,000,000	60%	

1. First loan amounts are limited to:

- \$2 million maximum loan amount
- Must be greater than the standard maximum contiguous U.S. one-unit conforming loan limit
- Must be submitted in whole dollar amounts

2. Combined loan amount is the total of all loans and lines against the subject property and applies when secondary financing exists.

3. Refer to **Section 825.12(c): Specific Property Types – Cooperatives** for eligible geographic locations.

Non-Conforming LTV Matrix 950

Investment property – Purchase and rate/term refinance

The LTV/CLTV matrix below is allowed with the following products:

- Fixed rate (15- to 30-year)
- ARMs (5-year, 7-year, and 10-year ARMs)

Loan Amount ¹ / combined loan amount ²	1 to 4-unit property PUD, Condo ³	Min. Loan Score
	Max. LTV/CLTV	
≤ \$2,000,000	60%	740

1. First loan amounts must be greater than the standard maximum contiguous U.S. one-, two-, or three- to four-unit conforming loan limit (as applicable). Loans must be submitted in whole dollar amounts.
2. Combined loan amount is the total of all loans and lines against the subject property and applies when secondary financing exists.
3. Condos (attached or detached) in Miami-Dade County (FL) are ineligible for purchase.

Investment property – Cash-out refinance

The LTV/CLTV matrix below is allowed with the following products:

- Fixed rate (15- to 30-year)
- ARMs (5-year, 7-year, and 10-year ARMs)

Loan Amount ¹ / combined loan amount ²	Single family detached/ attached PUD, Condo ³	Min. Loan Score
	Max. LTV/CLTV	
≤ \$2,000,000	60%	740

1. First loan amounts must be greater than the standard maximum contiguous U.S. one-unit conforming loan limit (as applicable). Loans must be submitted in whole dollar amounts.
2. Combined loan amount is the total of all loans and lines against the subject property and applies when secondary financing exists.
3. Condos (attached or detached) in Miami-Dade County (FL) are ineligible for purchase.

UNDERWRITING GUIDELINES

825.00: General Information

A separate approval is required by Investor for Sellers who wish to sell Non-Conforming Loans. The information contained in this section represents Investor's Non-Conforming underwriting guidelines. Conventional Non-Conforming Loans sold to Investor must be underwritten to the standards and guidelines stated in this section to ensure salability to our investors. Where policy is not stated, Sellers must refer first to Section 820: Conforming Underwriting Guidelines and then to the more restrictive of standard Fannie Mae or Freddie Mac guidelines.

QUALITY REVIEW

In addition to the current post-close Loan review, Investor will perform quality reviews on 100% of files submitted for purchase. A review of the credit documents will be completed to verify the risk decision is supported and Loan is in compliance with Non-Conforming guidelines. This review will be completed prior to Funding the Loan with Investor.

- Income and assets will be recalculated.
- All data will be reviewed for accuracy and compliance.
- Monthly reporting will be provided to Seller indicating review results and Loan performance.

825.01: General Documentation Information

AGE OF DOCUMENTS

Information used to make the credit decision must be current. All income*, asset, and appraisal documentation must be obtained and dated on or prior to the date printed on the Note in nonescrow states or notary date on the Security Instrument for escrow states.

*Refer to Section 825.06(b): Income Analysis or 825.06(d): Self-Employed Income Analysis for verbal verification of employment timing requirements.

Item	Existing Property and New Construction
Credit documents 1	120 days old
Appraisal 1	120 days old 2
Homeowners Certification Review 3	180 days old

1. Age of documents for Loans secured by properties located in designated disaster areas is limited to 120 days.
2. If the appraisal is older than 120 days but is less than one year old at Closing:
 - Obtain an appraisal update from the appraiser indicating that the property value has not declined since the original appraisal date. If the effective date of the appraisal exceeds one year or the value has declined, a new appraisal is required.
 - If the property is located in Market Classification 3 or 4, or is a condominium (attached/detached) located in Miami-Dade county, Florida, a field review (Fannie Mae Form 2000/2000A or Freddie Mac Form 1032/1072) obtained from an authorized appraisal management company (AMC)
 - is required in addition to the appraisal update. Refer to Section 800.10: Appraisal/Valuation Policy for authorized AMCs and ordering requirements.
3. Investor Homeowners Association Certification Review (Form 25).

DOCUMENTATION REQUIREMENTS

Appraisal and Loan information consistency

All discrepancies between the appraisal and Loan information must be addressed and corrected. Examples include, but are not limited to:

- Address
- Owner of record
- Property transfer date
- Legal description

Format requirements

Documentation provided must be legible originals or certified true and exact copies. The documentation must not contain any alterations, erasures, or redactions.

The Seller must stamp and sign the copies, certifying that they are true copies of the originals. The individual's signature must include at least his/her first initial and full surname. Handwritten documentation is not allowed, except for the verbal verification of employment with the borrowers' employer.

Documents obtained from a foreign country

Documents obtained from a foreign country must meet all standard documentation requirements. All documents of foreign origin must be completed in English, or a translation must be attached to the document that warrants that the translation is complete and accurate. All foreign currency amounts must be converted to United States dollars at the time of translation.

Blanket certification form

- The Certification of Original Documents (Form 35) may be used in lieu of stamping the certification on every document page. The blanket certification form must be completed in its entirety identifying each document and the total number of each type of document, as well as the full name of the person making the certification, their title, and the date signed.
- For Prior Approval Loans, if additional documentation is obtained after submitting for Prior Approval underwriting, either an additional blanket certification form is required or each page must reflect a certification with at least the first initial and full surname of the individual signing.

Reverification authorization

The Investor Borrower's Consent for Credit Check/Financial Privacy Notice (Form 34) must be completed to permit subsequent reverification as required by quality control or investors.

Fax copies

Faxed copies, in lieu of original documents or certified copies, are acceptable subject to the following:

- Photocopies or faxes received by the Seller directly from the borrowers are acceptable.
- Copies or faxes of documents from a builder, real estate agent, property seller, or other third party are not acceptable.
- The document must identify borrower as employee or owner of the applicable account.
- Photocopies or faxes must clearly identify the employer or depository/investment firm's name and source of information.
- Faxes must contain a top banner that clearly identifies the employer or depository from which the fax was sent.
- Verification forms transmitted directly from the Seller to an employer, depository institution, or Mortgagee/landlord must be transmitted directly back to the Seller.

Internet documentation

Internet documents/downloads of credit reports as well as income, employment, and asset verification are acceptable subject to the following:

- The document must identify the borrower as the employee or owner of the applicable account.
- The document must identify the credit reporting agency, employer, or depository/investment firm's name
- If header, footer, or the banner portion of the printout of the downloaded web page(s) is present, it must reflect the appropriate firm.

Loan decisioning logic

Investor requires Sellers to clearly document the risks and compensating factors of the Non-Conforming Correspondent Credit Underwrite (CCU) Loans. Provide the underwriter's decisioning logic that summarizes their risk evaluation to support their credit decision including:

- Cash and capital position: source of down payment, level of liquid reserves, retirement accounts, equity position in other real estate, sources of large deposits
- Capacity to repay: income sources, job changes, likelihood of continuance, potential impact of increases in housing resulting from ARM resets, consistency of earnings, history of earnings, level of cash flow, history of savings, level of debt-to-income (DTI), level of reserves
- Credit: length of credit history, pay history, depth of credit usage, credit issues, housing payment history, type of credit
- Character of the borrower: financial history of the borrower, borrower's willingness to repay, internet information pertaining to the borrower or borrower's business
- Collateral for the Loan: appraisal quality, marketability, unique characteristics, supported value, red flags
- Characteristics of the transaction: housing payment ratio, DTI ratio, LTV/CLTV, explanation of the borrower's profile and ability to repay, risks, compensating factors
- Characteristics of the borrower: ability to repay, length of time with current employer, length of time in industry, economic trends impacting income stability, payment shock
- Income calculations: the file must contain documentation to evidence the income calculation.

It is acceptable for the Seller to document this on Fannie Mae's Uniform Underwriting and Transmittal Summary (Form 1008), the CCU Decisioning Logic Form (Form 41) or equivalent.

Meeting policy alone does not make a Loan investment quality. The combination of multiple risk characteristics in a transaction creates risk that requires additional compensating factor(s).

Payroll earning statement

Payroll earnings statements (pay stubs) for the most recent pay period must:

- Be dated within 45 days of the loan application
- Be computer-generated or typewritten
- Clearly identify the borrower as employee
- Show the employer's name
- Show the gross earnings for both the pay period and year-to-date
- Show the pay period covered

Form W-2

IRS Form W-2 Wage and Tax Statement (W-2) must:

- Be complete
- Be computer-generated or typewritten
- Clearly identify the borrower as employee
- Show the employer's name

Form W-2 alternative documentation

IRS Wage and Income Transcript (W-2 Transcript) is acceptable in lieu of a W-2 when the W-2 is required to document income. The W-2 Transcript must:

- Be obtained directly from a tax transcript vendor or the IRS by the Seller
- Reflect all information that would be included on the actual W-2

Federal income tax returns

The following table describes which tax-related documentation must be obtained depending on the application date and disbursement date of the Loan.

When tax returns are required to verify income, the Loan will be ineligible if the most recent two years of tax returns are on extension.

Application date	Disbursement date	Documentation required
October 151, [current year minus 1] to April 142, current year	October 151 [current year minus 1] to April 142, current year	The most recent two year's federal income tax returns are required. The use of a Tax Extension (IRS Form 4868) is not permitted.
	April 151, current year to June 30, current year	The Seller must ask the borrower whether he/she has completed and filed his/her federal income tax returns with the IRS for the previous year. If the answer is yes, obtain copies of that return. If the answer is no, obtain copies of federal income tax returns for prior two years.
	July 1, current year to October 142, current year	Obtain the most recent two year's federal income tax returns, or all of the following:
April 151, current year to October 142, current year	April 151, current year to December 31, current year	<ul style="list-style-type: none"> • A copy of IRS Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return), and IRS Form 7004 (Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns), if applicable, filed with the IRS. <ul style="list-style-type: none"> ○ Review the total tax liability reported on IRS Form 4868, and IRS Form 7004, if applicable, and compare it with the borrower's tax liability from the previous two years as a measure of income source stability and continuance. ○ An estimated tax liability that is inconsistent with previous years may make it necessary for the underwriter to require the current returns in order to proceed.

		<ul style="list-style-type: none"> IRS Form 4506–C transcripts confirming “No Transcripts Available” for the applicable tax year Returns for the prior two years.
	January 1, (current year plus 1) to April 142, (current year plus 1)	The most recent two year’s federal income tax returns are required. IRS Form 4868 is not permitted.

Note: For business tax returns, if the borrower’s business uses a fiscal year (a year ending on the last day of any month except December), the underwriter may adjust the dates in the above chart to determine what year(s) of business tax returns are required in relation to the application date/disbursement date of the new Loan.

1. Or the April/October filing dates for the year in question as published by the IRS
2. Or the day prior to the April/October filing dates for the year in question as published by the IRS

Tax return signature requirements

One of the following is required:

- Tax returns signed by the borrowers, regardless of date
- Tax returns with an IRS e-file Signature Attestation (Form 8879)
- Tax returns signed or stamped by the certified public accountant (CPA)
- Tax returns with a cover letter prepared by the CPA
- Tax returns with a preparer tax identification number (PTIN)

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Verbal verification of employment

For salaried borrowers, including commission, bonus, and overtime, a verbal verification of employment (verbal VOE) must be from:

- The employers’ human resources, payroll, or personnel department
- If employer does not have a human resources, payroll, or personnel department, the following is allowed to verify employment:
 - The borrower’s supervisor or manager
 - An individual whose job responsibility authorizes them to release employment verification to third parties

A verbal VOE must be provided using the Verbal Verification of Employment Form (Exhibit 3) or similar form that contains the information below. The employers’ telephone number must be independently verified.

- The contact must be documented in writing with borrowers' employer including:
 - Company name
 - Name, title, and phone number of the person in the employers' office who confirmed the information
 - Date of the contact
 - Name and title of the person who made the telephone call
 - Confirmation that borrowers are currently employed, including status of Active or On Leave
 - Dates of employment
 - Borrower's current position/title

For self-employed borrowers a verbal VOE must be provided by using the Exhibit 3 or similar form that contains the information below. The existence of the business must be verified using one or more of, but not limited to, the following sources:

- Secretary of State website
- Regulatory agency
- Contractor or professional organization
- CPA
- Other available resources

The verification must be documented in writing, and must include the following:

- Independently-verified source of the employment information
 - Yellow page ad

- Business license
- Internet website
- Other available source
- Name and title of the person completing the verification of the borrower's employment

Written verification of employment

The written verification of employment (VOE) must include the following information (if applicable):

- Name and address of the employer
- Signature, printed name, title, and contact information of the employer representative who completed the verification, and the date completed
- Name of the borrower
- Date employment began
- Current position
- Gross base pay per pay period (such as, monthly, bi-weekly, hourly)
- Gross year-to-date (YTD) earnings with paid through date
- Earnings from the most recent two-years
- Breakdown of base pay, overtime, commissions, bonus, and tips for YTD and prior year(s) earnings
- If paid hourly, average hours worked per week

Third-party income verifications are acceptable in lieu of the Request for Verification of Employment form (Fannie Mae Form 1005), provided the verification contains all of the information that would be required on Form 1005.

Note: If the information provided by a third-party vendor comes directly from the employer's payroll system, it is not necessary to verify the employer representative.

Bank or brokerage statements

Account statements must cover a period of the most recent two months. If the statements are issued quarterly, borrowers must provide a statement from the most recent quarter.

The borrower's bank or brokerage statements must be computer-generated or typed and identify clearly:

- Depository institution
- Account holder(s)
- Account number – must include at least the last four digits
- Time period covered by the statement
- Deposit and withdrawal transactions
- Ending account balance

When the date of the borrower's most recent bank or brokerage statement is more than 45 days (90 days for quarterly statements) earlier than the date of the borrower's application, the borrower must supply a supplemental statement that shows a machine-printed account number, balance, and date. Any bank-generated forms, such as deposit or withdrawal slips or bank machine inquiries, are acceptable.

The sources of funds must be verified in accordance with provisions as stated in Section 825.07: Assets.

Verification of deposit

The Request for Verification of Deposit (VOD, Fannie Mae Form 1006) must be requested and sent directly from the depository institution. Form 1006 must be fully completed, signed and dated and include the present balance, average balance for the last two months, and the date the account was opened.

Credit reports

Refer to Section 825.08(a): Credit Report.

Verification of mortgage

Borrowers' current or previous mortgage is verified with any of the following:

- A credit reference from a credit reporting agency covering at least the previous 12 months' activity. If 12 months' activity is not covered, one of the other sources must be used to verify the borrower's payment history.
- Borrowers' canceled checks (front and back) for the last 12 months. The checks must:
 - Be legible
 - Identify the mortgage servicer (or mortgage holder) as the payee
 - Indicate that the mortgage servicer or holder endorsed the check for deposit and the date of that endorsement

	<ul style="list-style-type: none"> A standard verification of mortgage or loan payment history from the mortgage servicer (must be a bona fide lending institution). If this is obtained, the verification must: <ul style="list-style-type: none"> Be computer-generated or typed Identify the issuing company (lender or servicing agent) Clearly identify the borrower and Mortgagee Show the total mortgage payment due Show the due date of each payment Show a 12-month history of the dates when payments were applied Show the current outstanding principal balance Identify the present status of the mortgage (such as, current, 30-days delinquent) <p>Verification of rent Refer to Section 825.08(b): Credit Evaluation.</p>
<p>825.02: Borrower Eligibility and Title Vesting</p>	<p>BORROWER ELIGIBILITY</p> <p>Borrowers who are separated When the borrower indicates that he/she is separated, it must be determined whether it is a legal separation. If the borrower is legally separated, a copy of the legal separation agreement (per state statutes) must be obtained to determine the division of assets, liabilities, and potential obligations. If there is no legal separation, a letter from the attorneys of both parties involved specifying the proposed settlement terms must be provided. If no documentation can be obtained to verify the division of assets and liabilities, the Loan is considered an unacceptable risk. If the borrower states there are no plans for a legal separation, no further documentation is necessary; he/she is legally married and qualified accordingly.</p> <p>Number of borrowers The maximum number of borrowers on a Loan is four.</p> <p>TITLE VESTING</p> <p>Eligible title vesting</p> <ul style="list-style-type: none"> Borrowers are allowed to take title as follows: <ul style="list-style-type: none"> Joint tenants Tenants in common Tenants in entirety Individually Land trust (Illinois only) Living/inter vivos trust <p>Ineligible title vesting Title must not be taken in the name of:</p> <ul style="list-style-type: none"> A corporation Any type of partnership An individual on behalf of a corporation, partnership, or trust A church A limited liability company <p>Land trusts Investor will purchase Loans on properties held in land trusts in Illinois only and subject to the following:</p> <ul style="list-style-type: none"> All beneficiaries are individuals. The loan applicants are one of the beneficiaries of the trust. The trustee is a corporation or financial institution customarily engaged in the business of acting as trustee under Illinois Land Trusts. The beneficiaries have sole power of direction over the land trust and trustee. All beneficiaries are obligated as individuals under the terms of the Note. The loan applicants are qualified borrowers under the requirements of the product. All such land trust Loans are secured by one unit property. The term of the trust agreement is at least as long as the term of the Security Instrument. The subject property is the only asset of the Illinois Land Trust. <p>Documentation requirements</p>

When the property is held in a land trust in the state of Illinois, all of the following documentation must be provided:

- Land trust rider to the Security Instrument.
- Land trust rider to the Note.
- Documentation evidencing the beneficiaries of the land trust hold the power of direction as provided in the trust documents and have authorized and
- directed the trustee of the trust to execute the loan documents. If the trust documents require more than one beneficiary to hold the power of direction to authorize and direct the trustee, then the documentation must evidence that the requisite number of beneficiaries have directed the trustee.
- Certified copy of the collateral assignment of beneficiary interest, or similar form granting the lender a security interest in the beneficiary's rights.

No additions, deletions, or other riders to the standard forms are permitted. The trust agreement must indicate that no other assets are held by the land trust.

The Note, Security Instrument, and documents required above must be completed and executed as follows:

- The Note and Security Instrument must include the number of the trust and the date on which the trust was created. This information must follow the name of the trustee on these documents.
- The beneficiaries must execute the Note and land trust rider to that Note.
- The trustee must execute the Security Instrument, the Note, and the land trust rider to each.
- The beneficiaries must assign his/her beneficial interest in the Note and trust agreement to the Seller.
- The trustee must agree to and/or endorse the collateral assignment of beneficiary interest.
- The riders must be dated and executed the same day as the Security Instrument and Note.

Life estates

Life estates are ineligible for purchase.

Living/inter vivos trusts

Living/inter vivos trusts must comply with local state regulations and the requirements below.

To be eligible the borrower must be all of the following:

- The settlor, or the person who created the trust
- The beneficiary, or the person who is designated to benefit from the trust
- The trustee or the person who will administer the trust for the benefit of the beneficiary, the borrower

Any of the following are eligible:

- One or more borrowers with one living trust
- Two or more borrowers with separate living trusts
- Multiple borrowers with one or more holding title as an individual and one or more holding title as a living trust

Documentation requirements

A trust certification is acceptable, where allowable under state law in the state where the property is located.

Where state law does not allow for a trust certification, all of the following are required:

- Attorney's opinion letter from the borrower's attorney verifying all of the following:
 - The trust was validly created and is duly existing under applicable law.
 - The trust is revocable.
 - The borrower is the settlor of the trust and the beneficiary of the trust.
 - The trust assets are eligible to be used as collateral for a loan.
 - The trustee is:
 - Duly qualified under applicable law to serve as trustee
 - The borrower
 - The settlor
 - Fully authorized under the trust documents and applicable law to pledge or otherwise encumber the trust assets
- Complete copy of the trust documents certified by the borrower to be accurate, or a copy of the abstract or summary (for jurisdictions that require a lender to review and rely on an abstract or summary of trust documents instead of the trust agreements)

Other title and closing requirements

- The title to the property must be vested in the trustee on behalf of the trust (or such other customary practices).
- Title binder must not contain any exceptions to coverage based on the mortgaged property being held by the living trust.
- The Note must be executed individually by the settlor and by the trustee on behalf of the trust.
- The Security Instrument must be executed by the trustee on behalf of the trust.

- The revocable trust rider must be used with the Security Instrument.
- The date of the trust must be reflected on the Note as part of the description below the Trustee's signature (e.g., Jane Doe, Trustee of the Jane Doe Trust dated April 1, 2000).

POWER OF ATTORNEY

When a borrower is using a power of attorney (POA), the following requirements apply:

- The initial loan application and intervening documents must be signed by the borrower, unless one of the following scenarios exist, which permit the initial loan application to be signed using POA:
 - The borrower is in the military and deployed (POA must comply with VA requirements)
 - A relative or lawyer was granted attorney in fact prior to the borrower becoming incapacitated

In these instances, the POA can sign intervening documentation between the initial loan application and closing documents as long as the POA signed the initial loan application.
- The final application can be signed via POA in the presence of a notary public.
- Cash-out transactions with a POA are ineligible.
- Parties who are connected to the transaction (at-interest) are not eligible to act as POA on the borrower's behalf. At-interest parties include:
 - Realtors
 - Settlement agents
 - Lender, affiliates of the lender, or employees of the lender
 - Loan originator, employer, or employee of the loan originator
- POA must be transaction-specific except when the POA is due to military duty or when the POA was drafted prior to the borrower becoming incapacitated.

MULTIPLE OWNED PROPERTIES

The guidelines below apply to the total number of one- to four-unit residential properties for all borrowers on the transaction, regardless of financing. Include all properties that any:

- Borrower personally owns.
- Borrower's business owns, regardless of the type of business, if the borrower owns 25% or more of the business.

Subject Property Occupancy	Number of properties	Reserve/post-closing Liquidity (PCL) requirements
Primary Residence	≤4	<ul style="list-style-type: none"> • If aggregate financing for all properties is ≤\$3 million, standard reserve/PCL requirements in Section 825.07: Assets apply. • If aggregate financing for all properties is >\$3 million, one of the following is required: <ul style="list-style-type: none"> ○ Reserves/PCL ≥36 months' PITI ○ LTV/CLTV ≤50%
	>4	<p>If LTV/CLTV is >50%, the greater of the following applies:</p> <ul style="list-style-type: none"> • Standard reserve/PCL requirements in Section 825.07: Assets • Reserves/PCL ≥50% of the aggregate liens from all properties • Reserves/PCL ≥36 months' PITI if aggregate financing for all properties exceeds \$3 million. <p>If the LTV/CLTV is ≤50%, the greater of the following applies:</p> <ul style="list-style-type: none"> • Standard reserve/PCL requirements in Section 825.07: Assets • Reserves/PCL ≥50% of the aggregate liens from all properties
Second home or investment property	≤4	<ul style="list-style-type: none"> • If aggregate financing for all properties is ≤\$3 million, standard reserve/PCL requirements in Section 825.07: Assets apply. • If aggregate financing for all properties is >\$3 million, one of the following is required: <ul style="list-style-type: none"> ○ Reserves/PCL ≥36 months' PITI ○ LTV/CLTV ≤50%
	>4	Ineligible

Acceptable documentation to verify outstanding financing on business owned properties include, but are not limited to:

- Business tax returns
- Profit and Loss statements
- Loan statement

825.04: Multiple Loans to One Borrower

825.05: Borrower - Citizenship

DIPLOMATIC IMMUNITY

Due to the inability to compel payment or seek judgment, loans to individuals who are not subject to U.S. jurisdiction are ineligible. This includes embassy personnel with diplomatic immunity. Verify the borrower does not have diplomatic immunity by reviewing the visa, passport, or the U.S. Department of State's Diplomatic List.

FOREIGN NATIONALS

Not allowed

NONPERMANENT RESIDENTS

All nonpermanent residents must provide evidence of one of the below acceptable visa or Employment Authorization Document (EAD) classes.

Required visa classes

A copy of the visa evidencing one of the following visa classifications is required:

- A Series (A-1, A-2, A-3): Given to officials of foreign governments, immediate family members and support staff. Only those without diplomatic immunity, as verified on the visa, are eligible.
- E-1 Treaty Trader and E-2 Treaty Investor: Essentially the same as an H-1 or L-1; the title refers to the foreign country's status with the U.S.
- E-3: Given to Australian nationals employed in a specialty occupation.
- G Series (G-1, G-2, G-3, G-4, G-5): Given to employees of international organizations that are located in the U.S. Some examples include the United Nations, Red Cross, World Bank, UNICEF and the International Monetary Fund. Verification that the borrower does not have diplomatic immunity must be obtained from the borrower's employer and/or by the viewing the borrower's passport.
- H-1 Temporary Worker (includes H-1B): The most common visa given to foreign citizens who are temporarily working in the U.S.
- H-4: Given to dependents (spouse and unmarried children under 21 years of age) of a qualified H-1 visa holder. When income is being used to qualify, a current (unexpired) Employment Authorization Document (EAD) issued U.S. Citizenship and Immigration Services (USCIS) is also required.
- L-1 Intra-Company Transferee: Given to professional employees whose company's main office is in a foreign country.
- L-2: Given to dependents (spouse and unmarried children under 21 years of age) of a qualified L-1 visa holder. When income is being used to qualify, a current (unexpired) EAD issued by USCIS is also required.
- O-1A: Given to individuals with an extraordinary ability in the sciences, education, business, or athletics (not including the arts, motion pictures or television industry).
- O-1B: Given to individuals with an extraordinary ability in the arts or extraordinary achievement in motion picture or television industry.
- O-2: individuals who will accompany an O-1, artist or athlete, to assist in a specific event or performance.
- TN, NAFTA visa: Given to Canadian or Mexican citizens for professional or business purposes.

Visa renewals

A borrower with a resident visa that has expired or will expire within five months of funding (funds being disbursed to the borrower) is eligible, subject to all of the following:

- Visa classification is one of the eligible visas listed above.
- Confirmation that the borrower has submitted an application for extension or renewal* of the visa, or an application for a permanent status (green card). USCIS documentation includes, but is not limited to:
 - Form I-539: Application to Extend/Change Nonimmigrant Status
 - Form I-485: Application to Register Permanent residence or Adjust Status or electronic verification of receipt from the USCIS website
 - Approval of the application or petition, Form I-797: Notice of Action
 - Status of application (must not state the application has been declined), Form I-797C: Notice of Action or Form I-797E: Notice of Action

If the borrower is sponsored by the employer, the employer can verify that they are sponsoring the visa renewal

*Not all visa types are eligible for renewal within five months of the expiration date. Visa types that cannot be renewed within five months of the expiration date are acceptable as long as the date printed on the Note is before the visa holder can apply for renewal.

Required Employment Authorization Document (EAD) classes

A current (unexpired) EAD issued by the USCIS with class of C33, a nonpermanent resident who has been granted Deferred Action for Childhood Arrivals (DACA), is acceptable in lieu of a visa.

If the EAD will expire within one year, one of the following must be provided:

- Documentation of one previous EAD renewal
- If there are no prior EAD renewals, documentation from the USCIS confirming the likelihood of renewal

Any visa or EAD class not listed above is ineligible.

All standards for determining stable monthly income, adequate credit history and sufficient liquid assets must be applied in the same manner to each borrower including borrowers who are nonpermanent residents.

Loan requirements

All nonpermanent residents must have a minimum two-year history of credit and employment in the U.S. or another country. In addition, nonpermanent residents who meet at least one of the following requirements are eligible for the same financing terms as U.S. citizen:

- Borrowing with a U.S. citizen or permanent resident
- Has a minimum two-year history of residence, employment and credit in the U.S.

PERMANENT RESIDENTS

A copy of the front and back of the green card is required for all permanent residents whose income and/or assets are being used to qualify for the Loan.

Note: The green card states “Do Not Duplicate” for the purpose of replacing the original card, USCIS allows photocopying the green card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.

A green card that is expired or will expire within five months of funding (funds being disbursed to the borrower) is eligible as long as the borrower provides evidence of renewal or extension including, but not limited to, an Application to Replace Permanent Resident Card (USCIS Form I-90).

SOCIAL SECURITY NUMBER – U.S. CITIZENS AND NON-U.S. CITIZENS

Each borrower on the Loan transaction must have a valid Social Security number.

825.06(a): Evaluating Employment

EVALUATING EMPLOYMENT

Stability of income

All income used in qualifying must be verified, stable, and have a reasonable expectation of continuance.

The greater the job tenure and stability, the greater the ability to repay obligations in a timely fashion. Employment must be stable with at least a two-year history in the same job or in a similar job or jobs.

Considerations

Many components make up income potential: borrower’s occupation, employment tenure, opportunities for future advancement, educational background, and occupational training.

Verification

Income used to qualify the borrower must be verified by an independent third party source. This includes documents prepared by an individual or institution with no interest in the transaction.

Salary or wage income from employment verified in accordance with above is expected to continue if a borrower’s employer verifies current employment and income and does not indicate that employment has been, or is set to be, terminated. Income does not meet continuance requirements if a verification of current employment includes an affirmative statement that the employment is likely to cease, such as a statement that indicates the employee has given (or been given) notice of employment suspension or termination.

Employment gaps

The borrower must provide a detailed two-year employment history. The underwriter must determine that any gaps do not affect employment stability or continuance.

- Obtain a verbal explanation from the borrower and document the conversation for any gaps in employment that span more than one month.
- Obtain a written explanation from the borrower for any gaps in employment that span more than 90 days.
- Gaps in employment due to the borrower attending training or schooling for a specific profession should be favorably considered. Verification of the schooling (e.g., diploma, or transcripts) must be provided.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Employment less than two years

For borrowers who are reentering the workforce after an absence of six months or more, income is eligible to be used to qualify if the borrower:

- Has been at the current employer for a minimum of six months at the time of application.
- Can document a two-year work history prior to an absence from employment using:
 - Traditional employment verifications and/or
 - Copies of IRS Form W-2 Wage and Tax Statements (W-2s) or pay stubs. Refer to Section 825.01: General Documentation Information for Form W-2 alternative documentation.

Note: One, but not the only, example of an acceptable employment situation, includes individuals who took several years off from employment to raise children and then returned to the workforce.

Job changes

A borrower who changes jobs frequently to advance within the same line of work receive favorable treatment if this can be verified. Frequent job changes without advancement or in different fields of work must be reviewed to ensure consistent or increasing income levels and likelihood of continued stable employment.

Declining income policy (self-employment, bonus, overtime, commission, restricted stock)

If any of the borrower's income indicates a 20% or greater decline in self-employed, bonus, overtime, commission, and restricted stock income in the past two years or year to date, risk/offset factors must be evaluated. When income has declined less than 20%, underwriters must evaluate to determine whether similar assessment is warranted (for example, Loans with debt ratios at or near maximum allowed could be impacted with even small income declines). The list of risk/offset factors include but are not limited to the following:

- Is the decline an isolated or a one-time occurrence?
- If the decline is not due to seasonality or an isolated/one time occurrence, has the business returned to previous operation levels?
- Has the decline been addressed and expectations for non-recurrence documented/supported?
- Are the bonus or commission income programs being used to qualify still in place?
- Has it been verified that the amount of income used to qualify will continue?
- Is the proportion of declining income relative to total income?
- Self-employment income is frequently more volatile and less stable than other professional income sources.
- Additional years of income trending may be required to support stability and expected continuance.

If the self-employed, bonus, or commission income has declined more than 20%:

- The lower income must be used in qualifying.
- An average of income is not allowed unless both of the following apply:
 - Decline is an isolated, onetime occurrence.
 - The reason for one-time decline has been satisfactorily addressed and documented to support a strong expectation of no recurrence or further decline in income.

If there have been declines over multiple years or further declines are possible, one of the following additional risk offsets is required:

- DTI ratio at least 5% less than required
- Housing ratio less than 36%
- Reserve/post-closing liquidity (PCL) exceeds minimum required
- Another equivalent offset as documented and supported by the underwriter

Additional supporting documentation required:

- For self-employed borrowers, the CPA must be contacted to provide documentation and support for income trends and continuance.
- For borrowers with bonus or commission income, the employer must be contacted for income trends and continuance as well as verification the employee is still eligible and that programs are ongoing:
 - If the borrower is employed by a publicly held company, earnings reports are allowed to evidence favorable business trends.

825.06(b): Income Analysis

Continuance of income with a finite period of receipt

Income sources that have a finite period of receipt such as the income types listed below must have a continuation period of at least five years. The continuance requirement is reduced to three years if the income source contributes 25% or less of the qualifying income. The borrower's continued ability to repay the Loan must be considered when the income source expires or the distributions will deplete the asset prior to maturity of the Loan, including:

- Replacement income such as Social Security income, deferred compensation, or trust income, that will begin before the income source expires

- Strong equity position in other real estate or assets that may be liquidated in the future to provide an additional income stream
- Strong financial experience evidenced by asset and credit profile

Sale of the subject property cannot be the sole reason for approval or denial.

Examples of income with a finite period of receipt include:

- Alimony or separate maintenance payments
- Child support
- Note income
- Trust income
- IRA/401K/Keogh income
- Certain types of retirement income, such as annuities (excluding Social Security income)
- Social Security survivor benefits for children
- Foreign income
- Certain types of benefit income, such as worker's compensation
- Public assistance income
- Mortgage differential
- Relocation compensation
- Royalty income

Effective income for borrowers planning to retire during the first three-year period of the Loan must include the applicable amount of:

- Documented retirement benefits
- Social Security payments
- Other payments expected to be received in retirement

Alimony and separate maintenance payments to be paid

Alimony and separate maintenance payments must be deducted from income, not be included in monthly liabilities when the divorce decree or separation agreement is executed on or before December 31, 2018.

Refer to Section 825.09: Capacity and Liabilities Analysis when the borrower is required to pay alimony or separate maintenance payments and the divorce decree or separation agreement is dated after December 31, 2108.

Alimony or separate maintenance with less than 10 monthly payments remaining does not need to be deducted from income.

To document, obtain a copy of the court order (such as a divorce decree).

Automobile allowance

An automobile allowance is ineligible.

Bank examiner

Prior Approval Loans to borrowers who are employed as bank examiners and engaged on a Investor account require additional review by Investor and must meet the following requirements:

- Subject property is occupied as a primary residence
- Terms and conditions of the Loan are same as those offered to all other borrowers

Bonus income

Bonuses are eligible as monthly income if the following is verified:

- Two-year history of receipt
- Probability of continued receipt
- Dollar amount of bonuses paid in the last two years

The underwriter must develop an average of bonus income for the past two years.

To document, obtain all of the following:

- Most recent year-to-date (YTD) pay stub(s) or salary voucher documenting at least one month of income.
- Most recent two years' IRS Form W-2 Wage and Tax Statements (W-2s). Refer to Section 825.01: General Information for Form W-2 alternative documentation.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.

- If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

A written verification of employment (written VOE) covering a two-year history is acceptable in lieu of W-2s and pay stub(s).

If the employment verification is obtained and states the bonus income is unlikely to continue, it must not be used in qualifying.

In some financial professions when the borrower secures new employment the borrower is offered a bonus which will be awarded on a recurring monthly, quarterly, or annual basis. Treat this as eligible income pursuant to stability and continuance requirements.

Refer to Section 825.07: Assets for additional requirements when using bonus income as qualifying income and as cash to close.

Borrower's income per job/contract basis

Borrowers whose income per job/contract basis is equal to or greater than 25% of their total income are considered to be self-employed. Refer to Section 825.06(d): Self-Employed Income Analysis.

Capital gain income

Capital gains or losses that occur only one time, are not considered when determining effective income. If the borrower has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income.

Three years of complete individual federal tax returns are required to evaluate an effective earning trend. If the trend:

- Results in a gain, it is allowed to be added as effective income
- Consistently shows a loss, it must be deducted from the total income

To document, obtain all of the following:

- Most recent three years' complete individual federal tax returns, including Schedule D reflecting a three-year consecutive history of capital gain income
- Proof that sufficient assets remain after closing to support continuance of the capital gain income at the level used for qualifying, for at least the next three years

Child support, alimony, or maintenance income

Child support, alimony, or maintenance payments are eligible as income only if this information is volunteered by the borrower, and if there is evidence that the court-ordered amount has been received on a continual basis for the most recent six months.

The income is ineligible for qualifying if any of the following apply:

- Payer has been obligated to make payments for less than six months
- Payments are not for the full amount
- Payments are not received on a consistent basis

To document, obtain the first page, signature page, and all other pertinent pages of one of the following:

- Court order
- Final divorce decree
- Legal separation agreement
- Voluntary payment agreement that has been approved by a court or is government-enforceable (for example, administered by a state agency) and acceptable evidence that payments have been received during the last six months, such as:
 - Canceled checks
 - Deposit slips or deposit receipts
 - Bank or other account statements
 - Complete individual federal income tax returns
 - Court records

Refer to Continuance of income with a finite period of receipt for additional requirements.

If the income is nontaxable, refer to Nontaxable income.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Closing prior to start date with new employer

Loans are eligible to close prior to the start date with a new employer provided all of the requirements below are met.

- One of the following is provided:
 - Fully executed noncontingent employment contract or offer letter indicating salary and start date
 - Fully executed contingent employment contract or offer letter indicating salary and start date with documentation evidencing all contingencies were satisfied prior to Closing
- Time period between Closing date and commencement of employment does not exceed 90 days.
- One-unit primary residence.
- LTV/CLTV less than or equal to 80%.
- Purchase transaction.

- Salaried borrowers.

A post-close verbal VOE and pay stub are not required.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Commission income

Commission income is eligible as monthly income if all of the following are verified:

- Two-year history of receipt
- Probability of continued receipt
- Dollar amount of commissions paid in the last two years

Commission income must be averaged over the previous two years.

Commission income received for a minimum of two years from similar positions with different employers within the same industry is allowed.

To document, obtain all of the following:

- Most recent YTD pay stub(s) documenting at least one month of income.
- Most recent two years' W-2s. Refer to Section 825.01: General Information for Form W-2 alternative documentation.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

A written VOE covering a two-year history is acceptable in lieu of W-2s and pay stub(s).

If the borrower is self-employed, refer to Section 825.06(d): Self-Employed Income Analysis for documentation requirements.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Employer-paid retirement income

Retirement income is eligible if properly verified.

To document, obtain one of the following:

- Most recent bank statement indicating automatic deposit of the employer-paid retirement income
- Written verification from former employer
- Retirement award letter
- Most recent year's complete individual federal income tax return
- Most recent year's 1099
- Pay stub

Refer to Continuance of income with a finite period of receipt for additional requirements.

If the income is nontaxable, refer to Nontaxable income.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Employment by relatives or transaction participants

If the borrower is employed by a relative, a closely held family business, the property seller, real estate agent, or any party to the real estate transaction, obtain the following documentation:

- Most recent YTD pay stub(s) documenting at least one month of income.
- Most recent two years' W-2s. Refer to Section 825.01: General Information for Form W-2 alternative documentation. Most recent two years' complete individual federal tax returns.
- If business is a corporation (filing their income and losses on the United States Corporation Income Tax Return, IRS Form 1120), obtain either of the following:
 - A signed copy of the corporate tax return showing ownership percentage
 - A signed letter from the corporation accountant stating the borrower has no ownership interest in the corporation
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).

- If the verbal VOE is dated more than 20 business days prior to the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
- If no verbal VOE was obtained prior to the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

If the individual federal tax returns do not include W-2 earnings or income is lower than the current pay stubs, further investigation is needed to determine whether income is stable.

Foreign income

Foreign income is eligible only if the income can be verified on the most recent two years' United States individual federal tax returns. Foreign income must meet standard documentation requirements based on the source and type of income.

Refer to Continuance of income with a finite period of receipt for additional requirements.

To document employment income, obtain the all of the following:

- Most recent two years' complete individual federal tax returns (IRS Form 1040).
- IRS 1040 Tax Return Transcripts from processed 4506-C is acceptable in lieu of individual federal tax returns provided by the Seller.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

To document interest/dividend income, obtain the most recent two years' complete individual federal income tax returns (IRS Form 1040).

Foster care income

Income derived from foster care payments is eligible if written verification can be obtained that the income is regular, recurring, and continued receipt is likely. A two-year history of providing foster care services under a recognized program from a state- or county-sponsored organization is required. Income used to qualify must be averaged over this two-year period. Projected income is not eligible.

To document, obtain all of the following:

- Two-year history of receipt from a state- or county-sponsored organization.
- The income must be likely to continue for the next three years.

Income from IRA, 401(k) SEP, KEOGH, and retirement accounts

Income from IRA, 401(k), SEP, KEOGH, and other IRS-qualified employer plans is eligible if properly verified. If there is a penalty for withdrawal discount the income by the amount of the penalty to determine qualifying income. The funds must be 100% vested.

To document, obtain all of the following:

- Most recent two months or most recent quarter of retirement account statements.
- Document income using most recent complete individual federal tax returns or IRS Form 1099-R.
 - If the borrower is a recent retiree without individual federal tax returns or IRS Form 1099-Rs to verify retirement income, the most recent two months or most recent quarter account statements reflecting current year-to-date draws on the account is acceptable to document the income.

Refer to Continuance of income with a finite period of receipt for additional requirements.

If the income is nontaxable, refer to Nontaxable income.

Interest or dividend income

Interest and dividend income is eligible if the assets generating the income are verified and the interest income has been received for at least two years consecutively.

To document, obtain all of the following:

- Most recent two years' complete individual federal tax returns.
- Proof of sufficient assets to generate interest and dividend income for the next three years.

The income must be averaged over 24 months. Subtract any funds used for down payment, closing costs, or as collateral for a loan before calculating the interest at the rate of return received over the past 24 months.

Long-term disability income

Permanent/long-term disability benefits may be paid to the borrower by a federal agency, such as the Social Security Administration or Veterans Administration, a state agency, a private insurance company, workers compensation insurance, an employer, or other disinterested third party.

Continuance is not required for Social Security Disability Income (SSDI). For all other types of long-term disability income, refer to Continuance of income with a finite period of receipt for additional requirements.

- If documentation does not contain any indication that the income will terminate within the next five years, assume income will continue for the next five years.
- If documentation indicates a termination date or conditions for termination of the payment, the termination must not occur within the next five years. Note: If the documentation indicates the borrower's benefits are subject to periodic reviews or evaluations, this is not an indication that the income is unlikely to continue and does not require additional documentation for determining likelihood of continuance.
- If documentation indicates an expiration or modification date (such as reaching a certain age, etc.), verify that the remaining term is for at least five years.

To document, obtain an award letter or equivalent written documentation confirming the source, amount, frequency, and borrower as the recipient of the payments.

Calculation requirements:

Use the actual monthly amount received unless disability income is nontaxable. Refer to Nontaxable income requirements in this section regarding grossing up income.

If the documentation indicates a reduction of the payment, use the lowest income indicated during the next five-year period.

Military income

Military personnel may receive different types of pay in addition to their base pay. The following forms of military compensation are eligible as qualifying income:

- Flight or hazard pay
- Rations
- Clothing allowance
- Quarters allowance (income from variable housing allowances)
- Proficiency pay (Propay)

To document, obtain all of the following:

- Most recent YTD Leave and Earnings Statement (LES) documenting at least one month of income.
- Most recent two years' W-2s or year-end military LES.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states). In lieu of a verbal VOE, a military LES within 30 days prior to the date printed on the Note/notary date is acceptable.
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.
- Verification of borrower's date of separation.

The date that the in-service borrower is scheduled to be released from active duty must be verified:

- An enlisted service member may be found on the borrower's LES – Expiration term of service (ETS).
- A National Guard or reserve member may be obtained on the borrower's current contract.

Released date does not apply if the borrower is an active duty officer, as an officer does not have a specified end date from active duty.

Military income – Active duty personnel – Within 12 months of release from active duty

The date that the in-service borrower is scheduled to be released from active duty must be verified. The date of separation is on the enlisted personnel's LES. An officer's LES does not show a date of separation. In most cases, a copy of the Statement of Service is satisfactory verification of continued service.

When the separation date is verified by a VOE, LES, Officer's Orders, or other documentation and indicates the veteran will be released from active duty within 12 months of the projected date upon which the Loan will be Closed, the file must include one of the following:

- Documentation that the service member has reenlisted or extended the period of active duty to a date beyond the 12-month period following the projected Loan Closing date
- Verification of civilian employment following the release from active duty with all pertinent underwriting documentation, such as job position, rate of pay, start date, number of hours scheduled per week, and probability of continued employment
- A statement from the borrower indicating the intention to reenlist or extend active duty to a date beyond the 12-month period and a statement from the borrower's commanding officer confirming that the service member is eligible to continue

on active duty and the commanding officer has no reason to believe the reenlistment or extension of active duty will not be granted

Military income – Nontaxable income

Some military income is nontaxable. Other military income is partially taxed. Examples include:

- Base pay is the only income taxed for social security on in-service personnel.
- Base pay, Propay, sea pay, and flight pay are federally and state taxed.

Quarters allowance, variable housing allowance, clothing allowance, and rations are not taxed.

Refer to Nontaxable income.

Military income – Probability of continued employment

If an employer declined to indicate the probability of continued employment on a written VOE, the lender is not required to make any further attempt to get such a statement.

Military income – Reservist or National Guard (called to duty) obligation

Sellers must ask every borrower whose income is being used to qualify for a Loan if their income is subject to change due to participation in a Reserves/National Guard unit due to activation. When the answer is yes, Seller must determine what the borrower's income may be if activated. If the income is:

- Reduced – carefully evaluate the impact the reduction may have on the borrower's ability to repay the loan.
- Increased – consider the likelihood the income will continue beyond a 12-month period.

Underwriters must evaluate all aspects of each individual case, including credit history, accumulation of assets, and overall employment history and make the best decision for each Loan regarding the use of income in qualifying for the Loan.

It is very important that Loan files be carefully and thoroughly documented, including any reasons for using or not using reservist income in these situations.

Weigh the desire to provide veterans their benefit with the responsibility to ensure the veterans will not be placed in a position of financial hardship.

To accomplish this, a statement must be obtained that affirms that a veteran-borrower's status relative to membership in the Reserves or National Guard has been ascertained and considered.

Military reserve income

For income to be used for qualifying purposes, document all of the following:

- The continuity of employment and income history for the two years that precede the date of the loan application.
- Most recent YTD LES documenting at least one month of income.
- Most recent two years' W-2s. Refer to Section 825.01: General Information for Form W-2 alternative documentation.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states). In lieu of a verbal VOE, a military LES within 30 days prior to the date printed on the Note/notary date is acceptable.
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.
- Proof that entitlements are expected to continue over a three-year period.

Mortgage differential income

An employer may subsidize an employee's Mortgage payments by paying all or part of the interest differential between the employee's present and proposed Mortgage payments.

When calculating the qualifying ratio, the differential payments are added to the borrower's gross income.

The payments are not allowed to directly offset the Mortgage payment, even if the employer pays them to the mortgage lender rather than to the borrower. Two-year history of receipt is not required.

To document, obtain a copy of the agreement from the employer stating the amount and duration of the payments.

Refer to Continuance of income with a finite period of receipt for additional requirements.

Nontaxable income

Nontaxable income refers to types of income not subject to federal taxes, which includes, but is not limited to:

- Child support
- Disability benefits
- Retirement income
- Worker's compensation benefits
- Military allowances
- Other income that is documented as being exempt from federal income taxes

Nontaxable income must be grossed up if needed for qualifying and documentation verifying the following must be obtained:

- Source of the income is nontaxable
- Both the income and its nontaxable status are likely to continue

Acceptable documentation includes award letters, complete individual federal tax returns, policy agreements, account statements, or other documentation evidencing the income, or a portion of the income, is tax-exempt.

If the income meets these requirements, add 25% of the nontaxable income to the borrower's qualifying income to develop an adjusted gross income. The adjusted gross income is used in calculations for the income and debt ratios.

Notes receivable, installment sales, and land contracts (secured or unsecured)

All of the following are required:

- Copy of the Note to establish the payment amount and term remaining
- Six-month history of receipt verified through one of the following:
 - Bank deposit slips or deposit receipts
 - Canceled checks
 - Bank or other account statements
 - Most recent two years' complete individual federal tax returns
- Installment sales and land contracts continue for at least three years beyond the date of the loan application

Refer to Continuance of income with a finite period of receipt for additional requirements.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Overtime income

Overtime is eligible monthly income if the following is verified:

- Two-year history of receipt
- Probability of continued receipt
- Dollar amount of overtime paid in the last two years

The underwriter must develop an average of overtime income for the past two years.

To document, obtain all of the following:

- Most recent YTD pay stub(s) or salary voucher documenting at least one month of income.
- Most recent two years' W-2s. Refer to Section 825.01: General Information for Form W-2 alternative documentation.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

A written VOE covering a two-year history is acceptable in lieu of W-2s and pay stub(s).

If an employment verification is obtained and states the overtime income is unlikely to continue, it is ineligible for qualifying.

Public assistance/government assistance income

To be included in the borrowers' qualifying income, income from public assistance programs must be verified as received for the past month.

To document, obtain letters or exhibits from the paying agency that state the amount and frequency of the benefit payments.

Refer to Continuance of income with a finite period of receipt for additional requirements.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Restricted stock

Restricted stock refers to stock of a company that is not fully transferable until certain conditions have been met. Upon satisfaction of those conditions, the stock becomes transferable to the person holding the grant. Restricted stock is not the same as stock options. Restricted stock must be vested and received on a regular, recurring basis.

Restricted stock income must be received for at least two consecutive years.

To document, obtain all of the following:

- Vesting schedule (must contain grants received per year and when grants will vest)
- Evidence that stock is publicly traded
- Evidence of payout of the restricted stock (e.g., YTD pay stub and most recent two years' W-2s)

When determining recurring income, the complexity of varying stock prices and vesting scenarios must be considered. Some examples include:

- A single one-time large grant would impact prior year's income, but is not likely to continue. If a significantly higher one-time grant appears in certain years, it may be tied to a special project, milestone or promotion, which is not likely to continue.
- If the stock price has increased substantially, the company may adjust the number of shares granted to align with overall cash amount.
- Future income will be driven more by recent grants versus older grants that may have inflated income due to being granted when the stock price was much lower.
- Recent significant drop in stock price.
- Trading volume, giving special consideration to potential stock price volatility of smaller companies with lower trading volume.

The amount of restricted stock income relative to total income is not limited; however, income continuance requirements must be met. The stock price influence on the income (past/present/future) must be considered when the restricted stock income makes up a considerable part of the total compensation.

Some companies separate different levels of employee compensation with base pay, restricted stock, and bonus. For example, a company may pay a maximum base salary of \$185,000, all other income differences are compensated through restricted stock and/or bonus. At midlevel and higher employment, restricted stock will make up the majority of the income and does not hinder the decision process when this is the compensation model chosen for that specific company.

Calculation of income:

- To determine the restricted stock price use the lower of:
 - 70% of the current stock price
 - Two-year stock price average
- Future vesting must support qualifying income. The value of future vesting is based on the lower of 70% of current value or the two-year stock price average.
- Qualifying income is calculated using an average of the restricted stock income for the past two years. The average stock price is applied to the number of stock units vested each year. If stock income is declining, refer to Declining income policy (self-employment, bonus, overtime, commission, restricted stock) in Section 825.06(a): Evaluating Employment.
- If the borrower has less than a two-year history with the current employer, restricted stock income tied to the employment is eligible if the borrower has a two-year historical receipt of restricted stock income (from current or previous employer) and future (projected) restricted stock income has a probability of continued receipt.
 - A trending analysis of historical (earned) and future (projected) restricted stock monthly income from previous and current employment must be completed.
 - Historical and future restricted stock income must support qualifying income.
 - If future restricted stock income from current employment is equal to or greater than historical restricted stock income, the historical restricted stock income must be used to qualify.
 - If future restricted stock income from current employment is less than historical restricted stock income, the future restricted stock income must be used to qualify.

Royalty payments

Royalty payments must have a 12-month history of receiving payments on a regular basis.

To document, obtain the most recent two years' complete individual federal tax returns, including Supplemental Income and Loss (Schedule E).

Refer to Continuance of income with a finite period of receipt for additional requirements.

Salaried income

A salaried worker is paid on a regular, recurring basis by an employer. Income is reported to the IRS on a W-2. The borrower has minimal (less than 25%) or no interest in the business.

To document, obtain all of the following:

- Most recent YTD pay stub or salary voucher documenting at least one month of income.
- Most recent two years' W-2s. Refer to Section 825.01: General Information for Form W-2 alternative documentation.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

A written VOE covering a two-year history is acceptable in lieu of W-2s and pay stub(s).

A borrower with a 25% or greater ownership interest in a business is considered self-employed and is evaluated as a self-employed borrower for underwriting purposes. Refer to Section 825.06(d): Self-Employed Income Analysis for circumstances when borrowers may be considered self-employed if they own less than 25% of a business.

Seasonal employment with associated unemployment compensation

Seasonal employment with associated unemployment compensation is considered stable income when the borrower has a two-year history of receipt in the same line of work, and there is no indication that the borrower will not be rehired over the next three years.

To document, obtain all of the following:

- Most recent YTD pay stub(s) or salary voucher documenting at least one month of income.
- Most recent two years' W-2s. Refer to Section 825.01: General Information for Form W-2 alternative documentation.
- Proof of receipt of unemployment compensation for two years.
- Most recent two years' complete individual federal tax returns reflecting seasonal employment and unemployment.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

A written VOE covering a two-year history is acceptable in lieu of W-2s and pay stub(s).

Note: If the verbal VOE is unattainable due to business closure during specified times of the year, the underwriter should use his/her judgment to determine if the income source is likely to continue. The borrower does not have to be currently employed in order to use seasonal income, if received for the last two years and is reasonably expected to continue.

Income that fluctuates throughout the year must be evaluated for risks of delinquencies during cycles of reduced/lower income. The continuance of income must be fully investigated to understand the borrower's ability to repay the Loan. The following considerations must be documented:

- Type of seasonal employment and how income fluctuates throughout the year
- If seasonal employment supplements the primary income source, and what impact the seasonal income has on the overall DTI
- History of savings/post-closing liquidity (PCL) to cover expenses during periods of lower income/unemployment cycles as a compensating factor
- Borrower's credit history for managing debt with limited to no delinquencies

When additional risks are present, an explanation from the borrower is necessary to determine the borrower's ability to manage expenses/debt through fluctuating income cycles.

Seasonal income

Seasonal part-time or seasonal second job income is considered stable income when the borrower has a two-year history of receipt in the same line of work, and there is no indication that the borrower will not be rehired over the next three years.

To document, obtain all of the following:

- Most recent YTD pay stub(s) or salary voucher documenting at least one month of income.

- Most recent two years' W-2s. Refer to Section 825.01: General Information for Form W-2 alternative documentation.
- Most recent two years' complete individual federal tax returns reflecting seasonal employment income.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

A written VOE covering a two-year history is acceptable in lieu of W-2s and pay stub(s).

Note: If the verbal VOE is unattainable due to business closure during specified times of the year, the underwriter should use his/her judgment to determine if the income source is likely to continue. The borrower does not have to be currently employed in order to use seasonal income, if received for the last two years and is reasonably expected to continue.

Income that fluctuates throughout the year must be evaluated for risks of delinquencies during cycles of reduced/lower income. The continuance of income must be fully investigated to understand the borrower's ability to repay the Loan. The following considerations must be documented:

- Type of seasonal employment and how income fluctuates throughout the year
- If seasonal employment supplements the primary income source, and what impact the seasonal income has on the overall DTI
- History of savings/post-closing liquidity (PCL) to cover expenses during periods of lower income/unemployment cycles as a compensating factor
- Borrower's credit history for managing debt with limited to no delinquencies

When additional risks are present, an explanation from the borrower is necessary to determine the borrower's ability to manage expenses/debt through fluctuating income cycles.

Second jobs/part-time income

For qualifying purposes, part-time income refers to employment taken to supplement the borrower's income from regular employment; part-time employment is not a primary job that is worked less than 40 hours per week.

Note: When a borrower's primary employment is less than a typical 40-hour work week the income is evaluated as regular, ongoing primary employment.

A part-time/second job is eligible income if the following is met:

- The borrower's primary profession lends itself to a second job
- Income is verified and has been received without interruption for the last two years
- Income is expected to continue for at least three years

To document, obtain all of the following:

- Most recent YTD pay stub(s) covering at least one month of income.
- Most recent two years' W-2s. Refer to Section 825.01: General Information for Form W-2 alternative documentation.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

A written VOE covering a two-year history is acceptable in lieu of W-2s and pay stub(s).

Section 8 homeownership assistance/homeownership subsidies

A monthly subsidy is treated as income, if the borrower is receiving subsidies under Section 8 housing choice voucher home ownership option from a public housing agency (PHA). There is no requirement for the payments to have been received for any period of time prior to the date of the loan application.

The monthly subsidy must be treated as income in determining the homebuyer's qualifying ratios when the monthly subsidy is remitted to the borrower.

To document, obtain all of the following:

- Evidence of the monthly payment amount and duration of term limit for assistance from the PHA issuing the voucher.
- Verification must reflect that the payments are made directly to the borrower.

Refer to Continuance of income with a finite period of receipt for additional requirements.

If the income is nontaxable, refer to Nontaxable income.

Social Security income

Social Security income (including social security retirement and social security disability) is eligible if properly verified.

To document, obtain one of the following:

- Social Security Administration benefit verification letter (sometimes called a proof of income letter, budget letter, benefits letter, or proof of award letter)
- Social Security benefits check
- Most recent year's complete individual tax returns
- Most recent year's 1099
- Bank statement indicating automatic deposit of the Social Security income and verification that the Social Security account is owned by the borrower
 - If the Social Security account is owned by another person (e.g., survivor benefits), bank statements are not acceptable. The award letter is required.

Refer to Continuance of income with a finite period of receipt for additional requirements.

If the income is nontaxable, refer to Nontaxable income.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Temporary leave/short-term disability/family leave income

Temporary leave from employment is typically short in duration and may be for many reasons, including parental (maternity or paternity) leave, short-term disability, and family leave. It may be taken with or without pay.

A borrower that is on, or scheduled to be on, temporary leave may still qualify for approval.

A Loan with a borrower on temporary leave, including parental leave, is not ineligible for purchase merely because of such leave status. Investor will purchase a Loan with a borrower on temporary leave provided both of the following are met:

- The application meets applicable underwriting and regulatory requirements
- The income used to qualify the borrower is sufficient to meet applicable debt-to-income (DTI) ratios

Investor allows underwriters to require documentation to verify income before and during temporary leave as necessary and appropriate to qualify the borrower for a Loan.

The borrower must state they intend to return to work. The borrower is not required to return to work prior to Closing.

If a borrower will not return to active work status on or before the first Mortgage payment due date, temporary income received (if any) during the leave period and verified liquid assets after Closing and reserves may be evaluated for use as qualifying income.

Calculation requirements

For borrowers returning to work with their current employer prior to or on the first Mortgage payment due date:

- Qualify using pre-leave regular gross monthly employment income unless the borrower or employer has provided information about a reduction in that income upon the borrower's return to active work status

For borrowers who will not return to work prior to or on the first Mortgage payment due date:

- Qualify using the lesser of the following:
 - The borrower's temporary leave income (if any) combined with any available supplemental asset income
 - Pre-leave regular gross monthly employment income unless the borrower or employer has provided information about a reduction in that income upon the borrower's return to active work status
- If the temporary leave income is less than the borrower's pre-leave regular gross monthly employment income, available verified liquid assets may be used as a partial or complete income supplement to the temporary leave income if all of the following requirements are met:
 - Only verified liquid assets can be used to supplement temporary leave income.
 - Assets that are required for the subject transaction (e.g., down payment, closing costs, and reserves) may not be used to supplement the borrower's temporary leave income.
 - Supplemental asset income amount must be calculated as follows:
 - Available, verified liquid assets divided by the number of months of supplemental asset income.
 - The number of months of supplemental asset income is determined by the number of months from the first Mortgage payment due date to the date the borrower will begin receiving regular employment income after returning to work (i.e. pre-leave income unless the borrower or employer has provided information about a reduction in that income upon the borrower's return to active work status),

rounded to the next whole number. (See example provided in table below)

Note: If using assets to supplement income, manually reduce the assets before data entry of assets to avoid counting the same portion of these assets for both income and assets.

- Written rationale explaining the analysis used to determine the qualifying income.

Supplement asset income calculation example	
Pre-leave income amount	\$6,000 per month
Temporary leave income	\$2,000 per month
Total verified liquid assets	\$30,000
Funds needed to complete the transaction	\$18,000
Available liquid reserves	\$12,000 (\$30,000 - \$18,000 = \$12,000)
First payment date	July 1
Date borrower will begin receiving regular employment income	November 1
Supplemental income	\$12,000/4 = \$3,000
Total qualifying income	\$3,000 + \$2,000 = \$5,000

To document, obtain all of the following:

- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.
- If the employer confirms that the borrower is currently on temporary leave, Investor considers the borrower employed.
- Documentation of the borrower's pre-leave income and employment, regardless of leave status.
- Written statement from the borrower confirming he/she intends to return to active work status at the current employer and the intended date of return (must be consistent with employer-generated document).
- Documentation generated by current employer confirming the borrower's eligibility to return to the current employer after temporary leave and the duration or end date of the leave period.
 - Eligible forms of employer documentation include, but are not limited to:
 - An employer-approved leave request
 - A Family Medical Leave Act (FMLA) document
 - Other documentation generated by the employer or a third-party verifier on behalf of the employer

In addition, the following documentation is required if the borrower will not return to work prior to or on the first Mortgage payment due date and where the borrower relies upon temporary leave income (not limited to short-term disability benefits) for qualification purposes:

- Award Letter or equivalent written documentation confirming all of the following:
 - Amount and duration of the temporary leave income
 - Borrower is the recipient of the payments
 - Name of the payer (insurance company, employer, agency, or other qualified and disinterested party)
- If liquid assets are used to supplement income, assets must be verified and meet documentation requirements. Refer to Section 825.07: Assets.

Tip income

Tip income must be verified with two-year history of receipt and there must be a reasonable expectation that the income will continue.

To document, obtain all of the following:

- Most recent YTD pay stub(s) or salary voucher documenting at least one month of income.
- Most recent two years' W-2s. Refer to Section 825.01: General Information for Form W-2 alternative documentation.
- Verbal VOE (Exhibit 3, or similar form that contains the same information) must be obtained not more than 20 business days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).
 - If the verbal VOE is dated more than 20 business days prior to and including the date printed on the Note/notary date, another verbal VOE must be obtained prior to the Loan being purchased by Investor.
 - If a verbal VOE was not obtained prior to and including the date printed on the Note/notary date, a verbal VOE must be obtained prior to the Loan being purchased by Investor.

	<p>A written VOE covering a two-year history is acceptable in lieu of W-2s and pay stub(s).</p> <p>Tip income that is not reported to the employer is eligible as qualifying income when a two-year history of receipt is documented by the most recent two years' complete individual federal tax returns, including IRS Form 4137.</p> <p>Trust income</p> <p>Trust account funds are eligible for the required down payment, closing costs, and reserve (post-closing liquidity) if the borrower provides adequate documentation that the withdrawal of funds will not negatively affect income. Trust account funds are eligible for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.</p> <p>To document, obtain the following:</p> <ul style="list-style-type: none"> • Copy of the trust agreement or the trustee's statement confirming the amount, frequency, and duration of the payments must be obtained to verify the income and continuance of the income. • If trust agreement or trustees statement does not provide historical level of distributions, the most recent two years' complete individual federal tax returns must be obtained. <p>Refer to Continuance of income with a finite period of receipt for additional requirements.</p> <p>Unemployment compensation</p> <p>Income derived from unemployment compensation is not considered stable due to the limited duration of its receipt. Seasonal unemployment compensation income is eligible when an applicant is employed in a field where unemployment compensation is typically received during a portion of the year.</p> <p>To document, refer to Seasonal employment with associated unemployment compensation.</p> <p>Unacceptable income</p> <p>The following types of income or compensation are ineligible:</p> <ul style="list-style-type: none"> • Assets as a basis for Mortgage qualification • Automobile allowances • Expense account payments • Housing/parsonage • Gambling income • Nontraditional currencies such as Bitcoin, digital assets, or other cryptocurrencies • Proceeds from a reverse mortgage or other financing • Proceed from illegal activities <ul style="list-style-type: none"> ○ All sources of income must be legal in accordance with all applicable federal, state, and local laws, rules and regulations, without conflict. ○ Indication of income obtained from illegal sources makes the transaction ineligible for purchase. • Rent from: <ul style="list-style-type: none"> ○ Boarders living in the borrower's primary residence or second home. ○ A property that is the borrower's second home. • Retained earnings in a company • VA education benefits – education benefits used to offset education expenses are not acceptable
<p>825.06(c): Rental Income Analysis</p>	<p>INCOME ANALYSIS – RENTAL INCOME</p> <p>Rental management experience/Stability of rental income</p> <p>Two years of rental management experience is required to use rental income to qualify.</p> <p>The stability of the rental income must be documented with two years of rental management experience or rental income history with the most recent two years' complete individual federal tax returns. This can include any rental property.</p> <p>The two year rental management experience and rental income history requirement for rental income from the subject property is not required if all of the following apply:</p> <ul style="list-style-type: none"> • Purchase transaction • Two-unit property • Primary residence • LTV of 75% or less • Loan Score greater than or equal to 740 • No gift funds

When property management experience is not required, use the Small Residential Income Property Appraisal Report (Form 72/1025) to support rental income (a current lease is not required). A 25% vacancy/maintenance expense factor must be deducted from the gross rental income.

Eligible rental income

The following are acceptable sources of rental income:

- Rent received from investment properties or other units of an owner-occupied multifamily property that meet stability and continuance of income requirements.
- Rents received from a live-in aide, generated from a disabled borrower's one-unit, primary residence may be used for qualifying purposes, in an amount up to 30% of the total gross income that is used to qualify the borrower for the Loan.
 - Typically, a live-in aide will receive room and board payments through Medicaid waiver funds from which the live-in aide then makes rental payments to the borrower. This source of income is nontaxable and is not reported on the borrower's individual federal tax returns.
 - This income source is eligible as stable monthly income if both of the following is verified:
 - The borrower has received rental payments from a live-in aide for the past 12 months on a regular basis.
 - The live-in aide plans to continue to reside with the borrower for the foreseeable future.

Ineligible rental income

The following are ineligible sources of rental income:

- Rent from boarders in a single-family property that is also the borrower's primary residence.
 - Refer to Eligible Rental Income requirements above to determine when income from a live-in aide is allowed.
- Rent from a property that is the borrower's second home.

Nonsubject investment property pending sale

If a nonsubject investment property is pending sale, review all of the following documents to consider offsetting the principal, interest, taxes, insurance (PITI) payment:

- Lease duration
- Three months of canceled checks, bank statements, or rent roll verifying receipt of rental income

Notes:

- It is acceptable for the rent roll to be prepared by the borrower or third party.
- Any additional income, above the PITI offset, from the nonsubject investment property is not eligible as qualifying income.

Primary residence converting to investment property

For existing primary residence converting to investment property, refer to Section 825.23: Departure Residence Policy requirements.

Determining qualifying rental income

Use the Investor Cash Flow Method below to determine qualifying rental income with complete individual federal tax returns, including Schedule E, or other business returns.

Investor Cash Flow Method
Net income + Depreciation + Mortgage interest + Real estate taxes + Insurance + Homeowners association fees, if any – Unallowed losses, if any + Loss carry-overs from previous years, if any – Annualized mortgage payment for rental property = Annual operating income ÷ 12 months = Monthly operating income

If the monthly housing expense is included in the rental cash flow, do not add it to the long-term debt.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APORspread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Insurance requirements – subject property

Rent loss insurance is required for investment properties and two- to four-unit primary residences where the borrowers are relying on rents to qualify from the units they will not be occupying.

The insurance must provide coverage for an amount equal to a minimum of six months of the rental income.

Monthly operating income

When using rental income to qualify from a two- to four-unit primary residence:

- The current monthly PITI payment on the borrower's primary residence must be included in the liabilities as the housing payment.
- The monthly operating income is included in qualifying income.

When the subject is an investment property:

- If net cash flow is positive, include it in the qualifying income.
- If net cash flow is negative, include it in the long-term debts.

Aggregate all rental income or loss from nonsubject properties:

- Net rental income may be counted as stable monthly income, provided the reliability of receipt is clearly supported by the documentation in the file.
- Net rental loss must be considered a liability for qualification purposes.

For the subject property, rental income used to qualify must be supported by the Small Residential Income Property Appraisal Report (Form 72/1025) or Comparable Rent Schedule (Form 1007).

DOCUMENTATION REQUIREMENTS

Rental income not used to qualify

Documentation is not required when rental income is not used to qualify. The full PITI payment must be included in the DTI. This includes residential or commercial rental properties held in a subchapter S corporation, partnership, or corporation where the borrower owns 25% or more of the business or is personally liable for the mortgage.

Rental income used to qualify

Rental income history for all residential or commercial rental properties, regardless of how long the property has been owned, must be verified by obtaining both of the following:

- Most recent two years' complete individual federal tax returns, including Schedule E
- Three months' canceled checks, bank statements, or rent roll

For residential or commercial rental properties held in a subchapter S corporation, partnership, or corporation:

- If the borrower owns less than 25% of the business, three months receipt of rental income is not required if the mortgage is not on the borrowers' credit report and there is no documentation indicating the borrower is personally obligated for the mortgage.
- If the borrower is personally obligated for the mortgage or owns 25% or more of the business, year-to-date financial statements are allowed to be used in lieu of three months bank statements, canceled checks, or rent rolls

Subtract losses from the qualifying income when the rental property is held in a subchapter S corporation, partnership, or corporation. Refer to 825.06(d): Self-Employed Income Analysis for details.

Note: It is acceptable for the rent roll to be prepared by the borrower or a third party.

Any indication of a gap in rental history/income greater than three months requires a written explanation from the borrower.

For the subject property, rental income used to qualify must be supported by the Small Residential Income Property Appraisal Report (Form 72/1025) or Comparable Rent Schedule (Form 1007).

Lease agreements

When a lease agreement is required to determine qualifying income, a vacancy/maintenance expense factor of 25% is deducted from the rental income verified by the current lease agreement. If a lease agreement is used to support higher income, review the prior year's complete individual federal tax returns to determine if a vacancy/maintenance factor greater than 25% must be applied.

Property owned less than 12 months

When the property has been owned less than 12 months and is not reflected on the borrower's most recent complete individual federal tax returns:

- It is acceptable to use present, signed leases if the borrower has a two-year history of property management experience as evidenced by the most recent two years' complete individual federal tax returns.
- A vacancy/maintenance expense factor of 25% must be deducted from the rental income verified by the current lease agreement for determining qualifying income.

	<p>For purchase transactions, existing tenant lease agreement may be used when transferred as part of the sale of the property. Three months canceled checks, bank statements or rent rolls are also required.</p> <p>Tax returns aged nine months or more from the date of the last tax year filed</p> <p>A current lease agreement or 10% post-close liquidity (PCL) based on the total aggregate liens on the subject property, in addition to standard PCL, is required when the most recent tax return is aged by nine months or more from the date of the last tax year filed, unless:</p> <ul style="list-style-type: none"> • The rental income makes up less than 25% of the total qualifying income; or • Appraisal indicates that units generating rental income used to qualify are tenant-occupied
<p>825.06(d): Self-Employed Income Analysis</p>	<p>INCOME ANALYSIS</p> <p>Borrowers are self-employed when their income is derived from a business in which they maintain a majority owner interest or can otherwise exercise control over the business' activities. A 25% or greater ownership interest in the business is considered a majority. There are circumstances where borrowers are able to exercise control over the business' activities even if they own less than 25% of a business.</p> <p>Example:</p> <p>In partnerships with each of five general partners owning 20%, the borrower is considered self-employed if this 20% ownership is the borrower's major source of income.</p> <p>Increased risk consideration</p> <p>Self-employed borrowers present a greater credit risk than salaried borrowers because their income is directly linked to the success of their business. The following additional risks are associated with self-employed borrowers:</p> <ul style="list-style-type: none"> • Difficulty in verifying actual income/cash flow. • Cash flow may not be regular because it is affected by marketplace fluctuations. • Business may decline if borrower becomes ill. • Borrower may be liable for business debts. • Business may suffer from inadequate control or dissension among partners. <p>Two-year history</p> <p>Income from self-employment is eligible if the borrower has been self-employed two or more years. Stable income is evaluated based on the average income calculated for the previous two years.</p> <p>BUSINESS CLASSIFICATIONS</p> <p>Corporation</p> <p>Corporations are state-chartered businesses owned by stockholders. The stockholder is not personally responsible for the debts of the corporation. The corporation's profits (retained earnings) are put back into the business or are distributed to stockholders as dividends. A corporation may choose to do both. The ultimate legal control of a corporation rests with its owners, the shareholders. These shareholders delegate their control to an elected board of directors. The board of directors, in turn, elects the officers of the corporation who are responsible for the day-to-day operations of the business.</p> <ul style="list-style-type: none"> • Corporation additional income <ul style="list-style-type: none"> ○ For an analysis of corporate tax returns, refer to Corporation qualifying income below. ○ For an analysis of financial statements, refer to Financial statements analysis below. • Corporation qualifying income Qualifying income is determined by using a two-year average of income reported on W-2s. Refer to EVALUATING TAX RETURNS below. • Corporation taxes Corporations report their income and losses on the United States Corporation Income Tax Return (IRS Form 1120). Schedule L of IRS Form 1120 presents the current year corporation balance sheet. Income to the officers is reported by a W-2 and is reflected on individual federal tax returns, IRS Form 1040. <p>Partnership</p> <p>A partnership is basically a sole proprietorship multiplied by the number of people involved. A partnership is based upon a contractual relationship formed to carry on a trade or business.</p> <ul style="list-style-type: none"> • In a general partnership, each partner is personally liable for the total debts of the business. • In a limited partnership, a limited partner is liable only to the extent of his own investment in the business. <p>General partnership</p> <ul style="list-style-type: none"> • General partnership liability A general partnership is formed so that each partner is personally liable for the debts of the whole business. Therefore each partner is responsible for the actions of every other partner. This can create significant control problems and the necessity for a written partnership agreement. The personal liability to partnership creditors exists even after the partnership is dissolved.

- **General partnership dissolution**
Unless specified in the partnership agreement, a partnership is dissolved immediately upon the death, withdrawal, incompetence, or insolvency of any one partner.
- **General partnership qualifying income**
Refer to EVALUATING TAX RETURNS below.
- **General partnership risks**
There may be a lack of prompt and centralized control particularly where loose assignment of responsibilities exists. The concept that equal partners have equal voice may produce more reasonable judgment but may also cause more frequent arguments. Generally, large amounts of capital are difficult to obtain because of the relative instability of this form of organization.
- **General partnership taxes**
Partnerships are treated like sole proprietorships. Although the partnership is not subject to taxation, it is required to calculate and report partnership income on United States Partnership Return of Income (IRS Form 1065). The net income distributable to each partner is reported on Schedule K-1 of IRS Form 1065 and on the individual's Schedule E, Part II. Partners then pay taxes on their proportionate share of net partnership income at their individual tax rate, whether or not the income was actually withdrawn from the partnership.

Limited partnership

- **Limited partnership capital**
Limited partnerships raise capital by attracting investors in the form of limited partners. As a result, limited partners are an excellent source of capital for the general partners without any loss of management control.
- **Limited partnership liability**
Limited partnerships are usually formed for the purpose of investing money. Limited partners usually take a loss on this invested money. In turn, this reduces their taxable income. Limited partners have limited decision-making opportunities and their liability is limited to the amount they invest. Unlike general partners, a limited partner's death or withdrawal does not terminate the partnership.
- **Limited partnership qualifying income**
Refer to EVALUATING TAX RETURNS below.
- **Limited partnership taxes**
Limited partnerships carry the same tax implications as general partnerships and sole proprietorships. Both the limited and general partners in a limited partnership pay taxes on their proportionate share of net income as reported on their individual tax returns. Limited partners report their income or loss to the IRS on Schedule K-1 of Form 1065 and the individual Schedule E, Part II.

Sole proprietorship

A sole proprietorship is a business owned by one person. It is the least expensive and simplest form of business to establish. As long as the establishing individual uses his own name, no fees, registrations, agreements, or taxes are involved.

- **Sole proprietorship liability**
In a sole proprietorship, the individual owner is personally liable for all debts of the business, and, therefore, has unlimited liability. No distinction is made between the owner's personal assets and the assets used in the business. Either may be taken by creditors to satisfy business obligations.
- **Sole proprietorship death of owner**
With a sole proprietorship, the death of the owner would terminate the business and place the assets into probate, delaying the disposition of assets to creditors and heirs. There is no legal provision for continuity of sole proprietorships.
- **Sole proprietorship qualifying income**
Income based on the individual federal tax returns, IRS Form 1040, for the previous two years is averaged.
Refer to EVALUATING TAX RETURNS.
- **Sole proprietorship risks**
Management control of the business is concentrated in the owner. While this is useful for rapid decision making, continuity of the business may be endangered by:
 - A lack of checks and balances
 - Illness or long absence of the owner
 - Inability to raise adequate capital
- **Sole proprietorship taxes**
The business income or loss is reported on Schedule C of the IRS Form 1040, and included with the individual owner's federal tax return.

Subchapter S Corporation

This entity is formed as a result of an elective provision of the federal law, which permits certain small business corporations and their shareholders to elect special income tax treatment. It has the characteristics of a corporation, except for the special tax treatment.

- **Subchapter S corporation qualifying income**

Refer to EVALUATING TAX RETURNS below.

- **Subchapter S corporation substantial risk**

Because S corporations are generally small, start-up businesses, which are taxed like partnerships, they are in the developmental stage and present a substantial underwriting risk. This is particularly true because the limit on the number of shareholders allowed affects sources of borrowing and limits management options.

- **Subchapter S corporation taxes**

S corporations pass gains and losses onto their shareholders, who are then, taxed at the tax rates for individuals. Income is detailed on U.S. Income Tax Return for an S Corporation (IRS Form 1120S), and is transferred to the individual shareholder's personal returns by the Schedule K-1. The owners' salaries are reported on W-2s.

DOCUMENTATION REQUIREMENTS

The following documents are required for all self-employed borrowers:

- Individual federal income tax returns
- Business income tax returns
- Financial statements
- Verbal verification of employment
- Written analysis of income
- 4506-C for individual federal tax returns and for all business tax returns used in the Loan decision.

Individual federal income tax returns

Copies of signed individual federal income tax returns for the past two years including all applicable schedules are used to document income. Refer Section 825.01: General Information for Tax return signature requirements.

If the borrower is self-employed and the self-employment income is not used to qualify, the self-employed borrower must provide a copy of the first two pages and schedule 1 of the most recent individual federal tax return to determine whether there was a business loss that negatively impacts the borrower's ability to repay. When that is the case, additional documentation about the self-employed borrower's business income is needed to fully evaluate the impact of the business loss.

Business income tax returns

Copies of signed federal business income tax returns for the previous two years with all applicable schedules attached if the business is a corporation, S corporation, or partnership:

- Corporation - IRS Form 1120
- S corporation - IRS Form 1120S and Schedule K-1
- General partnership - IRS Form 1065 and Schedule K-1
- Limited partnership - IRS Form 1065 and IRS Schedule K-1

Financial statements

A year-to-date profit and loss (P&L) statement is required if more than four months have passed since the last fiscal year end.

A balance sheet is required for all self-employed borrowers with a partnership, subchapter S corporation, or corporation if more than four months have passed since the last fiscal year end.

If the business uses a third-party preparer for tax documentation, the individual preparing or reviewing the financial statements must be an appropriate third party:

- An unrelated and qualified individual (e.g., accountant/bookkeeper), including employee of the borrower's business, particularly if that employee has filed tax documents with the IRS.
- An appropriate third party who has reviewed the document or other record prepared by the borrower is also acceptable.

If the business does not use a third-party preparer for tax documentation, a self-prepared year-to-date P&L and balance sheet are acceptable. However, an explanation must be provided to state the reason the borrower is unable to provide a third-party P&L and/or balance sheet.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Verbal verification of employment

If any borrower on a Loan is self-employed, a verbal VOE (Exhibit 3, or similar form that contains the same information) must be completed not more than 30 calendar days prior to and including the date printed on the Note in nonescrow states (notary date on the Security Instrument for escrow states).

- If the verbal VOE is dated more than 30 calendar days prior to and including the date printed on the Note/notary date, another verbal VOE must be completed prior to the Loan being purchased by Investor.
- If a verbal VOE was not completed prior to and including the date printed on the Note/notary date, a verbal VOE must be completed prior to the Loan being purchased by Investor.

The Seller must perform additional diligence to verify income stability and continuance including but not limited to:

- Confirm with a disinterested third party, for example, a CPA, regulatory agency, contractor, or professional organization, and
- Provide supporting documentation verifying the existence of the business including, but not limited to:
 - Yellow page ads.
 - Copies of business licenses.
 - Internet websites. Acceptable Internet websites include the borrower's business website and government, union, and professional association websites or accessing LexisNexis.

The verification must be documented in writing, including:

- Independently-verified source of the employment information
- Name and title of the person who verified the borrower's employment

Written analysis of income

Sellers must provide documentation to evidence the income calculations below were performed.

EVALUATING TAX RETURNS

To determine the income of the self-employed borrower, personal and business tax returns must be obtained and evaluated.

Earnings trend

Establish the borrower's earnings trend. Annual earnings that are level or increasing are acceptable. For declining income, refer to 825.06(a): Evaluating Employment.

Earnings trends from the previous two years are established using the tax returns. If borrower:

- Provides quarterly tax returns, include income through the period covered by the tax filings in the income analysis, or
- Is not subject to quarterly tax returns, or does not file them, then include income shown on the P&L statement in the analysis, provided the income stream based on the P&L is consistent with the previous years' earnings.

If the P&L statements submitted for the current year show an income stream greater than what is supported by the previous year's tax returns, base the income analysis solely on the income verified through the tax returns.

If the borrower's earnings trend for the previous two years is downward and the most recent tax return or P&L is less than the prior year's tax return, the borrower's most recent year's tax return or P&L must be used to calculate his/her income.

Income calculation methods

The Investor Cash Flow Method (Cash Flow Method) considers distributions that the borrower is taking from the business. It must be used to qualify the borrower, taking into account any supported adjustments made during income analysis.

Calculations for the various business classifications and tax return types are shown in the sections below.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Income source

Evaluate the actual income source, not just the total income. For example, the adjusted gross income (AGI) is increasing annually due to income not related to the business, such as real estate capital gains, while the business income is declining.

Only sources of income that are likely to continue are eligible to be used for qualifying.

Schedule C

Business income or loss

The business income or loss for a sole proprietorship is calculated as follows:

Cash Flow Method
Net profit
– Nonrecurring other income
+ Expenses for business use of home

- + Depletion
- + Depreciation
- Meal and entertainment exclusion
- + Amortization/casualty loss

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Schedule D

Capital gain or loss

Capital gains or losses that occur only one time, are not considered when determining effective income. If the borrower has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income.

Three years of complete individual federal tax returns are required to evaluate an effective earning trend. If the trend:

- Results in a gain, it is allowed to be added as effective income
- Consistently shows a loss, it must be deducted from the total income

Anticipated continuation of income must be documented through verified assets.

Example:

Capital gain for an individual who purchases old houses, remodels them, and sells them for a profit.

When using income from capital gains, the underwriter must determine that the borrower's current asset portfolio is sufficient to support future capital gains. The underwriter must also consider whether an income-generating asset was sold during the year, as future business income must be reduced as a result of the sale.

Schedule E

Part I

For self-employed borrowers who also have rental income. Refer to 825.06(c): Rental Income Analysis.

Part II

Income or loss from partnerships and S corporation income or loss is determined by reviewing the business tax returns.

Schedule F

Farm income or loss

The profit or loss from farming income is calculated as follows:

Cash Flow Method
Net profit (loss) – Nonrecurring other income + Depreciation + Amortization/casualty loss + Expenses for business use of home + Nontax portion ongoing co-op and CCC payments

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Evaluating corporate tax returns (IRS Form 1120)

Purpose of review

The primary purpose for reviewing business tax returns is to analyze the financial strength of the business and to confirm that it will continue to generate the income the borrower needs to qualify for the requested loan. When the individual federal tax return confirms sufficient borrower income and the business tax return indicates a viable company, the corporation need not be investigated any further.

Additional income

Qualifying income is determined by using a two-year average of income reported on W-2s. However, if the borrower needs (and has the legal right) to draw additional income from the corporation to qualify, further evaluation is required to verify the business is capable of contributing additional income. All of the following are required:

- Borrower has the legal right to withdraw income from the corporation, per corporate resolution or comparable document.

- Withdrawal of additional income will not impact the business operations, based on careful analysis of the corporate financial statements.
- Business has positive sales and earnings trends.

Calculation

Income is calculated as follows:

Cash Flow Method
<p>Officer's compensation (W-2)</p> <p>– Unreimbursed expenses</p> <p>Borrower's share of:</p> <p>+ Dividends/distributions</p> <p>+ Loans to shareholders</p> <p>– Additional paid in capital</p> <p>– Loans from shareholders</p> <p>A comparison of the net distribution calculation and net supporting calculation must be performed to ensure the business can support the net distributions paid to all owners. Refer to Net distribution and net supporting calculation in this section for the calculation.</p>

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Note: The lowest income figure resulting from these calculations must be used to qualify.

Fiscal year

Many corporations operate on a fiscal year that is different from a calendar year. In these cases, a time adjustment is required to relate the corporate income to the individual tax return because the individual return is on a calendar year.

Individual percentage of ownership

- The borrower's percentage of ownership is determined from the Compensation of Officers section of the corporate tax return.
- If this information is not provided, other evidence of the borrower's ownership must be obtained. A statement by the corporation's accountant is satisfactory evidence.
- This percentage must be applied to the total of the above figures to determine the borrower's share of corporate after-tax income and non-cash expenses.

Evaluating S corporation tax returns (IRS Form 1120S) and schedule K-1

Calculation

The gains or losses of an S corporation are passed on to the shareholders who are then taxed at the tax rates for individuals. This income or loss is reflected on Schedule K-1 (IRS Form 1120S) and transferred to Schedule E of the individual federal tax return.

The primary source of income for an owner of an S corporation comes from W-2 wages, which are traced to the Compensation of Officers line of the IRS Form 1120S and reported on IRS Form 1040. If the borrower needs (and has the legal right) to draw additional income from the corporation to qualify, further evaluation is necessary to verify the business is capable of contributing additional income. All of the following are required:

- Documentation of ownership and access to income
- Business has adequate liquidity to support the withdrawal of earnings
- Business has positive sales and earnings trends

If the requirements above are met, calculate income as follows:

Cash Flow Method
<p>Officer's compensation (W-2)</p> <p>– Unreimbursed expenses</p> <p>Borrower's share of:</p> <p>+ Cash distributions</p> <p>+ Loans to shareholders</p> <p>– Additional paid in capital</p> <p>– Loans from shareholders</p> <p>A comparison of the net distribution calculation and net supporting calculation must be performed to ensure the business can support the net distributions paid to all owners. Refer to Net distribution and net supporting calculation in this section for the calculation.</p>

The Schedule K-1 (IRS Form 1120S) is used to determine the borrower's percentage of ownership.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Evaluating partnership tax returns (IRS Form 1065) and Schedule K-1

All partnerships

Both general and limited partnerships use the IRS Form 1065 federal income tax return. The gains or losses of a partnership are passed on to the partners who are then taxed at the tax rates for individuals. This income or loss is reflected on Schedule K-1 (IRS Form 1065) and transferred to Schedule E of the individual federal tax return.

If the borrower is a general partner and needs (and has the legal right) to draw additional income from the partnership to qualify, further evaluation is required to verify the business is capable of contributing additional income. All of the following are required:

- Documentation of ownership and access to income
- Business has adequate liquidity to support the withdrawal of earnings
- Business has positive sales and earnings trends

If the requirements above are met, calculate income as follows:

Cash Flow Method

Officer's compensation (W-2)

– Unreimbursed partnership expenses

Borrower's share of:

+ Guaranteed payments to partner

– Capital contributed during year

+ Withdrawals and distributions

+ Loans to partners

– Loans from partners

A comparison of the net distribution calculation and net supporting calculation must be performed to ensure the business can support the net distributions paid to all owners. Refer to Net distribution and net supporting calculation in this section for the calculation.

The Schedule K-1 (IRS Form 1065) is used to determine the borrower's percentage of ownership. Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Re-evaluation of business income

Once the additional business income has been credited to the borrower, the overall business financial position must be re-evaluated.

Recent withdrawals

Additional borrower withdrawals of cash may have a severe negative impact on the business and may lead to negative cash flow. When this occurs, it may not be possible to confirm the stable, ongoing income needed to approve the Loan.

The taxable income line must be reduced by the amount of the borrower's withdrawal.

To determine the impact on the business, income and expenses for the previous two years must be compared with year-to-date income and expenses. In addition, a current balance sheet must be reviewed to determine that the business has adequate funds to cover short-term liabilities.

Net distribution and net supporting calculation

The net distribution calculation represents the ongoing inflow to all owners. The net supporting calculation is used to support the likelihood of continuance of the borrower's qualifying income.

- When the total net supporting calculation is greater than total net distributions, the net distributions are supported. Use the borrower's portion of the net distributions for that year.
- When the net supporting calculation is less than total net distributions, the net distributions are not supported. Use the borrower's ownership percentage of the net supporting calculation for that year.

	<table><tr><th></th><th>Net distribution calculation</th><th>Net supporting calculation</th></tr><tr><td>Corporation S corporation Partnership</td><td>Total distributions - total capital contributions or additional paid in capital +/- partner or shareholder loan activity</td><td>Net income/(loss) - Nonrecurring other income + Depreciation + Depletion + Amortization - Meals and entertainment - Mortgage, notes, and bonds payable in less than 1 year if the business does not have sufficient funds to cover the outstanding balance or it is not revolving or renewable</td></tr></table>		Net distribution calculation	Net supporting calculation	Corporation S corporation Partnership	Total distributions - total capital contributions or additional paid in capital +/- partner or shareholder loan activity	Net income/(loss) - Nonrecurring other income + Depreciation + Depletion + Amortization - Meals and entertainment - Mortgage, notes, and bonds payable in less than 1 year if the business does not have sufficient funds to cover the outstanding balance or it is not revolving or renewable				
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	FINANCIAL STATEMENTS ANALYSIS										
	Purpose of analysis										
	Self-employed borrowers’ ability to repay the Loan depends on the stability and success of their business because the net income from that business will be used to repay the Loan.										
	Financial statements of the business must be reviewed. Income statements and balance sheets are evaluated for solvency (the ability to repay debts) and profitability (the ability to achieve monetary gain).										
	By reviewing financial statements for two or more years, the underwriter develops a historical view of operations.										
	The two principal business statements that reveal the financial status of a company are:										
	<ul style="list-style-type: none">Balance sheet – An overview of a business, which shows a company’s financial position at one point in time.Income statement – The short-term (one year or less) look at a business, which shows the income realized and expenses incurred over that period.										
The balance sheet											
The balance sheet presents what a company or individual owns and owes at a specific point in time, usually the last day of the year. The balance sheet is an indicator of the individual’s or company’s financial strength.											
Balance sheet organization											
The balance sheet has two sides and lists the general ledger account balances in three main categories:											
<ul style="list-style-type: none">Assets are things of value owned by the company or individual and are shown on the left side of the balance sheet.Liabilities are debts owed by the company or individual to its creditors in exchange for goods and services required to operate the business. They are shown on the right side of the balance sheet.Stockholder’s equity, sometimes called capital, is the value of the financial interest put into the business by its stockholders, owners, or both and is shown on the right side of the balance sheet.											
	Must balance										
	Both sides of the balance sheet must be equal as shown in the following formula:										
	Assets = liabilities + stockholder’s equity.										
	Typical balance sheet categories										
	<table><tr><th>Assets</th><th>Liabilities</th></tr><tr><td>Current assets:<ul style="list-style-type: none">CashAccounts receivableInventoryPrepaid expensesMarketable securitiesFixed assets:<ul style="list-style-type: none">Property, plant, and equipment (less accumulated depreciation)Intangibles and other assets:<ul style="list-style-type: none">GoodwillPatentsTrademarksCopyrights</td><td>Current liabilities:<ul style="list-style-type: none">Accounts payableNotes payable (current portion)Federal income tax payableLong-term liabilities:<ul style="list-style-type: none">MortgagesNotes payableBonds</td></tr></table>		Assets	Liabilities	Current assets: <ul style="list-style-type: none">CashAccounts receivableInventoryPrepaid expensesMarketable securities Fixed assets: <ul style="list-style-type: none">Property, plant, and equipment (less accumulated depreciation) Intangibles and other assets: <ul style="list-style-type: none">GoodwillPatentsTrademarksCopyrights	Current liabilities: <ul style="list-style-type: none">Accounts payableNotes payable (current portion)Federal income tax payable Long-term liabilities: <ul style="list-style-type: none">MortgagesNotes payableBonds	<table><tr><th>Stockholder’s equity</th></tr><tr><td>Capital stock</td></tr><tr><td>Capital surplus</td></tr><tr><td>Retained earnings</td></tr></table>	Stockholder’s equity	Capital stock	Capital surplus	Retained earnings
	Assets	Liabilities									
	Current assets: <ul style="list-style-type: none">CashAccounts receivableInventoryPrepaid expensesMarketable securities Fixed assets: <ul style="list-style-type: none">Property, plant, and equipment (less accumulated depreciation) Intangibles and other assets: <ul style="list-style-type: none">GoodwillPatentsTrademarksCopyrights	Current liabilities: <ul style="list-style-type: none">Accounts payableNotes payable (current portion)Federal income tax payable Long-term liabilities: <ul style="list-style-type: none">MortgagesNotes payableBonds									
	Stockholder’s equity										
	Capital stock										
	Capital surplus										
Retained earnings											

Assets

The assets column lists all the goods and property owned. It also shows amounts to be collected. There are three major sections: current assets, fixed assets, and other (intangible) assets.

Current assets

Current assets can be converted to cash quickly within a current year. Current assets are in a constant cycle of being changed into cash to pay debts and operating expenses. The test usually applied to distinguish current assets from fixed assets or other assets is whether the business will consume these assets within the operating cycle of the business.

Current assets include:

- Cash – All money on deposit or in petty cash
- Accounts receivable – Money owed to the business for goods and services
- Inventory – Finished goods, goods-in-process or raw materials

Fixed assets

Fixed assets are of a relatively permanent nature. They are the assets the business needs to operate its ongoing activities. Fixed assets last longer than the current operating cycle and are depreciated over their useful lives to allow for normal wear and tear. Fixed assets are items such as buildings, furniture, fixtures, and automobiles.

Other assets

- Other assets are long-term rights and privileges which are intangible but add value to a business because of their worth. These include:
 - Copyright – Exclusive rights to publish and sell a musical, literary, or artistic piece of work for a number of years
 - Patent – A document granting a privilege to someone who has invented a product or a concept
 - Goodwill – Accrues when a business's rate of expected future earnings is greater than the rate of earnings normally realized in the industry
 - Trademark – The right to use an identifying name or mark given exclusively to a company (for example, Coca-Cola).

Liabilities

Liabilities are the debts owed by an individual or corporation in exchange for goods and services. The two categories of liabilities are:

- Current liabilities – All amounts owed and due within the coming year. The portion of a long-term liability, such as a mortgage, that is due within the coming year is classified as a current liability.
- Long-term liabilities – Debts due more than one year from the balance sheet date.

Stockholder's equity

The stockholder's equity is the third section of the balance sheet and is also known as the capital section. It reflects the business's net worth and is equal to the assets minus the liabilities.

There are three categories:

- Capital stock – A share of interest or ownership in a company. There are two types:
 - Common stock
 - Preferred stock
- Capital surplus (sometimes called additional paid-in capital) – This is the excess of market value over the stated (par) value of stock paid by shareholders. Example: If the par value of a company's stock is \$6 and one share is purchased for \$10, the capital surplus has a balance of \$4 and the capital stock account has a balance of \$6.
- Accumulated retained earnings – The amount of after-tax earnings that is put back into the business to conduct ongoing operations. Retained earnings cannot be used as income to qualify or as cash to close.

Income statement

The income statement presents the income and expenses over a 12-month period. The net profit or loss for the year is shown on the income statement. By reviewing the income statements for two or more years, the underwriter develops a historical review of operations, especially in terms of net profit and net loss, and is better able to predict how the business might perform in the future.

Organization

The income statement is made up of two major sections:

- Inflow of revenue
- Outflow of expenses

Matching concept

The accounting principle, matching concept, refers to matching expenses with the revenue they help generate. Expenses are subtracted from revenues. Net profit or net loss for the year is what remains.

Sample income statement	
Sales (revenue, including returns and allowances)	\$0,000
Less: Cost of goods sold	(000)
Gross profit on sales	\$0,000
Less:	(000)
• Selling expenses	(000)
• General administrative expenses	(000)
• Other expenses	(000)
Other sources of income	000
Less: Federal income taxes	(000)
Net income	\$0,000

Income definition

Sales

Sales are generally the major source of revenue for the business. Gross sales are reduced by sales returns and allowances. The result is referred to as net sales.

Cost of goods sold

Cost of goods sold is the cost of materials used to produce the goods sold or cost of items to be resold during the accounting cycle. This account may be inappropriate if the business sells a service or other intangible item such as insurance.

Gross profit on sales

Gross profit on sales is also called gross margin, the results from subtracting the returns and cost of goods sold from the gross sales.

Expenses

Selling expenses

Selling expenses are incurred to produce the sales revenue. Included in the selling expenses are commissions and salaries to salespeople, advertising, and travel and entertainment.

General and administrative expenses

General and administrative expenses include office expenses, staff salaries, and other overhead expenses, which are unrelated to directly producing sales revenues.

Other expenses

Other expenses are the expenses incurred outside of the main operations of the business. These include dividend and interest expense.

Federal income tax

Federal income tax is generally the last expense deducted from income.

Evidence of sufficient funds for down payment, closing costs, and reserves/post-closing liquidity (PCL) is required.

ILLEGAL ACTIVITY

All asset sources must be legal in accordance with all applicable federal, state, and local laws, rules and regulations, without conflict.

CASH ASSETS

Cash assets are assets used to pay the down payment and closing costs on the loan or for reserves/PCL.

Refer to Reserves/PCL Requirements in this section for detailed reserves/PCL requirements.

The underwriter must consider the borrower's total assets, deposit and/or withdrawal activity, income sources, and recent credit activity (for example, new accounts, increases or decreases in account balances) when reviewing asset documentation for any indication of borrowed funds.

The borrower must explain and document an acceptable source of funds for:

- Single deposits that are greater than 50% of the borrower's monthly qualifying income
- Accounts opened in the last two months

825.07: Assets

The table below lists eligible and ineligible sources of down payment, closing costs, and reserves/PCL. Additional requirements and restrictions are specified below the table.

Source	Eligible for down payment and closing costs	Eligible for reserves/PCL
Assets in a trust account	Yes	Yes
Bonus income used for cash to close	Yes	Yes
Bridge loans	Yes	No
Business funds	No	No
Cash on hand	No	No
Cash value of life insurance	Yes	Yes
Checking, savings, money market, or certificate of deposit account	Yes	Yes
Credit for interest rate chosen	Yes, closing costs only	No
Earnest money deposit	Yes	No
Foreign assets	Yes	Yes
Gift funds from an individual, including gift of equity	Yes ¹	No
Gift or grant from a municipality, nonprofit organization, or Employer	Yes ¹	No
Group savings	No	No
Individual development account	Yes	Yes
Loans secured by financial assets	Yes	No
Nontraditional currencies such as Bitcoin, digital assets, and other cryptocurrencies (including liquidated cryptocurrencies)	No	No
Pooled funds	No	No
Proceeds from a secured loan	Yes	No
Proceeds from an unsecured loan	No	No
Proceeds from cash-out refinance of nonsubject property	Yes	No
Proceeds from cash-out refinance of subject property	No	No
Proceeds from illegal activities	No	No
Proceeds from the sale of personal property	Yes	No
Proceeds from the sale of real estate	Yes	Yes
Publicly traded stocks, bonds, mutual funds and U.S. government Securities	Yes	Yes
Real estate commissions earned by the borrower	Yes	No
Rents with option to buy	Yes, for down payment only	No
Restricted stock subject to U.S. Securities and Exchange Commission (SEC) Rule 144	Yes	Yes
Retirement funds, including Roth IRA	Yes	Yes
Saving cash to close	No	No
Savings bonds	Yes	Yes
Stock issued by a privately held company	No	No
Stock options	Yes	Yes
Sweat equity	No	No
Tax advantaged college savings plans (529 college savings plans) <ul style="list-style-type: none"> Eligible to meet the retirement portion of the reserve requirement 	Yes	Yes
Trades	Yes	No
UGMA (Uniform Gift to Minors Act)/UTMA (Uniform Transfers to Minors Act) accounts	No	No
Use of credit card for payment of fees	Yes, closing costs only	No
1031 tax deferred exchange	Yes	No

1. Not allowed with investment properties.

Assets in a trust account

Assets in a trust account are eligible for down payment, closing costs and reserves/PCL when the borrower is the beneficiary and has access to the funds as of the date of the Loan Closing. The borrower's portion of undistributed trust funds may be used as reserves/PCL only.

The trust agreement or a signed statement from the trustee or trust manager is required and must document all of the following:

- Borrower is the beneficiary
- Borrower has access to all or a certain specific amount of the funds
- Trust has sufficient assets to disburse funds needed

When trust funds are needed for down payment or closing costs, evidence of receipt of the disbursed funds from the trust is required.

Bonus income used for cash to close

A borrower's recent bonus is eligible to be used for down payment, closing costs and reserves/PCL when the impact to borrower's qualifying income is analyzed.

If the Underwriter determines that the borrower is unable to meet all financial obligations and living expenses until the next bonus payout, deduct the bonus income from qualifying income when it is used as cash to close. Considerations must include all of the following:

- How often is the bonus paid (i.e. quarterly, semi-annual, annual) and what is the date of the last bonus payout?
- What is the amount of the bonus used for cash to close?
- Are base income and liquid reserves sufficient to allow borrower to meet all obligations and living expenses until the next bonus is received?
- Are liquid reserves sufficient to ensure the borrower has the ability to repay obligations in a timely fashion and to support the borrower's overall income profile for acceptable risk?

Bridge loans

A bridge loan is a form of second mortgage that is usually collateralized by the borrower's present home. Proceeds from a bridge loan are eligible for down payment and closing costs.

Verification of the bridge loan terms and the collateral for the loan is required. The subject property is not eligible to be used as collateral

Cash value of life insurance

The cash value of life insurance is eligible for down payment and closing costs at 100% of the verified liquidated amounts.

Cash value of life insurance (less outstanding loans, if repayment not included in debt ratio calculation) is eligible as reserves/PCL.

A copy of the benefits statement is required to determine the borrower is the owner of the policy and the amount of cash available to the borrower.

Checking, savings, money market or certificate of deposit accounts

Funds in a checking, savings, money market or certificate of deposit account are eligible for down payment, cash to close and reserves/PCL.

A completed verification of deposit (VOD), or a copy of the account statement for the most recent two months/quarter is required.

Credit for interest rate chosen

Refer to Section 825.16: Prepays.

Earnest money deposit

Documented funds to close must always include sufficient funds to cover the earnest money deposit. The earnest money deposit is eligible for down payment and closing costs. If the amount of the earnest money deposit appears excessive for the market or for the borrower's history of accumulated savings, the deposit amount and the source of funds must be verified.

Acceptable documentation verifying the receipt and source of the earnest money deposit funds includes one of the following:

- Copy of the canceled or certified check and account verification
- Bank/brokerage statement showing the earnest money deposit check has cleared the account
- Certification from the earnest money deposit holder acknowledging receipt of the funds with documentation evidencing acceptable source of funds

All non-arm's length transactions require earnest money deposit verification.

Foreign assets

Funds in foreign accounts are eligible for down payment, closing costs and reserves/PCL however; the funds must be transferred to a U.S. account. A completed VOD, or a copy of the U.S. account statement for the most recent two months/quarter is required.

Gift funds from individuals

A gift is eligible for down payment and closing costs for a primary residence or second home transaction.

Eligible gift donors are:

- Relative of the borrower
- Fiancé/fiancée or domestic partner

The donor is not allowed to have an interest in the sale of the property. This includes the seller, real estate agent or broker, builder, loan officer, or any entity associated with them (unless they are a relative, fiancé/fiancée, or domestic partner).

A gift from any other source is considered an inducement to purchase and requires a reduction to the sales price.

Certain restrictions apply for non-arm's length transactions. Refer to Section 825.15(b): Identity-of-Interest Transactions.

Documentation requirements

A gift letter is required and must contain the following information:

- Donor's name
- Donor's mailing address including the street, city, state, and zip code
- Donor's telephone number including area code
- Amount of gift
- Recipient (must be the borrower)
- Donor's relationship to the borrower
- Donor's statement that no repayment is expected
- Date the funds were/will be transferred
- Donor's signature

One of the following is required to document donor availability:

- Copy of the donor's check and the borrower's deposit slip
- Copy of the donor's withdrawal slip and the borrower's deposit slip
- Copy of the donor's check to the closing agent
- Closing Disclosure showing receipt of the donor's check

When the funds are not transferred prior to Closing, the Seller must document that the donor gave the closing agent the gift funds in the form of a certified check, a cashier's check, or other official check.

Gift of equity

A Gift of equity is eligible for down payment and closing costs for a primary residence or second home transaction. A relative is allowed to provide equity credit as a gift on a property being sold to another family member. Equity credit is defined as the difference between the lesser of appraised value or sales price and the property seller's remaining loan amount. If the property seller is gifting equity to the borrower, all documentation normally obtained to verify gift funds is required.

Gift of equity is considered a non-arm's length transaction and certain restrictions apply. Refer to Section 825.15(b): Identity-of-Interest Transactions.

Gift or grant from a municipality, nonprofit organization or employer

A gift from a municipality, nonprofit organization or employer is eligible for down payment and closing costs. The gift or grant must be evidenced by a copy of:

- Award letter sent to the borrower, or
- Legal agreement that specifies the terms and conditions of the gift or grant.
- If the gift or grant is from the borrower's employer, the employer's formal gift program must be verified. Examples of acceptable documentation include, but are not limited to:
 - Copy of gift program guidelines from employee handbook
 - Letter from employer's human resources department
- File must contain evidence of the transfer of the funds.
- The award letter or the legal agreement must verify all of the following:
 - No repayment of the gift or grant is required
 - How the funds will be transferred (e.g., to borrower, closing agent, Lender, etc.)
 - There will be no lien against the property

Individual development account

An individual development account (IDA) is a savings account designated by the borrower for the purpose of purchasing a residence and into which the borrower has regularly deposited funds that are matched by funds from a municipality, a nonprofit or religious organization, the borrower's employer, or a regional Federal Home Loan Bank.

The requirements of either Option A or Option B must be met, depending on whether the IDA has a provision that requires repayment of the matched funds.

Option A (no repayment provision)

- Matching funds are allowed as cash for the partial or total down payment, closing costs, financing costs, and prepaids/escrows.
- Document the savings plan and regular payments made by the borrower and the matching organization.
- Allow for up to a four-to-one match by the matching organization.
- Borrower must comply with any vesting requirements of the IDA program.

Option B (repayment provision)

- All the matching funds are allowed as a gift or grant after the borrowers have made the initial down payment from his/her own funds as required by
- the specific program.
- Document the savings plan and regular payments made by the borrowers and the matching organization.
- Allow for up to a three-to-one match by the matching organization.
- Borrower must comply with any vesting requirements of the IDA program.

Loans secured by financial assets

Proceeds from a loan secured by a financial asset (such as, 401(k) or SIP account, IRA, or publicly traded stock) are eligible for down payment and closing costs. The most recent account statement is required and it must indicate the borrower is the owner of the account and the amount of funds available for loans. Verification of receipt of loan proceeds is required.

Proceeds from a secured loan

Proceeds from a secured loan are eligible for down payment and closing costs if the secured asset is equal to or has greater value than the funds required.

Verification of receipt of funds is required prior to Closing. Proof is required that the borrower owns the asset securing the loan.

Proceeds from loans secured by household goods are ineligible.

Proceeds from cash-out refinance of nonsubject property

Proceeds from a cash-out refinance of a nonsubject property are eligible for down payment and closing costs. Verification of receipt of funds is required prior to Closing.

Proceeds from the sale of personal property

Proceeds from the sale of personal property are eligible for down payment and closing costs. The items below are required to document the sale of personal assets for funds to close.

- Bill of sale reflecting:
 - Date of sale
 - Asset to be sold
 - Sales price
 - Signatures of buyer and seller
- Copy of the check from the purchaser of the asset or the borrower's bank statement verifying the deposit of proceeds from the sale.

Proceeds from the sale of real estate

Proceeds from the sale of real estate are eligible for down payment, closing costs and reserves/PCL. Borrowers who intend to sell their current residence prior to Closing must provide the Closing Disclosure to evidence sufficient proceeds. The application must indicate the sales price of the home to be sold and list all current liens.

Publicly traded stocks, bonds, mutual funds, U.S. government securities

Publicly traded stocks, bonds, mutual funds and U.S. government securities are eligible for down payment, closing costs and reserves/PCL. A copy of the account statement for the most recent two months/quarter is required.

Proof of liquidation is not required.

If the asset statement reflects a margin or pledged loan, the outstanding loan balance must be deducted from the total asset value.

If there is no loan balance, no adjustment is required.

Real estate commissions earned by the borrower

Real estate commissions earned by the borrower, who is a real estate agent by profession, are eligible for the down payment and closing costs provided the fees are customary for the area. The Closing Disclosure is required and must reflect the commission earned

by the borrower is credited toward the Loan.

Rent with option to buy

The portion of the rental payment that exceeds the market rent is allowed to be applied to the down payment if there is a valid rental/sales contract in effect. The rental/sales contract must be obtained to verify the monthly rent and the specific terms of the lease. The original term of the lease must have been at least 12 months.

The market rents must be developed by the subject property appraisal. Copies of the canceled checks or money order receipts are required to document the rental payments for the last 12 months.

Restricted stock subject to U.S. Securities and Exchange Commission (SEC) Rule 144

Many executives receive a portion of their compensation in the form of company stock. When using vested company stock that is subject to SEC Rule 144 the following documentation is required:

- When stock is used for down payment, provide proof of liquidation.
- When stock used for reserves, provide:
 - Evidence that stock is eligible for resale as defined by the SEC Rule 144,
 - A letter from the company which includes:
 - Vesting statement
 - Eligibility to liquidate stock
 - Current stock price
 - Addresses any additional restrictions on liquidating stock other than those imposed under SEC Rule 144

Refer to SEC website for the current Trading Volume Formula for calculating eligible value.

Retirement funds including Roth IRA

IRA, 401(k), SEP, KEOGH, and other IRS-qualified employer plans are eligible for down payment, closing costs and reserves. Documentation for terms of withdrawal is not required.

A copy of the plan statements for the most recent two months/one quarter is required. Verify the borrower's vested amount in the plan.

- For down payment and closing costs:
 - Retirement funds are eligible up to the post-tax and post-penalty amount available to the borrower for distribution.
 - Verification of liquidation is required.
- For reserves, retirement funds are valued as follows:
 - Tax deferred gross retirement must be reduced by 30% to account for tax consequences (less any outstanding loan balances) to determine the actual funds available for reserve requirements.
 - There must be an additional 10% reduction if an early withdrawal penalty exists.
 - 100% of Roth IRA funds (less outstanding loan balances) are eligible for the retirement portion of the reserve requirement.
- For reserves, retirement funds are eligible as follows:
 - For borrowers without penalty free access, retirement funds are eligible to meet up to 50% of the minimum reserve requirements.
 - For borrowers with penalty free access, retirement funds are eligible to meet 100% of the minimum reserve requirement.

Savings bonds

Savings are eligible for down payment, closing costs and reserves/PCL.

- A copy of the bond certificate(s) must be provided evidencing the borrower is the owner and the current value of the bonds, or
- Include a statement from the Seller or a financial institution attesting that it has seen the bonds and lists the serial numbers of the bonds, dates of maturity, type and amount, and stating that the borrower is the owner.
- A copy of the appropriate U.S. Treasury Table evidencing the current values of the bonds must also be provided.

When the asset is needed for down payment and closing costs, proof of liquidation is required.

Stock options

Stock options are eligible for down payment, closing costs and reserves/PCL.

When using for down payment or closing costs, proof of liquidation is required. Verify all of the following:

- Value of the asset at the time of liquidation
- Borrower's actual receipt of funds realized from the liquidation

When using for reserves, stock option grants must be:

- Fully vested and not restricted (either by the company or IRS, such as being subject to Rule 144)
- From a publicly traded company listed on the NYSE, AMEX, or NASDAQ
- Part of a qualified or non-qualified plan

To calculate the value of stock option grants for reserves:

- Subtract the strike price/optioned price (the price at which the employee was issued the stock) from the current stock price and multiply by the number of shares.
- Discount the value by 40% (to account for taxes).

Tax advantage college savings plans (529 college savings plans)

Tax advantaged college savings plans (529 college saving plans) funds are eligible to meet the retirement portion of the reserve requirement.

- The borrower must be the custodian on the account.
- The balance must be reduced by 10% to account for tax consequences for drawing the funds for noneducational purposes.

A completed VOD, or a copy of the account statement for the most recent two months/quarter is required.

Trades

Equity from trading a borrower's existing property is acceptable after the borrower has made a 5% cash down payment. The amount of equity is determined by subtracting the outstanding loan balance of the property that is being traded, plus any transfer costs, from the lesser of that property's appraised value or its trade-in value, as agreed to by both parties.

A separate written appraisal for the property that is being taken in trade is required. A search of the land records to verify ownership of the property and to document if there are any existing liens on the property is also required.

Use of credit card for payment of fees

Using a credit card to pay any of the following fees associated with the Loan is acceptable.

- Appraisal
- Credit report
- Origination fee
- Commitment fee
- Lock-in fee
- Extended lock fee

The Loan must meet all of the following requirements:

- Borrower must have sufficient liquid assets to pay the amount charged or advanced (in addition to all other closing costs and reserves/PCL) or the amount charged or advanced must be included in the borrower's total outstanding debt and the repayment of that amount must be included when determining qualifying ratios (greater of \$10 or 5% of the outstanding balance).
- The amount charged or advanced must not exceed 2% of the Loan amount.
- Credit card financing must not be used for the down payment.
- Documentation showing amount charged must be obtained.
- Closing Disclosure must reflect a paid outside/before Closing (POC) credit to the borrower for the amount charged.

1031 tax deferred exchanges

Section 1031 of the Internal Revenue Code allows investors to defer payment of state and federal capital gains taxes from the sale of an investment property if the proceeds are utilized to purchase a similar investment property; exchanging/replacing one investment property for another. In a taxable sale, the property owner is taxed on any gain realized by the sale of the property; in an exchange, the tax is deferred. Section 1031 tax deferred exchanges do not apply to primary residences. This code section provides a property owner with potentially more proceeds to reinvest in a replacement property.

Restrictions

Investor will allow 1031 exchanges to be used towards down payment for second home purchases only with the following restrictions:

- Reverse exchanges are ineligible because the borrower is not in title to the property at the time of Closing.
- Product grade must allow second homes.
- No seller provided subordinate financing.
- The Loan Closing must be handled by a qualified intermediary. A qualified intermediary is an entity (usually a subsidiary of a title company) who enters into a written agreement with the taxpayer. The qualified intermediary cannot be the borrower's agent, attorney, accountant, investment banker, or broker. This exchange agreement requires the qualified

intermediary to acquire and transfer the relinquished property and to acquire and transfer the replacement property. The relinquished property is the property “sold” and the replacement property is the property “acquired.”

- Required documentation for the relinquished property includes:
 - Purchase agreement
 - 1031 exchange agreement
 - Closing Disclosure
 - Title transfer
- Both sales contracts (relinquished and replacement properties) must contain appropriate language to identify the 1031 exchange. An example of satisfactory language is:
 - Phase I (Sale): “Buyer is aware that seller is to perform a 1031 tax deferred exchange. Seller requests buyer’s cooperation in such an exchange and agrees to hold buyer harmless from any and all claims, liabilities, costs, or delays in time resulting from such an exchange. Buyer agrees to an assignment of this contract by the seller.”
 - Phase II (Buy): “Seller is aware that buyer is to perform a 1031 tax deferred exchange. Buyer requests seller’s cooperation in such an exchange and agrees to hold seller harmless from any and all claims, liabilities, costs, or delays in time resulting from such an exchange. Seller agrees to an assignment of this contract by the buyer.”

Seller accommodation

If a borrower is purchasing a seller’s 1031 investment property to occupy as a primary residence, the borrower is accommodating the seller. The transaction is not a 1031 tax deferred exchange and is eligible.

MINIMUM DOWN PAYMENT

For primary residence and second homes, the full down payment is allowed to be from a gift when the LTV/CLTV is 80% or less.

RESERVES/PCL REQUIREMENTS

Reserves/PCL are measured in months of the total qualifying housing payment. To determine the principal and interest payment used to calculate required reserves:

- Use the greater of the initial Note rate plus 2% or fully indexed rate (index plus margin rounded to the nearest one-eighth percent) for 5-year ARM Loans
- Use the greater of the initial Note rate or fully indexed rate (index plus margin rounded to the nearest one-eighth percent) for 7-year and 10-year ARM Loans
- Use the Note rate for fixed rate Loans

Refer to the table and guidelines above to determine eligible and ineligible sources of down payment, closing costs, and reserves/PCL.

Primary residence

Loan amount/adjusted combined loan amount ¹	Reserves/PCL requirements		
	Single family detached/attached, PUD, co-op, condo	2 Unit	3- to 4-unit
Up to \$1,000,000	12 months’ PITI ²	12 months’ PITI ²	36 months’ PITI ²
>\$1,000,000-\$2,000,000	12 months’ PITI ²	18 months’ PITI ²	36 months’ PITI ²
>\$2,000,000-\$3,000,000	24 months’ PITI ²	Not applicable	Not applicable
1. Adjusted combined loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists (i.e., when subordinate financing is a line of credit, the outstanding balance is used). 2. Cash assets or reserves/PCL requirements will vary based on other characteristics: refer to All Loans in this section for additional information.			

Second home

Loan amount/adjusted combined loan amount ¹	Reserves/PCL requirements
Up to \$1,000,000	18 months’ PITI ²
>\$1,000,000-\$2,000,000	24 months’ PITI ²

1. Adjusted combined loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists.
2. Cash assets or reserves/PCL requirements will vary based on other characteristics: refer to All Loans in this section for additional information.

Investment Property

Loan amount/adjusted combined loan amount ¹	Reserves/PCL requirements
Up to \$1,000,000	24 months' PITI ²
>\$1,000,000-\$2,000,00	30 months' PITI ²
<ol style="list-style-type: none"> 1. Adjusted combined loan amount (total of all loans/outstanding line balances against the subject property) applies when secondary financing exists. 2. Cash assets or reserves/PCL requirements will vary based on other characteristics: refer to All Loans in this section for additional information. 	

All Loans

Cash assets or reserves/PCL requirements vary based on other loan characteristics:

- Refer to 825.04: Multiple Loans to One Borrower if the borrower and/or the borrower's business owns multiple properties
- Refer to 825.06(b): Income Analysis if the borrower is on temporary leave, short-term disability, or family leave and that income is being used to qualify.
- Refer to 825.06(c): Rental Income Analysis if using rental income to qualify and the tax returns are aged nine months or more from the date of the last tax year filed.
- Refer to 825.09: Capacity and Liabilities Analysis when certain liabilities are excluded from the DTI (e.g., bridge loans, balloon loans) or the borrower has open-ended accounts.
- Refer to 825.23: Departure Residence Policy if the borrower has a current primary residence that is:
 - A pending sale but will not be sold (closed) prior to the new transaction
 - Converting to a second home
 - Converting to an investment property

SUSPICIOUS ACTIVITY RELATED TO DEPOSITS OR PAYMENTS

In accordance with Representations and Warranties, including but not limited to, Section 300.02, 23.: Origination, Underwriting and Servicing Compliance, 300.02, 57.: Error or Fraud, Sellers are required to review for patterns of unusual payments, deposits, and/or gift funds, regardless of when they were provided to the borrower, that can be indicative of structuring to avoid compliance with laws and regulatory reporting requirements of the United States or foreign countries. Unusual patterns can include, but are not limited to, large cash deposits, large and numerous gifts, and any other unexplained activity not typical for the borrower.

Any indication of possible structuring and/or unsourced assets will result in an increased level of review from Investor.

Red flags

Transactions which include any of the following characteristics must be given additional scrutiny as part of the Seller's underwriting, closing and quality control functions:

- A borrower receives multiple gifts of similar amounts wired from outside the U.S.
- A borrower receives gift funds in the form of a wire transfer from an individual with no ties to the borrower or the transaction.
- A borrower receives a wire from a business not associated with the transaction and it is explained as payment for services rendered or products provided.
- A borrower receives large deposits listed as tuition expenses comingled with funds for down payment from the same account.
- A borrower receives gift funds from a donor that transferred the funds through multiple financial institutions, prior to deposit in the borrower's account.

825.08(a): Credit Reports

BUSINESS CREDIT REPORTS

Business credit reports are not required.

INDIVIDUAL CREDIT REPORTS

Provide the initial and all subsequent credit reports for all borrowers that were pulled for the Loan transaction.

Age of report

Refer to Section 825.01: General Documentation Information.

Approved credit report vendors, frozen credit, and accessibility

For Non-Conforming Correspondent Credit Underwrite (CCU) Loans, a tri-merged credit report ordered directly from CoreLogic Credco, Equifax, or Factual Data is required.

For CCU Loans, Investor must be able to reaccess the credit report from the time of Closed Loan Package receipt through Loan Purchase. Issues that can

impact our ability to reaccess the credit report include, but are not limited to:

- Use of an unapproved vendor
- Frozen credit
- Expiration of the access period

For Prior Approval Loans, a credit report ordered directly from either CoreLogic Credco or Equifax is required. If a CoreLogic Credco or Equifax credit report:

- Is included in the Credit Package, Investor must be able to reaccess the credit report through Loan Purchase in order for the Loan Score from that report to be used to determine pricing and during the Investor Prior Approval underwriting.
- Is not included in the Credit Package or Investor cannot reaccess the one provided, Investor will obtain a credit report from either CoreLogic Credco or Equifax prior to underwriting the file. The Loan Score from this credit report will be used to determine pricing and during the Investor Prior Approval underwriting process.

Prior Approval Loans where credit is frozen at the time of credit decision, are ineligible for purchase.

Coborrower reports

Separate credit repository inquiries are necessary when coborrowers have maintained credit individually.

Identify the agency

The credit report must clearly identify the consumer reporting agency's name, address, and telephone number.

Identify the repository

The credit report must show the names of the national credit repositories used.

Number of repositories

A credit report must include information from at least two national repositories for each area where the borrower has resided in the last two years.

The following are the national repositories of credit information:

- Equifax Mortgage Services
- Experian Information Systems and Services
- Trans Union Credit Information Company

Identify the requestor

The credit report must identify who ordered the report and who was billed for the report, if different from the requestor.

Current address

A United States credit report must be provided for all borrowers, using their current primary address.

Employment information

The credit report must include the employment history of the borrower. Standard employment documentation is acceptable in lieu of the employment history on the credit report.

Credit information

The credit report must provide information regarding the borrower's current credit history as well as any previous credit history within the last seven years.

The information supplied includes, but is not limited to the following:

- Date the account information was last updated.
- Name of the account creditor.
- Type of account (e.g., revolving, installment, mortgage).
- Date the account was opened.
- Dollar amount of the high credit extended on the account.
- Current status of the account (e.g., up-to-date, 30 days delinquent).
- Required monthly payment.
- Current unpaid principal balance.

- The original term of the account (e.g., 240 months).
- All inquiries made within the last 180 days.
- The payment history on the account in one of the following formats:
 - 0x30, 0x60, 0x90.
 - R1, R2 along with historical negative ratings such as R3 in 6/02.
 - Consecutive numbering sequence such as 1111221111.

Public records

The credit report must include a search of the public records in each location where the borrower has lived in the last two years. The search for public records must include any information reported within the last seven years such as:

- Judgments
- Foreclosures
- Tax liens
- Bankruptcies

Foreign credit reports

Foreign credit reports must meet all the above requirements and are allowed to be used to supplement a US credit report. However sufficient credit must be documented on a US credit report. All foreign credit reports must be in English or a translation must be provided. The translation must be warranted to be complete and accurate. Credit scores from other countries are not allowed.

CREDIT SCORE AND LOAN SCORE SELECTION

All conventional Loans require a credit score for each borrower. Each Credit Bureau offers a product which scores the applicant's credit report using the Fair, Isaac and Company (FICO) model. Trademark names include The Experian Fair Isaac Credit Score, Trans Union Emperica Score, and Equifax Beacon Score. All are acceptable to Investor and are referred to as the "credit score."

Investor has adopted the term Loan Score to refer to the overall credit score applicable to a specific Loan.

Credit Score selection

Selection of each borrower's credit score is as follows:

- If there are three valid credit scores for a borrower, the middle score (numerical middle of the three scores) is used.
- If there are three valid scores for a borrower but two of the scores are the same, the duplicate score is used.
- If there are two valid scores for a borrower, the lower of the two scores is used.
- If there is one valid score for a borrower, that score is used.

Loan Score selection

After selecting the appropriate credit score for each borrower, the Loan Score must be determined.

- The credit score of the borrower with the highest income and a valid credit score is used as the Loan Score.
- When there is a nonoccupant coborrower, the credit score of the occupying borrower with the highest income is used as the Loan Score.
- If a borrower does not have a valid credit score, that score is not included in the selection of the Loan Score, regardless of the borrower's income.
- In the event multiple borrowers have the same highest income, the borrower with the highest valid credit score is used as the Loan Score.
 - Income sources must be verified. It is not acceptable to exclude income in order to change the primary income earner.

Additionally, the Seller must include an original credit report showing the score.

Rescoring and credit repair

Investor prohibits the use of credit repair vendors designed to help a borrower falsely repair their credit profile by intentionally manipulating data to improve their credit score for purposes of loan eligibility, pricing improvement, and/or creditworthiness. Loans where the borrower uses any of the following are eligible for purchase:

- Credit monitoring services
- Fraud alerts
- Nonprofit credit counseling services
- Credit reporting agencies as defined by the Fair Credit Reporting Act

Investor reserves the right to determine if the credit history and Credit Scores are legitimate, acceptable, and meet guideline requirements. If usage of credit repair services is revealed at any time during the loan process, the Loan will be deemed ineligible and the Seller subject to remedies for Events of Default.

825.08(b): Credit Evaluation

CREDIT REQUIREMENTS

Sellers must review the credit report to determine the status of all housing payments on which the borrower is obligated and apply additional due diligence to determine whether the payments are current as of the date printed on the Note. Additional due diligence includes, but is not limited to, obtaining one the following:

- Payment history from the servicer or third-party verification service
- Payoff statement for mortgages being refinanced
- Latest mortgage account statement
- Verification of mortgage (VOM)

Minimum Loan Score

Investor requires sufficient credit with a minimum Loan Score. Nontraditional credit is not allowed.

Minimum Loan Score requirements for Loans with LTVs less than or equal to 80% are as follows (refer to Section 825.08(a): Credit Reports to determine the Loan Score):

- 700 for purchases and rate/term refinances with a fixed-rate product
- 740 for investment properties
- 720 for all other transactions

Housing payment history

A housing payment history (mortgage, rental, or combination of the two) covering a minimum of 12 months with no late payments must be verified either by the credit report or by direct verification.

- If less than 12 months or no housing payment history (mortgage or rental) is available, the Loan is ineligible.
- If there is no housing payment history in the most recent 12 months, but a prior history is verified, it is acceptable to meet the housing payment history requirement.
- If the property is owned free and clear, and the mortgage was paid off, or the property was purchased for cash:
 - Less than 12 months ago, a partial mortgage payment history showing no late payments must be provided.
 - More than 12 months ago, no mortgage payment history is required. The tax and insurance payments on the property constitutes an acceptable housing payment history if there is no evidence of delinquency.

A professional management company or an individual landlord must verify rental housing payments.

- If renting from a professional management company, provide one of the following:
 - Verification of rent or reference on a credit report
 - Most recent 12 months cancelled checks or bank statements showing timely payments
- If an individual landlord provides a reference, either by a verification of rent or on a credit report, the borrower must also provide evidence of timely payment for the most recent 12 months with one of the following:
 - Cancelled checks
 - Bank statements showing the payment
 - Money order receipts
 - Online transaction history showing the payment
 - Cash receipts
 - Cash receipts are not allowed if the landlord:
 - Is a relative of the borrower, or
 - Has an established relationship, prior to the Loan transaction, with the borrower beyond their connection as renter and landlord (examples include, but are not limited to, co-workers, close personal friends, partner, business associate, realtor, etc.)
 - If using cash receipts, the name, address, and telephone number of the individual receiving the payments must be provided.
- An individual landlord reference, either by a verification of rent or on a credit report, is not required if the borrower provides evidence of timely payment for the most recent 12 months with one of the following:
 - Cancelled checks
 - Bank statements showing the payment

Authorized user accounts

It is acceptable to consider an authorized user tradeline in the underwriting decision if either of the following apply:

- Another borrower on the Loan is the owner of the tradeline.
- If the owner of the tradeline is not another borrower on the Loan, documentation is provided (such as canceled checks or payment receipts) that shows the borrower has solely made the monthly payment on the account for a minimum of 12 months prior to the date of the application.

An authorized user tradeline must be considered in the underwriting decision if either of the following apply:

- Documentation of the borrower's payment history on the authorized user tradeline is provided, particularly any late payments.

- The borrower is an authorized user of an account that belongs to the borrower's spouse who is not on the Loan.

Authorized user tradelines must not be considered in the underwriting decision in any other circumstances.

Refer to Section 825.09: Capacity and Liabilities Analysis to determine when the monthly payment obligation must be included in the debt-to-income (DTI) ratio.

ADVERSE CREDIT

Bankruptcy, foreclosure, deed in lieu of foreclosure, and default or hardship loan modification requirements

Loans to borrowers with a bankruptcy, foreclosure, deed in lieu of foreclosure, or default or hardship loan modification must meet both of the following requirements:

- LTV/CLTV < 70%
- Borrower has 84 months' reestablished credit since the discharge, dismissal, or completion date

Note: A retention modification or lender-initiated rate reduction is not considered adverse credit and therefore is not subject to the restrictions above

Foreclosure definition and age

The definition of foreclosure includes any of the following:

- Deed in lieu of foreclosure
- Permanent forbearance agreement due to a loan modification. Refer to Forbearance below for additional requirements.
 - Loans with a previous forbearance that resulted from one of the following are not subject to the 70% LTV/CLTV restriction or 84 month reestablished credit guideline:
 - Disaster areas declared by Investor
 - Disaster areas declared by Federal Emergency Management Agency (FEMA) allowing individual assistance
 - Coronavirus Aid, Relief and Economic Security (CARES) Act
 - Documentation must be provided verifying forbearance was due to a Investor or FEMA declared disaster or the CARES Act.
- Loan/line secured by a manufactured/mobile home that is attached to real property and has been repossessed, charged-off or meets any of the previously listed criteria

The age of the foreclosure is calculated from the date reported on the credit report.

Charge-off

An account reporting as a charge-off indicates the credit grantor wrote the account off as a loss and it is closed to future charges.

Loans to borrowers with any single (not aggregated) charge-off from a financial institution are ineligible if the charge-off is:

- A mortgage charge-off, as reported on the credit report, within the last two years.
- A non-mortgage charge-off, excluding medical, utility, rental, collection, and authorized user tradelines, as reported on the credit report, within the last two years and is greater than \$500.

Note: The two-year calculation is based on the date the credit report is completed and date the charge-off was last reported.

Collections, delinquent taxes, judgments, judgment liens, and tax liens

Collections, delinquent taxes, judgments, judgment liens, and tax liens must be:

- Included in the overall evaluation of the credit
- Reviewed for possible impacts to the borrower's ability to repay the Loan or impacts to title
- Explained in a letter provided by the borrower
- Satisfied or paid off according to the requirements in the table below.

Delinquent taxes from the IRS, state, county, or city, including installment agreements to repay delinquent taxes, are treated as collection accounts or tax liens.

- If a lien has not been filed, follow collection account requirements below.
- If a lien has been filed, follow judgment, judgment lien, or tax lien requirements below.

Collections, delinquent taxes, judgments, judgment liens, and tax liens			
Account types	Dollar amount per occurrence	Payoff required	Included in DTI
Collection	<\$500	No1	No
Collection	>\$500	Yes2	Not applicable
Judgment, judgment lien, or tax lien	Any	Yes3	Not applicable

1. Accounts are not allowed to be paid down to \$500 or less to avoid payoff.
2. Collection accounts >\$500 must be paid off unless the borrower can provide documentation proving the collection account is not the borrower's.
3. Judgments, judgment liens, and tax liens must be paid off prior to or at Closing with the borrower's own funds. Proceeds from the subject transaction must not be used to pay off a judgment, judgment lien, or tax lien.

Forbearance

A Loan is eligible for purchase if, as of the date printed on the Note, any existing mortgages meet one of the categories and accompanying requirements below.

- Current: For the purposes of these requirements, current means the borrower has made all mortgage payments due in the month prior to the date printed on the Note of the subject transaction by no later than the last business day of that month. Follow standard underwriting requirements.
- Not current: The borrower missed mortgage payments during the forbearance period). Document that the missed payments were resolved through one of the following:
 - Borrower reinstated the mortgage by making all missed payments prior to the date printed on the Note.
 - If reinstatement occurs after the application date, the source of funds must be documented and meet requirements in Section 825.07: Assets.
 - New Loan proceeds cannot be used for reinstatement.
 - Borrower made at least three consecutive timely payments under or completed a loss mitigation plan prior to the date printed on the Note.
 - Payments or completion may occur during origination.
 - Loan proceeds may be used to pay off the remaining payments of a repayment plan, deferral amount, or a modified mortgage.

Notes:

- Nonhousing debts (installment or revolving) in forbearance do not make the Loan ineligible. Standard Investor and investor requirements apply to determine payment amount.
- Refer to Section 545.16: Subject Loan Forbearance for our policy regarding forbearance on the Loan delivered to Investor.

Non-real-estate settled-for-less accounts

Loans with non-real-estate settled-for-less accounts that settled fewer than two years prior to the application date are ineligible.

Repossession

Loans to borrowers with a repossession:

- Less than 24 months since the repossession occurred are ineligible.
- Greater than 24 months must have reestablished credit since the repossession occurred.
 - No new public records
 - No payments 60 days or more past due
 - No more than one payment 30 days past due
 - No housing payments past due
 - All of the borrower's credit is current

Short sale

If there is evidence of a short sale as determined by the credit report, borrower disclosure, or identified by other means, a minimum of 84 months' reestablished credit from the date of the short sale to the credit report completed date is required.

DISPUTED CREDIT

Determine what impact the disputed credit has on the borrower's credit profile. A copy of the borrower's dispute letter to the credit bureau is required.

INQUIRIES

An explanation from the borrower is required for any inquiries in the past 180 days. Determine if the inquiries resulted in additional debt that must be included in the debt ratio or an unacceptable source of down payment.

INSUFFICIENT CREDIT

Insufficient credit is defined as any of the following:

- Fewer than three tradelines

	<ul style="list-style-type: none"> • No open tradeline with activity in the most recent 12 months • No tradeline with at least a 24-month history <p>A valid credit score does not mean the borrower's credit is sufficient. The credit risk of the entire borrower profile must be evaluated to determine if the credit history supports the borrower's ability and willingness to repay the Loan.</p>
825.09: Capacity and Liabilities Analysis	<p>CAPACITY EVALUATION</p> <p>The borrower's income stability and outstanding liabilities impact the capacity to repay the Loan. Aspects of capacity evaluation include:</p> <ul style="list-style-type: none"> • Employment/income stability, refer to Section 825.06(a): Evaluating Employment • Qualifying ratios • Liabilities <p>Pay off versus pay down debts to qualify</p> <ul style="list-style-type: none"> • The outstanding balance on installment and mortgage debt is not allowed to be paid down to 10 or fewer monthly payments to qualify – whether using cash-out Loan proceeds or the borrower's own funds. • Using cash-out Loan proceeds to pay off any nonmortgage (e.g., revolving or installment) debt to qualify is not allowed. The associated monthly payment must be included in the total debt-to-income (DTI) ratio. • Using the borrower's own funds to pay off nonmortgage revolving debt prior to or at Closing to qualify is not allowed. The associated payments must be included in the total DTI ratio. • Using the borrower's own funds to pay off nonmortgage installment debt prior to or at Closing and excluding the associated payments from the total DTI ratio is acceptable. <div style="border: 1px solid black; padding: 5px;"> <p>Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.</p> </div> <p>QUALIFYING RATIOS</p> <p>Refer to applicable section based on LTV:</p> <ul style="list-style-type: none"> • Section 850: Qualifying Ratios for Loans with LTVs less than or equal to 80% • Section 825.50: Loans with LTVs Greater Than 80% for Loans with LTVs greater than 80% <p>Ratio analysis</p> <p>Debt ratios are based on the borrowers' stable monthly income and are the primary indicator used to determine their capacity to repay a Loan.</p> <p>All of the following are required:</p> <ul style="list-style-type: none"> • Confirm all housing expenses and long-term debts are listed on the application and were included in the ratio calculations. • Evaluate the ratios to determine if the Loan is an acceptable risk to Investor. Refer to program guidelines in Section 850: Qualifying Ratios or Section 825.50: Loans with LTVs Greater Than 80% for specific requirements. • Evaluate changes in present versus proposed housing expenses and consider future increases associated with adjustable rate products in the overall capacity risk assessment. • Consider the borrower's ability to make the payments if there are 10 or fewer monthly payments remaining and the borrower has several debts with large payments. <div style="border: 1px solid black; padding: 5px;"> <p>Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.</p> </div> <p>Adjustable rate mortgage (ARM) Loans</p> <p>Refer to individual product descriptions in Section 973: Non-Conforming 5-year ARM, Section 974: Non-Conforming 7-year ARM, or Section 975: 10-year ARM, the Qualifying Ratio Tables in Section 850: Qualifying Ratios, and LTV limits in Section 950: Non-Conforming LTV Matrix.</p> <p>Housing expense ratio</p> <p>The housing expense ratio equals the total monthly primary housing expense divided by the qualifying monthly income. The housing expense is one of the primary indicators used to determine the borrower's ability to repay a Loan and must be evaluated and documented as part of the overall review of the borrower's capacity to repay.</p> <p>The monthly housing expense is the sum of the following on the borrower's primary residence:</p>

- Monthly principal and interest payment on the first Mortgage.
- Monthly principal and interest payment on any secondary financing. Refer to the table under Revolving accounts below for methods of calculating home equity line of credit (HELOC) payment.
- 1/12th of the annual real estate taxes (do not use a lot only tax figure for new construction).
- 1/12th of the annual hazard insurance premium (including flood, earthquake, or subsidence insurance if any)
- Monthly leasehold payments if applicable.
- Monthly homeowner association (HOA) dues, condominium maintenance fees, or cooperative monthly assessments if applicable.
- Monthly rent payment, if applicable.

Total debt ratio

The total debt-to-income (DTI) ratio is the sum of the monthly housing expense and all long-term debt divided by the qualifying monthly income.

The long-term debt (recurring obligations) is defined as the sum of all continuing monthly obligations including but not limited to:

- Total proposed monthly housing expense.
- Payments on all revolving accounts with a balance.
- Payments on all installment obligations with more than 10 monthly payments remaining until payoff. (Refer to Installment accounts).
- Full principal and interest payments must be used for all mortgages, including HELOCs on other real estate held by the borrower. Refer to the table under Revolving accounts below for methods of calculating HELOC payment.
 - For Closed End subordinate loans with an interest-only feature: Qualify using monthly principal and interest payment, based on full For Closed End subordinate loans with an interest-only feature: Qualify using monthly principal and interest payment, based on full amortization over the term of the loan remaining as of the date the loan is or will be recast, at the fully indexed rate or any introductory rate, whichever is greater, not including any rate/payment discounts that will not apply over the term of the loan.
- HOA dues, taxes, and insurance premiums on nonsubject properties.
- Real estate loans (if not accounted for in rental income analysis).
- Child support payments.
- Unsecured loans from an employer.
- Other continuing obligations.

Refer to LIABILITIES ANALYSIS to determine when it is acceptable to exclude debt from total obligations with additional documentation.

Obligations that are not long-term debt, and therefore excluded from DTI, include:

- Federal, state, and local taxes
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts
- Commuting costs
- Union dues
- Automatic deductions to savings accounts
- Child care
- Voluntary deductions
- Payment for solar panel system lease or power purchase agreement (PPA)

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

LIABILITIES ANALYSIS

All debts must be listed on the application and included as part of the ratio analysis. If the borrower does not qualify with all debts, analyze the debts to determine whether any are allowed to be excluded. The following requirements include guidelines for exclusion of debts.

Alimony and separate maintenance payments

Alimony and separate maintenance payments must be documented with a court order (e.g., final divorce decree or separation agreement) and must be included as a liability unless both of the following apply:

- The final divorce decree or separation agreement was executed on or before December 31, 2018. Refer to Section 825.06(b): Income Analysis.
- There are 10 or fewer monthly payments remaining.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Assumptions

Any contingent liability must be included if the borrower remains obligated on an outstanding mortgage (including conventional, FHA-insured, VAguaranteed, or any other mortgage or line of credit) secured by property that meets one of the following:

- Has been sold or traded within the last 12 months without a release of liability
- Is to be sold on assumption without a release of liability being obtained

If a mortgage is assumed, excluding the contingent liability from the DTI is allowed if all of the following documentation is provided:

- Documents transferring ownership of the property
- Assumption agreement executed by the transferee
- Payment history from the servicer of the assumed loan showing the mortgage has been current during the previous 12 months

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Bankruptcy

If a debt has been included in a court order such as a bankruptcy, excluding the payment from the DTI is allowed regardless of the number of payments remaining. The following documents are required:

- A copy of the bankruptcy papers detailing the debt to be excluded
- For mortgage debt, a copy of the documents transferring ownership of the property

Any late payments associated with loans on the property must be taken into account when reviewing the borrower's credit profile.

Bridge loans

Excluding the payment on a bridge loan from the DTI is allowed when the following documentation is provided:

- A copy of the fully executed sales contract for the previous residence
- A lender's commitment to the buyer of the previous residence (if the executed sales contract includes a financing contingency)
- Documented reserves of six months' payments covering all liens on the previous residence, in addition to standard reserves/post-closing liquidity requirements

Business debt

Business debts for which the borrower is personally liable are included in long-term debt according to the requirements for revolving or installment accounts.

Excluding installment debts with more than 10 monthly payments remaining, lease payments, and revolving debts from the DTI is allowed if all of the following are met, evidencing the business is paying the debt:

- Account has a satisfactory payment history
- Minimum of six months of consecutive canceled checks from the business are provided
- Cash flow analysis of the business takes the payment obligation into consideration

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Child support

Child support payments must be documented with the court order, such as a divorce decree.

Child support payments with 10 or fewer monthly payments remaining are allowed to be excluded from the DTI.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Contingent liabilities

Contingent liabilities are debts for which the borrower has become a cosigner or guarantor with another person. A contingent liability exists when an individual is held responsible for payment of a debt if another party defaults on the payment. Examples include a

cosigned loan, a loan that was assumed, or a loan assigned to another party by court order. Contingent liabilities must be included in the DTI if there are more than 10 monthly payments remaining.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Cosigned loans

A cosigned loan with more than 10 monthly payments remaining is allowed to be excluded from the DTI if both of the following are met:

- There is documentation that the primary obligor has been making regular payments during the previous six months.
- There is no history of delinquent payments on the loan during that time.

Canceled checks for the most recent six months or a statement from the creditor are acceptable documentation.

If the payments have not been paid on time or if there is no evidence that someone other than the borrower is making payments, the cosigned loan is treated as the borrower's own obligation.

The above applies to any cosigned obligation including, but not limited to, car loans, student loans, and mortgages.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Court order

Excluding the monthly payment on a debt that has been assigned to another person by a court order such as a divorce decree from the DTI is allowed regardless of the number of payments remaining. The following documents are required:

- A copy of the court order or divorce decree
- For mortgage debt, a copy of the documents transferring ownership of the property

Any late payment in the last 12 months associated with the debt must be evaluated. Potential impacts to the capacity to repay (should the financial institution holding the Note pursue repayment from the borrower) must be taken into account, as well as potential impacts to the borrower's credit profile if the account is significantly delinquent.

Deferred payments, balloon payments, and single payments Notes (including interest only payment Notes)

Some debts have deferred payments or are in a period of forbearance. These debts must be included in the DTI if scheduled to begin or come due within 12 months of the Mortgage Loan Closing. Examples of installment debts with deferred payments include: debts on automobiles, furniture, and appliances for which the initial payment is delayed for a period of time as part of a promotional campaign by the retailer.

Some deferred payments must be included in the qualifying ratios even if deferred 12 months or more. Examples include:

- Deferred payments that affect the borrower's ability to pay the Mortgage after Loan Closing (such as a borrower with high ratios/no or low cash assets after closing with a sizable debt event that is just outside of the 12-month window for inclusion in ratios).
- Deferred payments on student loans and revolving accounts.

Balloon and single payment Notes must be included in the underwriting analysis:

- If the borrower has sufficient liquid assets to pay off the Note in addition to standard reserves/post-closing liquidity requirements, excluding the Note from the DTI is allowed.
- If sufficient liquid assets are not verified, verify the term of the Note, and include a payment in the DTI based on amortization over remaining term of the Note.

When the credit report does not include a payment on the debt, documentation of the payment amount must be obtained. Examples of documentation of the payment include but are not limited to:

- Direct verification from the creditor
- Copy of the installment loan agreement

Group savings

If the borrower is part of a group savings plan with a remaining obligation period of more than 10 months, the monthly contribution to the account must be included in the DTI.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Installment accounts

Installment accounts are accounts that fully amortize or have a balloon payment at a predetermined date. Fixed or adjustable rate payments are made on a regular basis. The account balance does not increase during the term of the loan.

All debts must be listed on the application.

- Any installment debt with 10 or fewer monthly payments remaining is allowed to be excluded from the DTI, if the amount of the debt does not affect the borrower's ability to pay the Mortgage.
- It is not acceptable to pay down installment debts to 10 or fewer months to qualify. Refer to Pay off versus pay down debts to qualify.
- If the installment debt's payment amount is not provided on the credit report, complete one of the following:
 - Document the payment amount. Examples of documentation of the payment include, but are not limited to:
 - Direct verification from the creditor
 - Installment loan agreement
 - If documentation cannot be obtained to reflect the payment amount, use 2.5% of the higher of the original high credit limit or current balance.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Lease payments

The monthly payment associated with a lease must be included in the DTI regardless of the number of payments remaining until the end of the lease term, with the following exception:

- Excluding payments for a solar panel system lease or Power Purchase Agreement (PPA), regardless of the number of payments remaining, from the DTI is allowed.

Loans from 401(k), 403(b), and KEOGH plans

Payments on loans from 401(k), 403(b), and KEOGH plans must be included in the DTI unless there are 10 or fewer monthly payments remaining.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Loans secured by a financial asset

Payments on loans secured by a borrower's financial asset (such as, SIP, IRAs, or stocks) are not included in the DTI because they are voluntary payments. However, the underwriter must analyze these payments in terms of their possible impact on cash flow and debt ratios. The borrower must indicate plans for debt repayment if the inclusion of a loan payment in the monthly debts results in a high DTI ratio or negative cash flow.

Margin accounts

If the borrower discloses the existence of a margin account on the application or it is indicated on brokerage account statements, repayment must be included in the DTI unless the value of the stock exceeds the amount of the loan.

Net rental loss

If the analysis of rental income on an investment property indicates a loss, the monthly net rental loss is included in the DTI. Refer to Section 825.06(c): Rental Income Analysis.

Pending lawsuits

If the application, title, or credit documents reveal that the borrower is presently involved in a lawsuit or pending litigation, a statement from the borrower's attorney must be provided. The statement must explain the circumstances of the lawsuit or litigation and discuss the borrower's liability and insurance coverage. A copy of the complaint and answer is required.

The title company closing the Loan must be informed of the lawsuit or litigation and provide affirmative coverage of lien position.

Previously paid in full

Excluding the monthly payment on a debt from the DTI is allowed if the borrowers can document that they no longer owe the debt. The following documents are required:

- Copy of the documents detailing debt paid in full
- Copy of the documents releasing liability

Ready reserve accounts

Any ready reserve (overdraft protections or extended credit option) on a checking account with a balance must be treated as a revolving account.

Rental of previous residence listed for sale

Refer to Section 825.23: Departure Residence Policy.

Revolving accounts

Revolving accounts, including credit cards, department store accounts, equity lines, and other open-ended accounts, are accounts that do not fully amortize and have balances and payments that vary from month to month.

The minimum payment amount for all revolving accounts with a balance must be included in the DTI. Refer to the table below to determine when a payment is required for HELOCs, even if there is a zero balance.

If the credit bureau does not reflect a payment on a current reporting liability, a payment must be calculated as follows:

- Revolving – The greater of \$10 or 5% of the outstanding balance. If the actual monthly payment is documented by a letter from the creditor or a current monthly statement, the actual payment is allowed to be used for qualifying.
- HELOC – Full principal and interest payments are used for all mortgages, including HELOCs on other real estate held by the borrower.
 - If the HELOC is in the scheduled repayment period, no further draws are allowed, the fully amortizing payment must be included in the DTI ratio.
 - If the HELOC is not in the scheduled repayment period, refer to the table below for methods of calculating HELOC payments and when use of a proxy payment is allowed if not otherwise documented.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Transaction	Investor HELOC	Non-Investor HELOC
<ul style="list-style-type: none"> New HELOC on subject property or Cash-out refinance first lien – all subordinated HELOCs on subject property 	<ul style="list-style-type: none"> Full credit line limit 20-year amortization term Fully indexed rate (prime + margin) from the Note + 2.0 Investor qualifying economic adjuster 	<p>If there is a payment on the credit report, use:</p> <ul style="list-style-type: none"> Full credit line limit 20-year amortization term Current prime rate + 1.5 margin + 2.0 Investor qualifying economic adjuster <p>Or, obtain the Note and use:</p> <ul style="list-style-type: none"> Full credit line limit 20-year amortization term Fully indexed rate (prime + margin) from the Note + 2.0 Investor qualifying economic Adjuster <p>If the credit report does not include a payment and the Note is not obtained, use the higher of the following:</p> <ul style="list-style-type: none"> Full credit line limit 20-year amortization term Current prime rate + 1.5 margin + 2.0 Investor qualifying economic adjuster <p>Or</p> <ul style="list-style-type: none"> 5% of the outstanding balance

	Rate/term refinance – Existing HELOC on subject property	<ul style="list-style-type: none">• Outstanding balance• 20-year amortization term• Fully indexed rate (prime + margin) from the Note + 2.0 Investor qualifying economic adjuster	<p>If there is a payment on the credit report, use:</p> <ul style="list-style-type: none">• Outstanding balance• 20-year amortization term• Current prime rate + 1.5 margin + 2.0 Investor qualifying economic adjuster <p>Or, obtain the Note and use:</p> <ul style="list-style-type: none">• Outstanding balance• 20-year amortization term• Fully indexed rate (prime + margin) from the Note + 2.0 Investor qualifying economic adjuster <p>If the credit report does not include a payment and the Note is not obtained, use the higher of the following:</p> <ul style="list-style-type: none">• Outstanding balance• 20-year amortization term• Current prime rate + 1.5 margin + 2.0 Investor qualifying economic adjuster <p>Or</p> <ul style="list-style-type: none">• 5% of the outstanding balance
	Nonsubject property HELOC	<p>Investor or non-Investor HELOC aged less than or equal to 12 months (calculated from open date to Note date)</p> <p>Obtain the Note and calculate the qualifying payment based on:</p> <ul style="list-style-type: none">• Full credit line limit• 20-year amortization term• Fully indexed rate (prime + margin) from the Note <p>Do not include any rate/payment discounts that will not apply over the term of the line.</p> <p>If there is a payment on the credit report and a copy of the Note is not available, use:</p> <ul style="list-style-type: none">• Full credit line limit• 20-year amortization term• Current prime rate+ 1.50 margin+ 2.0 Investor qualifying economic adjuster <p>Do not include any rate/payment discounts that will not apply over the term of the line.</p> <p>If the credit report does not include a payment and the Note is not obtained, use the higher of the following:</p> <ul style="list-style-type: none">• Outstanding balance or full credit line limit*• 20-year amortization term• Current prime rate + 1.50 margin + 2.0 Investor qualifying economic adjuster <p>Or</p> <ul style="list-style-type: none">• 5% of the outstanding balance or full credit line limit*	

	<p>* If the borrower has sufficient liquid assets to pay off the full credit line limit amount in addition to standard reserves/post-closing liquidity requirements, the qualifying payment calculation is based on outstanding balance rather than the full credit line limit.</p> <p>Investor or non-Investor HELOC aged more than 12 months (calculated from open date to Note date) Obtain the Note and calculate the qualifying payment based on:</p> <ul style="list-style-type: none">• Outstanding balance• 20-year amortization term• Fully indexed rate (prime + margin) from the Note <p>If there is a payment on the credit report and a copy of the Note is not available, use:</p> <ul style="list-style-type: none">• Outstanding balance• 20-year amortization term• Current prime rate + 1.50 margin + 2.0 Investor qualifying economic adjuster <p>If the credit report does not include a payment and the Note is not obtained, use the higher of the following:</p> <ul style="list-style-type: none">• Outstanding balance• 20-year amortization term• Current prime rate + 1.50 margin + 2.0 Investor qualifying economic adjuster <p>Or</p> <ul style="list-style-type: none">• 5% of the outstanding balance
Nonsubject property – other than HELOCs	<p>The monthly payment used for qualifying is based on the fully amortized principal and interest, taxes, insurance, and homeowners association fees, if applicable, on all real estate owned/held by the borrower.</p> <p>Note: This includes loans that require less than a full principal and interest payment, including but not limited to interest-only loans.</p>

Note: The prime rate can be found in The Wall Street Journal.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Authorized user accounts

When the borrower is the credit account owner on an authorized user account, the debt must be included in the credit analysis and the monthly payment obligation must be included in the DTI ratio.

When the borrower is the authorized user and the account is being used as a tradeline, the debt must be included in the credit analysis and the monthly payment obligation must be included in the DTI ratio.

Open-ended accounts

Certain open-ended accounts (such as American Express) require payment in full monthly. For such accounts, one of the following options must be used for qualifying:

- If sufficient assets to pay off the full balance in addition to standard reserves/post-closing liquidity requirements are documented, no payment is required to be included in the total monthly obligations.
- If sufficient assets are not available to pay off the full balance in addition to standard reserves/post-closing liquidity requirements, use the full balance for a qualifying payment. If a lower payment amount is documented from the creditor, use that amount for a qualifying payment.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Sale of prior home

Excluding the borrower's previous mortgage payment from the DTI is allowed as long as:

- A copy of the Closing Disclosure from the sale of the real estate is provided or
- The Departure Residence Policy is met. Refer to Section 825.23: Departure Residence Policy.

Student loan payments

For student loans that are deferred, in forbearance, or not showing a payment on the credit report, one of the following is required:

- Calculate a payment using 1.15% of the higher of the original high credit limit or current balance.
- Request documentation of the actual payment. Documentation options include, but are not limited to:
 - Direct verification from the creditor
 - Installment loan agreement

For student loans that are showing a payment on the credit report:

- Compare the reported payment to 1.15% of the current balance and use the higher of the two payments.
- If using the 1.15% calculated payment for qualifying and the DTI exceeds the maximum, the actual payment amount must be documented.
 - Documentation options include, but are not limited to, the following:
 - Direct verification from the creditor
 - Installment loan agreement
 - The documentation must be reviewed to validate that the reported payment is reasonable.
 - If the student loan is an income-based repayment plan, the documentation must be reviewed to validate the qualifying income on the loan application is consistent with the qualifying income used to assess the student loan payment.
 - If the student loan payment will be reassessed less than 12 months after the borrower started their most recent job, the 1.15% calculation must be used for qualifying unless rationale is documented for using the documented payment.
 - If the student loan payment will be reassessed more than 12 months after the borrower started the most recent job, use the documented payment for qualifying.

Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.

Subordinate financing

New and existing closed-end and HELOC subordinate financing is permitted when the loan terms meet the following guidelines:

- The subordinate lien must be secured against the subject property and is clearly subordinate to Investor's first Mortgage.
- The maximum LTV/CLTV* must not exceed the guideline limits for the product and occupancy type shown in Section 950: Non-Conforming LTV Matrix.
- Negative amortization is not allowed. Scheduled payments must be sufficient to cover at least the interest due.
- If there is/will be an outstanding balance at the time of Closing, the payment on the subordinate financing must be included in the calculation of the borrower's DTI ratio(s)
 - For all HELOCs, regardless of the line amount, refer to Revolving accounts for methods of calculating a payment.
- For closed-end loans: Balloon payments are not allowed.
 - It is acceptable for the terms of a HELOC to include a balloon or call option within the first five years after the Note date of the first Mortgage.
- For new closed-end second mortgages, the loan must have a repayment term of at least five years from the date of origination of the first Mortgage or fully amortize within the remaining time period.
- For closed-end second mortgages with interest-only feature, refer to Total debt ratio above.
- Equity share or shared appreciation mortgages are not allowed.
- Subordinate financing from the borrower's employer that includes a provision requiring repayment upon termination is not allowed.
- Subordinate financing from the property seller (seller carry-back, including any property seller or other private party carried financing):
 - Is allowed only after the borrower has made a 5% minimum down payment/cash investment.
 - Must meet CLTV limits for the product/program.
 - Seller contributions are based on CLTV, refer to Section 825.17: Contribution Limits.
 - Must be at market rate. If the interest rate is more than 2% below Fannie Mae's posted net yield in effect for second mortgages at time of closing, it must be treated as a sales concession and a dollar for dollar reduction made to the sales price.

* The CLTV is calculated by adding the first Mortgage amount to all subordinate financing and dividing that sum by the value of the mortgaged premises. When subordinate financing is a HELOC:

- If an existing HELOC is not in the repayment period and is reduced without modifying the original Note, the original line limit must be used to calculate the CLTV ratio.
- If an existing HELOC is in the repayment period, the current balance is used to calculate the CLTV ratio. A copy of the line agreement is required to verify the customer can no longer draw on the account.

Documentation requirements

The terms of any subordinate financing must be verified.

- Acceptable documentation for an existing subordinate lien that will be resubordinated is any of the following:
 - Copy of the credit report
 - Copy of the Note that will be resubordinated
 - Direct verification from the lender
 - Copy of the loan/line statement
- Acceptable documentation for a new subordinate lien that will be obtained at, or prior to, closing is any of the following:
 - Copy of the Note
 - Direct verification from the lender
 - Copy of the commitment letter from the lender
 - Copy of the final Closing Disclosure evidencing proceeds

Notes:

- Whether the subordinate financing is existing or new, a full underwrite of the documentation provided is required to ensure the subordinate financing meets the requirements identified in this section.
- A combination of the above documentation options is acceptable to verify the subordinate lien's terms if necessary.
- If the subordinate financing is a community second or affordable second, it must comply with Fannie Mae and Freddie Mac requirements.

Unsecured loans from an employer

In some financial professions the employee is offered an upfront loan to be repaid from earnings. The borrower's monthly payment on this debt must be included in the DTI. A copy of the promissory Note must be used to verify the terms of repayment.

825.10: Sales Contracts

Sales contracts

The Seller must provide a copy of the complete sales contract and all addenda for the subject property to the appraiser prior to the effective date of the appraisal.

Renegotiated/amended sales contracts

If the sales contract is amended prior to the effective date of the appraisal, the Seller must provide the updated contract to the appraiser unless the addendum does not impact the property physical description or condition and changes are limited to the following:

- Seller paid closing costs/financing contributions are within published limits
- Corrections to names or initials
- Corrections to typographical errors
- Closing date changes

If the contract is amended after the effective date of the appraisal but prior to Closing (whether or not it results in an addendum to the purchase contract), the amendment does not need to be provided to the appraiser when:

- A lower renegotiated sales contract reducing the sale price resulted from low appraised value.
- The sales contract amendment resulted from a change to interested party contributions, provided:
 - The underwriter determines that the change or revision would not impact value or methodology; and
 - The interested party contribution change is for financing contributions/concessions where total contributions fall within published loan limits applicable for the transaction; or total sale concession do not exceed 3%.

If at any time the appraiser becomes aware of the addendum and requests it, the addendum must be provided. This ensures the appraiser has the opportunity to consider any changes and their effect on value.

Refer to Section 800.01(d): Sales Contracts for additional guidelines on renegotiated purchase agreements.

825.11: Appraisal Requirements

APPRAISAL REPORT FORM REQUIREMENTS

Standard Fannie Mae/Freddie Mac appraisal forms are required. The following appraisals must be completed in compliance with the Uniform Appraisal Dataset (UAD) specifications:

- Uniform Residential Appraisal Report (FNMA 1004/FHLMC 70)
- Individual Condominium Unit Appraisal Report (FNMA 1073/FHLMC 465)

All appraisals must be ordered directly by the Seller. Appraisals ordered by someone other than the Seller (e.g., borrower or property seller) cannot be used.

All appraisals must comply with Uniformed Standards of Professional Appraisal Practice (USPAP) requirements including, but not limited to:

- The appraiser must provide his/her opinion of a reasonable exposure time for the property at the market value stated in the appraisal.
- The appraiser must certify if he/she has performed any prior services on the subject property within the three-year period preceding the acceptance of the appraisal assignment.

The underwriter must have a complete and accurate description of the property to determine whether the property is adequate collateral for the Loan. Adverse conditions (such as declining property values or the presence of environmental hazards) may affect the borrower's motivation to repay the loan.

NUMBER OF APPRAISALS

Appraisal requirements are determined by the total loan amount provided by Investor on the subject property.

All valuation products obtained by the Seller must be ordered through and completed by a Investor authorized-appraisal management company (AMC) that provides valuation products for Non-Conforming Loans. Refer to Section 800.10: Appraisal/Valuation Policy for authorized AMCs and ordering requirements.

Total loan amount provided by Investor on the subject property	Appraisal documentation required ¹
≤\$1,000,000	One full appraisal ²
>\$1,000,000	One full appraisal ² completed by a certified appraiser ³

1. A second-level review, exterior field review, or interior field review may be required at the request of Investor, based on identified collateral or valuation risks. The Seller may request reimbursement of these Investor requested field review fees. Refer to Reimbursement for Investor requested field reviews in Section 825.11: Appraisal Requirements for additional details.

2. A full appraisal must be prepared on Form 1004/70, Form 1025/72, Form 1073, or Form 2090. A Freddie Mac Automated Collateral Evaluation (ACE)/Fannie Mae Appraisal Waiver, Form 2055, Form 1075, or Form 2095 summary report is not acceptable.

3. When ordering the appraisal, Seller must specify that the appraisal be completed by a certified appraiser and, upon receipt of the appraisal, Seller must confirm the appraisal was completed by a certified appraiser.

LTV/CLTV determination

LTV/CLTV is determined as follows:

- If more than one full appraisal is obtained, the LTV/CLTV is based on the lower of the appraised values or the sales price.
- If an interior field review is obtained, the LTV/CLTV is based on the lower of the field review value or the sales price.

Reimbursement for Investor requested field reviews

To be reimbursed for a Investor requested field review product required by Investor, email a copy of the invoice and wiring instructions to (request info from lender). Reimbursements will be processed within 24 – 48 hours of receipt.

Note: Investor will not reimburse the Seller for policy required valuation products.

Use of appraiser assistants or trainees

It is acceptable for appraiser assistants or trainees who work as an employee or subcontractor of a licensed or certified appraiser to assist in developing the appraisal (or to complete the entire appraisal if they are qualified to do so).

ADDITIONAL APPRAISAL REQUIREMENTS

For Non-Conforming Credit Underwrite (CCU) Loans, the Seller must provide the CCU Appraisal Submission form (Form 42) with the final version of the appraisal. The final version of the appraisal must be validated by Investor prior to Closing.

Sellers must review the appraisal to ensure the property is of investment quality, the appraisal is complete, and the value is supported.

Multiple parcels

The subject property consists of a parcel of real property with a single family residence erected thereon (multiple parcel properties are required to be adjoining, display the same basic zoning, and contain only one dwelling unit in total), or a two- to four-unit, or an individual unit in a planned unit development, condominium project, or cooperative.

Property values

If the property values are declining, the appraiser must comment on the reason for the decline and the rate of the decline.

Supply and demand

The appraiser must comment on the reason for any oversupply and its effect on marketability and value.

Marketing time

The appraiser must comment on the reason for any marketing time over six months and its effect on marketability and value.

Zoning

The appraiser must report the specific zoning classification for the subject property and include a general statement to describe what the zoning permits (e.g., single family, two family). The appraiser must also state whether the improvements represent:

- A legal use
- A legal but nonconforming (grandfathered) use
- An illegal use under zoning regulations

If there are no local zoning regulations, the appraiser must indicate this on the appraisal.

Investor does not purchase properties with an illegal zoning compliance unless it is due to an accessory unit. Refer to PROPERTIES WITH AN ACCESSORY UNIT in Section 825.12: Property and Appraisal – Specific Property Types for additional requirements.

Legal nonconforming use of land

Properties that represent a legal but nonconforming use of the land are eligible, provided the appraiser's analysis reflects any adverse effect that the nonconforming use has on the property's value and marketability.

Land-use regulations

Land-use regulations, such as coastal tideland or wetland laws, are intended to remove existing land uses and to stop land development within specific setback lines.

Loans secured by a property that is subject to land-use regulations that create setback lines or other provisions preventing the reconstruction or maintenance of the property improvements are ineligible.

Site utilities (on-site and off-site)

The utilities for the property must meet community standards, be adequate in service, and have demonstrated market acceptance.

If nongovernment and/or nonregulated community facilities (e.g., community well) are used, the owners of the subject property must have the right to access those facilities on an ongoing basis. The borrower must provide a copy of a recordable agreement that guarantees access to the facilities.

When private well or septic facilities are not located on the subject site, the borrower must provide a copy of the recorded, legally binding agreement for ongoing access to and maintenance of the facilities.

A certification for a private water supply or septic system (including cesspool) is required if the appraisal or purchase contract indicates a possible issue or inadequacy.

- For private water supply, a licensed plumbing contractor or the local municipality's housing inspector or engineer must certify all of the following:
 - The water supply system is in proper working order and pumping an adequate supply of water for the property.
 - The water supply is potable and complies with local and/or state health authority standards. In the absence of a local health authority, a reputable chemical testing agency must certify that the water is fit for human consumption.
- For septic system, the certification must be provided by a city, county, state, or governing body official or qualified entity stating one of the following:
 - The sewage disposal system complies with applicable local and/or state health standards, is in proper working order, and can be expected to function satisfactorily.
 - Local and/or state health standards do not apply for the sewage disposal system; however, it is found to be in proper working order and adequate for the property.

Interrupted utilities

If the appraiser identifies a hazard, the appraiser must comment on the hazard's influence on the property's value and marketability, and make appropriate adjustments in the overall analysis of the property's value.

These hazards might include interrupted or unstable utility services (such as water shortages, water contamination, or power shortages).

Consideration must be given to the impacts that interrupted services have on collateral marketability, property value stability, and cost and likelihood of a long-term resolution.

Streets

The property must be accessible from a public or privately owned street. Public streets must meet community standards and be acceptable for the area. If the property is on a community or privately owned and maintained street, the Seller must determine if a legally enforceable road maintenance agreement is required:

- For urban and suburban planned unit developments (PUDs), condominium projects, and cooperatives where a private road serves as a common element for the development, no further documentation is required.
- For rural projects, projects with personal gated entries, or where year round maintenance is questionable, due diligence must be done to ensure the existence of a maintenance agreement.
- If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

A street that does not meet city or state standards often requires extensive maintenance. This becomes an additional expense to the property owners. If the street is not properly maintained, property values may decline.

Insect infestation

If the appraiser notes evidence of termites or other wood destroying insects, a satisfactory infestation report from a certified pest inspector must be obtained. The report must indicate that there is no evidence of live infestation. Any deficiencies noted on the insect infestation report must be satisfactorily corrected prior to Closing.

In the event this report notes structural issues, a satisfactory structural engineer's report is also required prior to Closing.

In all cases, the appraiser must comment on any adverse effects to the marketability and value of the subject property.

Basement dampness

If the appraisal report notes evidence of dampness in the basement, the appraiser must clearly define its effect on the value and marketability of the subject property. The appraiser must also comment on the probable cause of the dampness problems and whether it is common for the surrounding neighborhood.

If there is any indication of a structural deficiency or negative impact on the value and marketability of the property, the dampness problem must be corrected prior to Closing.

Settlement

If the appraisal report notes evidence of settlement, the appraiser must clearly define the effect on value and marketability of the subject property.

A structural engineer's report is required when settlement issues denote structural deficiencies or have a negative impact on value and marketability. Repairs required by the structural engineer's report must be corrected prior to Closing.

Over-improvement

An over-improvement is a property that is larger, more expensive, or includes amenities that are atypical for the market.

Consideration must be given to the impact on marketability and value when determining if the property is eligible.

Examples of over-improvements include:

- Homes that are significantly larger (e.g., a 4,000 square foot home in an area where the typical home is 2,000 square feet)
- Use of higher end construction materials where the market does not support the cost of the materials (e.g., marble flooring, imported materials, gold fixtures, etc.)
- Unique amenities that most buyers do not need (e.g., indoor pools or sport courts, large garages, wine cellars, extensive landscaping, yard improvements or outbuildings)

Over-improvements may be less marketable and therefore the value attributed is less than what is common for the area. The appraiser must establish value by using comparable sales from the same area. It's not acceptable for the appraiser to go to superior areas where the over-improvements are typical to establish value. The appraiser must explain why the property is an over-improvement and comment on the adjustments that were made in the sales comparison analysis to reflect that condition.

Repair requirement

Repairs must be completed prior to Closing when any of the items below exist. Completion of repairs must be documented by an appraiser or an independent qualified professional.

- Repair items that affect the safety, habitability, soundness, or structural integrity of the property whether or not the property is appraised "as is" or subject to repairs. Some examples include but are not limited to:
 - A partially completed addition or renovation
 - Physical deficiencies that could affect the soundness or structural integrity of the improvements, including but not limited to:
 - Cracks or settlement in the foundation
 - Water seepage
 - Active roof leaks curled or cupped roof shingles
 - Inadequate electrical service or plumbing fixtures
 - Missing or faulty banisters/railings
 - Empty pools that are not fenced in or covered
 - Lack of quick release or safety latches on security bars for bedroom windows and/or doors
 - Lack of hand rails with an apparent fall hazard
- The property has a current UAD condition/quality rating of C5, C6, or Q6. The property must be appraised subject to bringing the condition rating to C4 or better, an "as is" value is not allowed. All issues that caused the property to be rated C5, C6, or Q6 must be cured prior to Closing.
- The cost to cure is greater than 2% of the appraised value (or acquisition cost for a construction-to-permanent transaction) when the appraisal is completed subject to.

If cost to cure is less than or equal to 2% of the appraised value (or acquisition cost for a construction-to-permanent transaction), verification of completion is not required if repair items do not impact the safety, habitability, soundness, or structural integrity of the property or the UAD condition/quality ratings noted above. Some examples include but are not limited to:

- Worn floor finishes or carpet
- Minor plumbing leaks
- Holes in window screens
- Cracked window glass

Completion per plans and specs

If the appraisal is subject to completion of the property per plans and specs, the appraiser must reinspect the property prior to Closing and certify the property has been completed as appraised.

Refer to Section 825.19: Postponed Improvement/Repair Escrows for escrow requirements when all items cannot be completed prior to Closing.

Subject to inspection

If the appraisal is subject to inspections, a licensed professional or another person trained in the particular field (e.g., structural engineer, plumber, or pest inspector) must perform an inspection and provide a signed report/invoice indicating one of the following:

- The repair has been acceptably completed
- No repairs required

Refer to Section 825.19: Postponed Improvement/Repair Escrows for escrow requirements when all repairs cannot be completed prior to Closing.

EXHIBIT REQUIREMENTS

Required appraisal attachments/exhibits are listed in the table below.

Item	Requirement
Building sketch	<ul style="list-style-type: none"> • Building sketch indicating exterior dimensions. For a unit in a condominium (condo) or cooperative (co-op) project, the sketch must indicate interior perimeter unit dimensions rather than exterior building dimensions. • Calculations demonstrating how gross living area (GLA) is determined. • Floor plan sketch for all condos, two- to four-unit properties, and properties with unusual layouts.

	<table border="1"> <tr> <td data-bbox="331 159 560 590">Subject photographs</td><td data-bbox="560 159 1534 590"> <ul style="list-style-type: none"> • Clear photographs showing the front, back and street scene of the subject property. Photographs may be original images, electronic images, multiple listing service (MLS) copies, or from the appraiser's files. • At minimum, interior photographs of all of the following: <ul style="list-style-type: none"> ○ Kitchen. ○ All bathrooms. ○ Main living area. ○ Examples of physical deterioration, if present. ○ Recent updates, such as restoration, remodeling, and renovation, if present. Recent is defined as any improvement with material impact to the market value within the lesser of 12 months of the effective date of the appraisal or since the transfer of the property from an unrelated party. • Additional photographs, as needed to show the improvements, amenities, or external influences that materially impact market value or marketability (e.g., photos of outbuildings). </td></tr> <tr> <td data-bbox="331 590 560 663">Comparable photos</td><td data-bbox="560 590 1534 663">Clear photograph showing the front of the comparable properties. Photographs may be original images, electronic images, multiple listing service (MLS) copies, or from the appraiser's files.</td></tr> </table> <p>TRANSACTION CHANGES AFTER APPRAISAL VALIDATION AND BEFORE CLOSING</p> <p>For CCU Loans, the Seller must provide the CCU Appraisal submission form (Form 42) and revised appraisal (if applicable) to notify Investor when any of the following occur after Investor has validated the appraisal:</p> <ul style="list-style-type: none"> • Purchase price changes • LTV or CLTV increases • Secondary financing is added • Transaction type changes 	Subject photographs	<ul style="list-style-type: none"> • Clear photographs showing the front, back and street scene of the subject property. Photographs may be original images, electronic images, multiple listing service (MLS) copies, or from the appraiser's files. • At minimum, interior photographs of all of the following: <ul style="list-style-type: none"> ○ Kitchen. ○ All bathrooms. ○ Main living area. ○ Examples of physical deterioration, if present. ○ Recent updates, such as restoration, remodeling, and renovation, if present. Recent is defined as any improvement with material impact to the market value within the lesser of 12 months of the effective date of the appraisal or since the transfer of the property from an unrelated party. • Additional photographs, as needed to show the improvements, amenities, or external influences that materially impact market value or marketability (e.g., photos of outbuildings). 	Comparable photos	Clear photograph showing the front of the comparable properties. Photographs may be original images, electronic images, multiple listing service (MLS) copies, or from the appraiser's files.
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Comparable photos	Clear photograph showing the front of the comparable properties. Photographs may be original images, electronic images, multiple listing service (MLS) copies, or from the appraiser's files.				
825.12(a): Specific Property Types	<p>PROPERTY LOCATION ELIGIBILITY</p> <p>Investor accepts properties located in all 50 states and the District of Columbia. Properties located outside of the United States, or properties located in a territory, province, or commonwealth in which the United States has an interest, are ineligible. Locations include, but are not limited to, Guam, Puerto Rico, and the Virgin Islands.</p> <p>ANTI-PREDATORY AND ABUSIVE LENDING RESTRICTIONS</p> <p>Sellers are responsible for compliance with all local, state, and federal requirements for originating and Closing Loans sold to Investor.</p> <p>GENERAL REQUIREMENTS</p> <p>All properties must be:</p> <ul style="list-style-type: none"> • Improved real estate. • Designed and available for year-round use. • Complete with kitchen and bathroom facilities. • Heated by a continuously fueled heat source that is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated. <p>ELIGIBLE PROPERTY TYPES</p> <p>Eligible property types are:</p> <ul style="list-style-type: none"> • One-unit single-family detached or attached dwellings • Two-unit properties • Three- to four-unit properties • Condominiums (condos), refer to Section 825.12(b) for eligibility requirements • Cooperatives (co-ops), refer to Section 825.12(c) for eligibility requirements • Factory-built except manufactured (mobile) homes • Log homes that have at least two log home comparable sales within the appraisal to support marketability and value • One-unit single-family properties with an accessory unit • Planned unit developments (PUDs) <p>INELIGIBLE PROPERTY TYPES</p> <p>Ineligible property types include, but are not limited to:</p> <ul style="list-style-type: none"> • Bed-and-breakfast • Boarding house • Condotels/resort condominiums • Hobby farms 				

- Hotel condominium
- Manufactured housing (mobile homes)
- Time-share projects
- Two-unit properties
- Three- to four-unit properties
- Unimproved land
- Unique designs, such as earth homes, dome homes, A-frame, or other atypical properties that do not conform to the neighborhood

Illegal activity

If there is indication of an activity occurring on the subject property that does not comply with federal, state, and local laws, rules, and regulations, then the Loan is ineligible for purchase by Investor.

Properties subject to lien using tax assessment or utility company to ensure payment

Loans secured by property subject to any new or subordinated obligation that utilizes the municipal tax assessment process or a utility company to ensure payment, including, but not limited to, Property Assessed Clean Energy (PACE) obligations, are ineligible for purchase.

ENVIRONMENTAL HAZARDS

All environmental hazards identified by the real estate broker, property seller, borrower, or any other party to the Loan must be disclosed to the appraiser, noted on the appraisal, and taken into consideration. The appraiser must provide comparable sales with similar environmental hazards when available and provide a detailed explanation of the environmental hazard's effect on the value and marketability of the subject property.

Micro environmental hazards

A micro environmental hazard is an issue occurring at the property or transaction level. Any of the following micro environmental hazards that have been specifically and fully remediated require additional review by Investor to determine eligibility:

- Above ground storage tanks (propane, septic, water, or similar tanks are excluded) that:
 - Are greater than 550 gallons
 - Have any leaking
- Environmental contamination such as contaminated soil or groundwater
- Groundwater monitoring well
- Hazardous materials or wastes in excess of 50 gallons
- Leaking underground storage tanks
- Methamphetamine lab

Any one of the following micro environmental issues must be specifically and fully remediated prior to Closing. Additional review by Investor is not required:

- Asbestos containing material (ACM) that is damaged and friable
- Lead based paint that is damaged and identified by the appraiser as a health or safety issue
- Mold (mold that covers an area greater than 25 square feet must always be remediated)

Macro environmental hazards

A macro environmental hazard is a known or emerging environmental hazard that occurs at a broader geographic level, potentially impacting an entire community, and is not isolated to one particular property. Macro environmental issues include, but are not limited to:

- Contaminated public drinking water
- Ruptured natural gas storage reservoirs or pipelines resulting in natural gas leaks

Properties with any macro environmental hazards require additional review by Investor to determine eligibility.

Environmental deed restrictions

Environmental hazards may be identified through environmental deed restrictions. Environmental deed restrictions may be noted in the appraisal, sales contract, title work, or other documentation.

- Environmental deed restriction information must be provided to the appraiser, if not already noted on the appraisal, so it can be taken into consideration.
- The deed restriction must be assessed by the appraiser for its effect on value and marketability. The appraiser must provide comparable sales with a similar deed restriction when available and provide a detailed explanation of the deed restriction's effect on the value and marketability of the subject property.

Refer to the micro and macro environmental hazard requirements in this section for additional requirements.

Projects with mitigated environmental hazards

Loans where the Mortgaged Property is a condo, PUD, or co-op with environmental hazards that have been mitigated must be reviewed by Investor to determine eligibility.

FACTORY-BUILT HOUSING (MODULAR HOME)

All factory-built housing must meet all of the following requirements:

- The improvements are a single-family dwelling
- Assume the characteristics of site-built housing
- Meet local zoning and building codes
- Be permanently affixed to a foundation
- May not be part of a PUD or condo project

The transaction must represent a single real estate transaction under applicable state law. The Seller is responsible for perfecting the real estate title and obtaining any needed title endorsements when a unit is titled as personal property similarly to manufactured homes.

LAVA FLOW ZONES

Properties located on the Island of Hawaii that are in Lava Zones 1 or 2, as determined by the U.S. Geological Survey Hawaiian Volcano Observatory, are not eligible for purchase.

LEASEHOLD

Leaseholds are properties where the property improvements are located on land that is subject to a long-term lease from the underlying fee simple owner. Leaseholds are eligible when the following requirements are met:

- Leaseholds are an acceptable practice in the area where the subject property is located and there is demonstrated market acceptance.
- The leasehold must constitute real property, be subject to a mortgage lien, and be insured by a title policy.
- The lease, including all amendments, must be recorded in the appropriate land records.
 - A memorandum of lease may be recorded in lieu of the complete lease.
 - Subleases are acceptable and are subject to all the same requirements as leases.
- Sellers must complete and submit the Leasehold Approval Request (Exhibit 8), per the instructions on the exhibit, with the required documentation.
- The mortgage must cover both the property improvements and Investor's leasehold interest in the land.

Lease requirements

The lease must meet all of the following requirements:

- Have a term that runs for at least five years beyond the maturity date of the Mortgage unless fee simple title vests at an earlier date.
- Include provisions that protect Investor's interest in the property; including protections in the event of property condemnation, bankruptcy, or foreclosure.
- Provide Investor at least 30 days' notice of any default by the borrower and give Investor the option to cure the default or take over the customer's rights under the lease.
- Allow for the leasehold to be assigned, transferred, mortgaged, and sublet an unlimited number of times, either without restriction, or upon payment of a fee common to the market and delivery of documentation to the lessor. The lessor is not allowed to require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- Provide that the borrower will pay taxes, insurance, and homeowners' association dues (if applicable) related to the land in addition to those he/she is paying on the improvements. Be valid, in good standing and in full effect.

If the lease includes an option for the borrower to purchase the fee simple interest in the land, the purchase must be at the borrower's sole option and there must not be a time limit within which the option must be exercised.

In addition to the above, the lease must not:

- Contain any provisions that impair Investor's or the borrower's interest in the property
- Contain any provisions that could jeopardize Investor's first lien position
- Contain any default provisions that could result in forfeiture or termination of the lease except for nonpayment of the lease rents or because of court order
- Impair Investor's or the borrower's rights if there is a merger of the fee interest and leasehold interest (in the event the same person or entity acquires both interests)
- Preclude the borrower from retaining voting rights in the homeowners' association, if applicable

Security Instrument requirements

When the Loan is secured by a leasehold estate, the following language must be added to the Uniform Covenant 9 or added as a rider: Borrower shall not surrender the leasehold estate and interests herein conveyed, terminate, or cancel the ground lease. Borrower shall not, without the express written consent of lender, alter or amend the ground lease.

MIXED USE PROPERTIES

Mixed use properties include both residential purpose, and commercial or agricultural purpose.

Investor will purchase mixed use properties if the nature, intent, and primary purpose of the property is residential in use. The following requirements must be met:

- Subject must be a one-unit single-family dwelling or condominium; Refer to Section 825.12(b): Specific Property Types – Condominiums for additional requirements for live/work or segmented ownership projects.
- Commercial use must not result in significant alteration to the property or one which could not be easily converted back to residential.

The appraisal must include all of the following:

- A detailed description of the mixed use characteristics/alterations made to the subject property
- Indication that the mixed use is legal, permissible use under zoning
- Appraiser comments on any adverse impact on marketability and market resistance to the commercial or agricultural use and compatibility to the neighborhood
- Appraiser comments on any income produced from agricultural or commercial use
- Appraised value based on the residential improvements through the use of residential comparable sales

The credit underwriter must provide the decisioning logic for considering the property eligible for purchase when:

- The commercial use is in excess of 20% of the total gross living area
- The agricultural use is in excess of 20% of the total acreage
- The subject and/or comparable properties contain nonresidential use as the primary marketing feature
- Increases in traffic noise impacts the marketability of the property

PLANNED UNIT DEVELOPMENTS (PUDS)

A Planned Unit Development (PUD) is a parcel of land that contains common elements and improvements that are owned and maintained by a homeowner's association, corporation or trust. The common elements are for the benefit and use of the individual homeowners within the PUD. The housing units may be attached or detached.

The presale and owner occupancy requirements that apply for condominium projects do not apply to PUDs, provided the appraiser does not indicate marketability problems.

Unless otherwise stated below, units in a PUD follow the same guidelines as single-family homes.

- Multi-dwelling unit PUD projects that permit owners to hold title to more than one dwelling unit with ownership of all their units evidenced by a single deed and mortgage are not eligible for purchase.
- If the appraiser indicates marketability problems within the project, the underwriter must review to determine if there is an adverse impact on the value or marketability of the subject unit and if it is eligible for purchase.

Projects identified with a blanket (pooled) insurance policy that insures multiple projects are only allowed if all of the insured locations are legally affiliated. Refer to Blanket Insurance (Pooled Insurance) for a definition of affiliated.

PROPERTIES LOCATED ON ISLANDS

All of the following are required for properties located on an island:

- Regardless of where a property is located, it must be suitable for residential use and occupancy year-round. This is the area of greatest concern and the one most critical in determining acceptability. On some islands, public and private utilities such as water and electricity are not available year round, and the properties have no central heat source. These properties are ineligible.
- The island must be accessible via public transportation. If a boat or ferry is the only means of access, it must be public, not private transportation. Public transportation is defined as that which is owned or controlled by local or state governing agencies or has been established for generations and is now considered public with assurance of public ownership should the business close.
- Due to location, access, and availability of utilities, the property may suffer limited marketability. Marketability must be demonstrated by sales of comparable properties.

PROPERTIES SUBJECT TO LOCALIZED PERILS

When localized perils (flood, sinkhole, mine subsidence, volcanic eruption, avalanche, etc.) are evident as identified through a review of documentation within the file, and are not covered by standard property insurance, additional coverage specific to the localized peril must be obtained if such insurance coverage is required by local laws or is common and customary.

Documentation requirements

Evidence of insurance covering the specific localized peril must be provided (e.g., an endorsement to the hazard insurance policy or a separate policy).

PROPERTIES WITH AN ACCESSORY UNIT

An accessory unit (i.e., ohana, mother-in-law, mother-daughter, or granny unit) is an additional living area independent of the primary dwelling unit and includes a fully functioning kitchen and bathroom. Examples include a living area over a garage or basement units. The appraiser will determine whether the property is a one-unit property with an accessory unit or a two-unit property based on the zoning, highest and best use, and characteristics of the property. This may include, but is not limited to, the existence of separate utilities, unique postal address, and whether the unit is permitted to be rented. The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property.

Eligible property types

A one-unit single-family property with an accessory unit is eligible.

Ineligible property types

A two-to four-unit property that includes an accessory unit is ineligible.

General requirements

- If the property contains a legal, permitted accessory unit, the appraisal must demonstrate the improvements are typical for the market with at least one comparable property with a similar accessory unit
- If the property contains an accessory unit that is illegal or unpermitted, the property is eligible when all of the following are met:
 - The appraisal report demonstrates the improvements are typical for the market with at least two comparable properties that have noncompliant accessory units.
 - The appraisal report is completed based upon the property's current use.
 - The hazard insurance provider confirms the existence of the illegal unit will not jeopardize any future hazard insurance claims.

Ohanas

Many homes in Hawaii are constructed with accessory units - known locally as Ohanas. In addition to the guidelines for accessory units the following will also apply:

- The value attributed to the Ohana will be included in the total property valuation.
- The Ohana can be attached or detached from the main dwelling.
- Improvements must be typical for the subject neighborhood.

PROPERTIES WITH SOLAR PANEL SYSTEM

A solar panel system located on the real property is acceptable if the system is owned by the homeowner or a third party, subject to all of the following requirements:

- Title exceptions with respect to the solar panel system (for example easements or notice of contract) are acceptable on title provided the interest is not superior to the first lien position of the new Loan. The title must not reflect any liens related to ownership or maintenance that will result in a superior lien.
- The property must maintain access to traditional electrical utility services if it is subject to a lease or purchase power agreement (PPA).
- The appraiser must identify whether the solar panel system is owned by the property owner or is subject to a lease or PPA.
 - When the solar system is owned by the real property owner, it is acceptable for the value for the panels to be included in the appraised value when contributory value is supported.
 - When solar panels have been financed and paid for through the special assessment or taxes and the solar system lien is superior, the loan is ineligible; unless the lien is paid off prior to or at Closing, or the lien is subordinated to the new Loan.
 - When the solar system is owned by the third party, a lease or PPA is acceptable provided the value for the solar system must not be included in the appraised value.
- When the property has a solar panel system that is leased or subject to a PPA, documentation must be submitted using the Solar Panel Approval Request (Exhibit 9). Investor will provide an email notification that will include the Decision Form with review status (approved/denied/suspended) and any approval conditions. This Decision Form must be included in the Credit Package for Prior Approval Loans or the Closed Loan Package for Non-Conforming Correspondent Credit Underwrite (CCU) Loans. The lease or PPA must indicate all of the following:
 - Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage to its original or prior condition.

- The owner of the solar panels agrees not to be named loss payee (or named insured) on the insurance policy covering the property on which the panels are attached.
- In the event of foreclosure, the lender or assignee has the right to do any of the following:
 - Terminate the lease or PPA and require the owner to remove the panels and other equipment
 - Become the beneficiary of the borrower's lease with no transfer or similar fee
 - Enter into a new lease with the owner, under terms no less favorable than the existing lease
- The lease or PPA payment is not required to be included in the debt to income (DTI) calculation.

RESALE-DEED RESTRICTIONS

All resale-deed restrictions, except properties with an age restrictions are ineligible.

Resale-deed restrictions are a right in perpetuity or for a certain number of years, stated in the form of a restriction, easement, covenant, or condition in any deed, mortgage, ground lease, agreement or other instrument executed by or on the behalf of the owner of the land.

Resale-deed restrictions may limit the use of all or part of the land to occupancy by persons or families of low-income or moderate-income or on the basis of age, or may restrict the resale price of the property to ensure its availability to future low-income and moderate-income borrowers. A restricted resale price provides a subsidy to the homeowner, in an amount equal to the difference between the sales price and the market value of the property without resale-deed restrictions.

Resale-deed restrictions are binding on current and subsequent property owners, and remain in effect until they are formally removed or modified, or terminate in accordance with their terms (such as at a foreclosure sale or upon acceptance of a deed-in-lieu of foreclosure).

Age-restricted properties

Eligible occupancy/property types

- Primary residence or second home
- One-unit property
- Two-unit property
- Condo
- PUD

The presence of the resale-deed restrictions must not impair or otherwise jeopardize Investor's first lien position at any time.

General requirements

The following requirements apply for all units that are subject to the resale-deed restrictions for the project or subdivision:

- Standard applicable condo and PUD guidelines must be met. The acceptability of the resale-deed restrictions does not constitute project acceptability.
- The presale requirements for condo projects apply separately to the nonrestricted and restricted units in the project. Presale requirement must be met for both nonrestricted and restricted units.
- The appraisal must include three comparable sales of units with similar resale-deed restrictions. For new projects or subdivisions, at least two of the sales must be from outside the project or subdivision.
- The appraisal must note the existence of the resale-deed restrictions and comment on any impact the resale-deed restrictions have on the property's value and marketability.
- For units in a condo or PUD project, the homeowners' association (HOA) assessment must be based on the size of the unit or on the ratio of one to the total number of units in the entire project, but may not be based on the sale price of the unit. Exterior maintenance must be the responsibility of the HOA, and the charges for maintenance must be included in the monthly assessment.
- Investor must have first claim to any property insurance payment or condemnation award.
- Property insurance coverage in the amount of replacement cost is required.
- If the borrower is in default or the property is in foreclosure, and there is a right of first refusal, only the subsidy provider (municipality, government entity) that imposed the resale-deed restrictions is entitled to it. The maximum time period is 90 days.
- Lender's title insurance policy issued at time of Closing must ensure Investor's Security Instrument is in a first lien position.
- The source (such as ordinance, statute, published policy or imposed restrictions) of the terms of the resale-deed restrictions must be included in the public land records so that it is readily identifiable in a routine title search.

If a housing development has an age restriction, it must comply with one of the following Fair Housing Act exemptions:

- Government housing programs – Dwellings provided under any state or local federal program specifically designed and operated to assist the elderly or to house elderly persons. The Secretary of HUD must determine that the development meets this exemption.
- Age restrictions – 62 years of age or older – Dwellings intended and operated for occupancy solely by persons 62 years of age or older.

- Age restrictions – 55 years of age or older – Dwellings intended and operated for occupancy by persons 55 years of age or older provided that all of the following apply:
 - At least 80% of the occupied units are occupied by persons 55 years of age or older.
 - The housing facility or community publishes and adheres to policies and procedures that demonstrate the intent to provide housing to persons 55 years of age or older.
 - The housing facility or community is able to provide documentation for verification of occupancy, by means of:
 - Reliable surveys and affidavits
 - Examples of published written policies and procedures for determination of compliance with the Act

Required documents for age-restricted properties

When it is determined that a housing development is subject to age restrictions, the HOA must complete and sign the Housing Developments Subject to Age Restrictions form (Form 38) or other compliant alternative form.

The alternative form must meet all of the following:

- Be signed by the HOA
- State that the development/association will provide the necessary documentation to support compliance with the Fair Housing Act, if requested
- Certify that the development complies with one of the following Fair Housing Act exemptions:
 - Age restrictions – 62 years of age or older
 - The development is intended for, and solely occupied by, persons 62 years of age or older.
 - Age restrictions – 55 years of age or older
 - At least 80% of the occupied units are occupied by persons 55 years of age or older and
 - The housing facility or community is able to provide documentation for verification of occupancy by means of:
 - Reliable surveys and affidavits and
 - Examples of published written policies and procedures for determination of compliance with the Act.

Supporting documentation to verify the accuracy of the information completed by the HOA is not required unless requested by Investor.

By providing a signed Form 38, or other compliant alternative form, the HOA certifies that the housing development is in compliance with the Fair Housing Act.

RURAL PROPERTIES

Any rural property must meet the following:

- The property use must be residential, not agricultural. The land may be zoned residential or agricultural.
- The site size must be typical for surrounding properties with similar uses.

Excess acreage

If the subject property has a larger lot size than is typical for the area, special attention should be given to the appraiser's neighborhood description, zoning, highest and best use, and comparable sales to ensure the property's use is primarily residential.

Rural properties may have large lot sizes and/or neighborhoods may be relatively undeveloped, creating a shortage or absence of true comparable sales. Appraisers may select comparable sales that are at a considerable distance, provided the appraiser uses good judgment in selecting those sales which are the best indicators of value for the subject property. The appraiser should include in the analysis an explanation of why the particular comparable sales were selected.

Minimal outbuildings

Properties with minimal outbuildings (e.g., a small barn or stable) that have relatively insignificant value in relation to the total appraised value of the subject property may be acceptable if they are typical residential improvements.

Example: A property with a small barn or stable may be acceptable if the appraiser demonstrates, using comparable sales with similar improvements, that these improvements are typical residential improvements for which an active, viable residential market exists.

Atypical outbuildings

If the outbuildings do not represent typical residential improvements for the location and property type, the typical buyer in the market would probably attribute minimal, if any, value for them.

A property with an atypical outbuilding may be acceptable as long as the appraiser's analysis reflects little or no contributory value for it.

Significant outbuildings

	<p>Properties with significant outbuildings such as a large barn, storage area, facilities for farm-type animals, or a silo must be reviewed closely, regardless of whether or not the appraiser assigned any value to the outbuildings. The existence of significant outbuildings may indicate that the property is agricultural in nature and may not be eligible.</p>
<p>825.12(b): Specific Property Types – Condominiums</p>	<p>CONDOMINIUMS</p> <p>SITE CONDOMINIUM</p> <p>A site condominium (condo) property that consists of single-family detached homes requires no project review or analysis, but must be coded as a condo property type.</p> <p>ELIGIBLE CONDO PROJECT REVIEWS</p> <p>The following project reviews are eligible for condo projects with more than four units:</p> <ul style="list-style-type: none"> • Investor Streamlined Review • Investor Homeowners Association Certification Review (Form 25) • Condo Project Manager (CPM) • Investor Full Project Review • Final Condo Project Acceptance through Fannie Mae Project Eligibility Review Service (PERS) <p>No project review is required for condo projects with four or fewer units. However, the General condo project eligibility requirements below must be met. If the project is new construction, it must be substantially complete. Substantially complete is defined as all of the following:</p> <ul style="list-style-type: none"> • A certificate of occupancy or similar document has been issued by the municipality for the project or phase in which the unit is located. • All units in the project or phase are complete subject to borrower select items such as appliances, floor coverings, countertops. • All borrower select items in the subject property are required to be installed prior to Closing <p>GENERAL CONDO PROJECT ELIGIBILITY REQUIREMENTS</p> <p>The requirements below apply to all condo Loans submitted to Investor. Project information may be reported by the appraiser, disclosed by the homeowners association (HOA) or developer, shown on the sales contract, or obtained through review of the HOA certification, as well as from other types of condo documents provided by a third-party vendor, such as CondoCerts.com, when available. Information obtained from a third party vendor must be no older than 45 days.</p> <p>Form 43: Condominium Project Condition Questionnaire is required for all attached projects with more than four units and must be completed by a representative of the HOA. If Investor determines the project has significant deferred maintenance or significant special assessments, the project is ineligible.</p> <p>Investor must review and approve the condo project for all attached condos prior to Closing.</p> <p>Ineligible projects</p> <p>The following projects are ineligible projects:</p> <ul style="list-style-type: none"> • Condotels, defined as a condo project in a resort or destination area, which, while units are individually owned, are used frequently for short-term transient, vacation rentals • Mandatory or voluntary rental pool agreements • Occupancy restrictions mandated by zoning • Timeshare, segmented, or fractional ownership projects • Houseboat projects • Multi-dwelling unit condo projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all of his/her owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share Loan) • Projects that have been converted from a hotel or motel with short term rentals • Projects that restrict the owner's ability to occupy the unit • Projects with leased back recreational facilities • Projects where the HOA charges a transient occupancy (rental) fee • Projects that have resort ratings • Investment securities (i.e., projects that have documents on file with the Securities and Exchange Commission, or projects where unit ownership is characterized or promoted as an investment opportunity) • Common interest apartments or community apartment projects are projects or buildings that are owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a • specific apartment in the building

- Any project identified with a blanket insurance policy that covers multiple unaffiliated associations or projects (refer to Blanket insurance (pooled insurance) below for additional guidance)
- Projects that have significant deferred maintenance or significant special assessments, as determined by Investor review of Form 43: Condominium Project Condition Questionnaire

Additional project review required

The following characteristics require additional review by Investor for eligibility:

- Investor exposure percentage within a new project
- The project is located in a resort destination.
- Live/work or segmented ownership projects.
- Projects with business operations owned or operated by the HOA such as, but not limited to, a restaurant, spa, health club, etc.
- Projects with units smaller than 400 square feet.
- Transactions under which the borrower will own more than one unit in the project.
- The project name includes “condotel,” “condo hotel,” “hotel,” “motel,” “inn,” “resort,” or “lodge”.
- The project shares facilities with a hotel or motel.
- The project is in an area zoned for transient accommodations.
- The unit is in a building that functions like a traditional condo, yet the project contains additional resort type amenities or other buildings with resort type amenities.
- The unit is fully furnished.
- The unit does not have a full kitchen.
- The project provides any of the following services:
 - Management desk
 - Bellman
 - Daily maid service
 - Maid service
 - phone service
 - Centralized utilities, for example: central telephone or cable
 - Centralized key system not in negotiated terms

Adverse environmental factors

Any adverse environmental factors affecting the condo project must be addressed by the appraiser. Projects with any factors affecting safety, habitability, or marketability are ineligible.

Blanket insurance (pooled insurance)

Condo projects with a blanket insurance policy that covers multiple projects are only allowed if all of the insured locations are legally affiliated. Blanket insurance policies that insure multiple unaffiliated projects are not allowed.

- Affiliated projects are defined as those projects that are under the same master association or that share the use of common facilities; either owned
- individually or as part of a master development.
- Projects that do not meet the above definition, including projects managed by the same management company, are considered unaffiliated.

Commercial use

Commercial space within the condo project (or building in which the project is located) must not exceed 35% of the total square footage for the project/building, including commercial parking and must be compatible with residential use.

The appraiser must confirm the commercial space is typical for the area and all commercial space in the project is compatible with the overall residential nature of the project.

Common elements

The unit owners must be the sole owners of and have the sole right to the use of the projects facilities, common elements, and limited common elements. If both requirements are not met the project is ineligible.

Amenities shared with one or more community associations are acceptable provided the sharing agreement includes terms for use, expenses, and dispute resolution.

The developer or sponsor must not retain an ownership interest in any of the project facilities, common elements, and limited common areas.

Completion

All common areas and amenities within the project (or subject phase) must be complete. If completion is in question, the Seller must obtain one of the following:

- Final Certification of Substantial Completion (FNMA 1081)
- Equivalent document (appraisal addendum, builder's certification, etc.) which lists the common amenities and facilities that are incomplete

Delinquent HOA dues

If more than 15% of the units are delinquent on their HOA dues, the project is ineligible.

Florida LTV/CLTV requirements

The maximum LTV/CLTV for condos (attached or detached) in Miami-Dade County, Florida, is 70%.

Insurance requirements

Minimum requirements for hazard (including applicable unit interior coverage, commonly known as H06), liability, fidelity and flood insurance are as established based on Fannie Mae or Investor guidelines.

The following insurance levels are required for each project unless otherwise dictated by state statute.

Certificate holder

For all insurance types, the policy must require the insurance carrier to notify the Mortgagee named as the certificate holder at least 10 days before it cancels or reduces coverage.

Hazard insurance

The HOA must either maintain a master policy or an individual unit policy, if allowed by HOA legal documents. The policy must provide 100% replacement (including the interior of the condo units). If the project has common elements a master policy is required for all common areas, recreational facilities, or property. The policy must meet the following:

- The HOA or individual unit owner must be named as the insured on the insurance policy.
- Builder's risk insurance is only allowed for new construction projects. Additional review by Investor is required to determine eligibility.
- The insurance policy must identify the buildings, units, or individual unit covered by the policy.
- Deductible exceeding 5% of the policy face amount is only allowed when due to a per unit deductible for named perils specific to a geographic area and is covered by high deductible protection via an HO6 policy. The unit owner policy must include the same perils as the condo associations homeowner's policy, cover master policy assessments levied on the unit owner, and provide sufficient coverage amount to cover the per unit amount over 5%.
- The policy's expiration date must be obtained and the policy cannot be expired at the time of Closing.

Hazard insurance endorsements

The HOA's policy must also include all of the following endorsements:

- Inflation Guard (or similar endorsement) unless it is not applicable or it is not obtainable in the insurance market available to the HOA.
- Ordinance or Law, if the enforcement of any building, zoning, or land-use law results in loss or damage, increased cost of repairs or reconstruction or additional demolition and removal costs unless it is not applicable or if it is not obtainable in the insurance market available to the HOA.
- Mechanical Breakdown and Equipment Failure (aka Steam Boiler and Machinery Coverage), when the project units are stacked and the building has centralized heating or cooling
 - The insurance limit per covered mechanical breakdown or equipment failure must equal the lesser of:
 - 100% of the insurable value of the building housing the equipment
 - \$2 million
 - A standalone policy purchased by the HOA is acceptable in lieu of obtaining this as an endorsement.

Verification of the above endorsements is not required if using the Investor Streamlined Review.

Liability insurance

General liability coverage of at least \$1 million per occurrence for property damage and bodily injury is required. If not already included in the terms of the policy, there must be a severability of interest (or similar endorsement) precluding the insurer's denial of a unit owner's claim because of negligent acts by the HOA or other unit owners.

General liability coverage does not need to be verified when using the Investor Streamlined Review. If Investor or the Seller becomes aware of an active general liability policy with insufficient coverage, the HOA must obtain proper insurance to be eligible for the Investor Streamlined review.

General liability coverage is not required for two- to four-unit condo projects.

Fidelity insurance

Fidelity insurance is also known as employee dishonesty or crime insurance. Directors and officers insurance is not the same as fidelity insurance.

The fidelity insurance policy must name the HOA as the insured and the premiums must be paid as common expense by the HOA.

Evidence of fidelity insurance is required unless any of the following apply:

- The project has 20 or fewer units
- The loan is approved using the Investor Streamlined Review
- The required amount of coverage is less than or equal to \$5,000 or less

For transaction where fidelity insurance is required, the coverage must meet one of the following:

- The minimum coverage required by state law, in states with statutory fidelity insurance requirements
- Sufficient to cover the greater of three months of HOA dues or the amount of dues within the reserve fund monies that are in the custody of the condo project or its management agent
- Sufficient to cover two months of HOA dues with one of the following financial controls:
 - The condo project or the management company maintains separate bank accounts for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the condo project
 - The management company maintains separate records and bank accounts for each condo project that uses its services and the management company does not have the authority to draw checks on, or to transfer funds from, the condo project's reserve account
 - Two members of the board of directors must sign any check written on the reserve account

The condo project must carry fidelity insurance to cover losses resulting from dishonest or fraudulent acts committed by the directors, managers, trustees, employees, or volunteers who manage the funds collected by the project. If the HOA uses a management company, it must be covered as well via its own policy or an endorsement to the HOA's policy that recognizes the management company as a designated agent. If the management company carries its own fidelity insurance, the coverage must meet or exceed the level of coverage the management company is required to have by the HOA and must adhere to at least one of the following financial controls:

- The management company maintains separate bank accounts for each HOA managed and cannot access the reserve account
- Two members of the board of directors must sign any checks written to the reserve account

Flood insurance

Refer to Fannie Mae published guidelines and Section 545.06: Flood Insurance for complete details.

Flood insurance providing coverage for contents of the building owned by the HOA is not required.

Legal nonconforming zoning

The appraiser must address any impact to marketability for condo projects that represent a legal, nonconforming use of the land.

Litigation

Loans secured by condos where the project is involved in litigation due to construction defects, are ineligible. Condo projects involved in other types of litigation may be approved depending on the risk and marketability. If the HOA is involved in any litigation, arbitration, mediation, or other dispute resolution process, obtain the details from the HOA. This information must be verified with an attorney's letter, insurance information, structural report, and/or other documentation.

- The following types of litigation pose little or no risk to the project and are acceptable:
 - HOA is suing individual owners for unpaid dues.
 - HOA is being sued for a "slip and fall" liability issue and project has adequate liability insurance to cover the damages being sought by the plaintiff.
 - HOA is plaintiff and the litigation will not impact the project's financial stability.
 - Litigation related to anticipated damages and legal expenses will not exceed 10% of the projects funded reserves.
 - HOA is seeking recovery of funds for issues that have already been remediated, repaired, or replaced by the HOA and there is no material or adverse impact to the HOA if funds are not recovered.
 - Litigation concerning localized damage to a unit in the project that does no impact the overall safety, structural soundness, habitability, or functional use of the project.
 - Other suits filed by the HOA that do not impact the value or livability of the project.
 - Project is involved in a matter described below and has been reviewed by Investor:
 - Nonmonetary litigation involving neighbor disputes or rights of quiet enjoyment.
 - Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance.

- The HOA is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past-due HOA dues.
- The following types of litigation impact the project's marketability and are ineligible:
 - HOA is suing the developer for construction defects or other property deficiencies that impact health and safety.
 - Suits filed against the HOA in which the damages exceed or are not covered by the HOA's insurance.
- Projects involved in pending litigation (lawsuit has not yet been filed) are only acceptable when the risk to the project is assessed and it is determined that:
 - HOA insurance will cover potential damages, or
 - HOA is in a position to benefit from the lawsuit.

Multiple ownership

Number of units in project	Multiple ownership requirements
> 20	A maximum of 25% of the units are allowed to be owned by a single entity.
5-to-20	A single entity is allowed to own no more than two units.

Nightly rentals

Nightly rentals are allowed in a project, providing the project is not classified as a condotel, under the following conditions:

- No mandatory or voluntary rental pool
- No timeshare units
- No other condotel features; for example, registration desk or maid service

Eligible transactions are:

- Purchase or rate/term refinance
- Primary or second/vacation home

Pending special assessments

Projects with pending special assessments must be evaluated to determine impacts on all units and marketability.

Priority of common expense assessments

In the event that the Mortgagee acquires a unit through foreclosure, the Mortgagee must not be responsible for more than the greater of six months or the maximum amount permitted under applicable state law, of delinquent HOA dues.

Right of first refusal

It is acceptable for condo legal documents to include a right of first refusal as long as the right of first refusal does not adversely impact the rights of a mortgagee or its assignee to do any of the following:

- Foreclose or take title to a condo unit pursuant to the remedies in the mortgage
- Accept a deed in lieu of foreclosure in the event of default by a mortgagor
- Sell or lease a unit acquired by the Mortgagee

INVESTOR PROJECT REVIEW REQUIREMENTS

Below are the eligibility requirements for each project review type. Refer to the Condominium Project Approval Request (Exhibit 11) for details on how to submit for condo project review and the Condominium Project Review Checklist (Form 27) for documentation requirements.

It is unacceptable to use a reduced project approval (such as a streamlined review) when a circumstance has been identified that disqualifies the review type or render the project ineligible.

Investor Streamlined Review

This option requires only the appraisal to verify property and project marketability. In addition to the GENERAL CONDO PROJECT ELIGIBILITY REQUIREMENTS, the following apply when reviewing a project using Investor Streamlined review:

- Primary residence and second home transactions.
- Maximum of 80% LTV/CLTV for a primary residence, for projects located outside of Florida.
- Maximum of 75% LTV/CLTV for a second home, for projects located outside of Florida.
- The maximum LTV/CLTV for an established project in the state of Florida is the lesser of the product/program maximum, or 75% for a primary residence or second/vacation home.
- Property is located in an established project.
- Established project requirements:
 - Project is 100% complete, including all units and common elements.
 - Control of the HOA has been turned over to the unit owners.
 - A minimum of 75% of units have been conveyed to the unit owners.

- Project is not subject to additional phasing or annexation.
- At least 70% of the units in the project are sold to individuals occupying as a primary residence or second home.
- Project has demonstrated market acceptance:
 - Project absorption, pricing, presale and marketing times align with other projects within the market
 - Marketing time will depend on the number of units available for sale, more units may extend marketing times

Investor Homeowners Association Certification Review

In addition to the GENERAL CONDO PROJECT ELIGIBILITY REQUIREMENTS, the following apply when using the Investor Homeowners Certification Review:

- Maximum 80% LTV for new or established projects unless the project is located in Florida.
 - Projects located in Florida must be established projects and the maximum LTV/CLTV is the lesser of the product/program maximum or:
 - 75% LTV/80% CLTV for a primary residence
 - 70% LTV/75% CLTV for a second/vacation home
- Project may be subject to additional phasing or add-ons.
- At least 50% of the units sold must be sold to owner-occupants for use as primary residence or second home.
- At least 70% of the units in the project or subject phase must be sold. This includes closed sales and units under contract with bona fide purchasers.
 - In a project subject to additional phasing, a section or phase may be included with existing sections or phases to meet the presale requirement. To include prior phases, the subject's phase must demonstrate market acceptance:
 - Phase absorption, pricing and marketing times align with other projects within the market.
 - Marketing time will depend on the number of units available for sale, more units may extend marketing times
 - For conversion projects when all units are not for sale, presale must be calculated using the total number of units available for sale in the project. Regardless of the type of project or construction status, the number of units sold must be enough to support any common elements or recreational facilities that are included in the sales price or appraised value of the individual unit.
- Project has demonstrated market acceptance:
 - Project absorption, pricing, presale and marketing times align with other projects within the market
 - Marketing time will depend on the number of units available for sale, more units may extend marketing times
- Additional documentation requirements:
 - Individual Condo Appraisal Report
 - Homeowners Association Certification (Form 25) completed by a representative of the HOA
- The characteristics below render a condo project ineligible for Investor HOA Certification Review. If the project has any of these characteristics, or the Investor Homeowners Association Certification Review determines a project is ineligible, a more in depth review option is acceptable to obtain project approval. Refer to Eligible condo project reviews above.
 - All new construction and new conversion projects located in the state of Florida
 - Condo projects that have incomplete items
 - All investment transactions located in the state of Florida
 - New conversion projects which did not have a full gut rehabilitation

Condo Project Manager (CPM)

This option is available for new construction or conversion condo projects, full gut rehabilitation conversions of condo projects, or when the project does not meet eligible condo project reviews listed above.

- CPM Review includes an in-depth analysis of the legal, financial and other documents.
- Maximum LTV/CLTV is 80%.

Investor Full Project Review

This option is available for new construction or conversion condo projects, full gut rehabilitation conversions of condo projects, or when the project does not meet eligible condo project reviews listed above.

- Investor Full Project Review includes an in-depth analysis of the legal, financial and other documents.
- Maximum LTV/CLTV for an established project in the state of Florida is the lesser of the product/program maximum or:
 - 75% LTV/CLTV for a primary residence
 - 70% LTV/CLTV for a second/vacation home

Additional requirements for CPM and Investor Full Project Review

In addition to the GENERAL CONDO PROJECT ELIGIBILITY REQUIREMENTS, the below apply when using the Investor Full Project Review or CPM review.

Engineer's report

An architect's, engineer's, or equivalent report is required for non full gut rehabilitation condo conversion projects that were legally created during the past three years. The report must indicate the:

- Project is structurally sound
- All major components (e.g., roof, elevators, mechanical systems) have a remaining useful life of at least five years

Property inspection reports by county officials, building inspectors, or reserve studies are acceptable if all required items are addressed.

Leased common recreational facilities

Leased or shared common recreational facilities are facilities that are used by the HOA, but not owned by the HOA.

Leased or shared common recreational facilities between multiple HOAs are allowed if the recreational facilities are for the exclusive use by owners. Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.

HOAs must have governing agreements in place to define and describe the shared amenity, use terms, funding, expense sharing, management, and conflict resolution.

Leased or shared agreements with the developer are ineligible.

The amenities and facilities, including parking and recreational facilities, must not be subject to a lease between unit owners or the HOA and another party.

Parking amenities provided under commercial leases or parking permit agreements with parties unrelated to the developer are acceptable.

Live/work or segmented ownership projects

Live/work projects are condos with units that are designed with residential and commercial spaces, permitting the owner to operate a business from their residential unit.

An initial project review by Investor is required to determine eligibility. After the project is confirmed as eligible, the Investor Streamlined Review or the Investor Homeowners Association Certification Review are acceptable.

The following is required for all live/work condo transactions:

- Primary occupancy only
- Owner of the home must be affiliated with the business
- Unit and project must meet zoning, statutory, and program requirements
- The project must be primarily residential
- Overall project commercial space must not exceed 35%, including commercial parking

Presale/owner occupancy

For a Investor Full Project Review:

- At least 50% of the units in the project or subject phase must be sold. This includes closed sales and units under contract with bona fide purchasers.
 - In a project subject to additional phasing a section or phase may be included with existing sections or phases to meet the pre-sale requirement. To include prior phases, the subject's phase must demonstrate market acceptance:
 - Phase absorption, pricing and marketing times align with other projects within the market
 - Marketing time will depend on the number of units available for sale, more units may extend marketing times
 - For conversion projects when all units are not for sale, presale must be calculated using the total number of units available for sale in the project. Regardless of the type of project or construction status, the number of units sold must be enough to support any common elements or recreational facilities that are included in the sales price or appraised value of the individual unit.
- A minimum of 50% of the units that have been sold (under contract or closed) have been purchased by the owner occupants (primary or second home).
- The number of units sold must be enough to support any common elements or recreational facilities included in the sales price or appraised value of the individual unit. Presale may be based on individual phases if the project is not complete; however, each phase must consist of at least 12 units.

For a CPM review, 50% of the units in the phase/project must be sold to owner occupants (primary or second home).

- In a project subject to additional phasing a section or phase may be included with existing sections or phases to meet the presale requirement. To include prior phases, the subject's phase must demonstrate market acceptance:
 - Phase absorption, pricing and marketing times align with other projects within the market
 - Marketing time will depend on the number of units available for sale, more units may extend marketing times
- For conversion projects when all units are not for sale, pre-sale must be calculated using the total number of units available for sale in the project. Regardless of the type of project or construction status, the number of units sold must be enough to support any common elements or recreational facilities that are included in the sales price or appraised value of the individual unit.

Project requirements master HOA

In a master planned community a master homeowners association (MHOA) is created when:

- There is more than one HOA and a MHOA is established.
- A MHOA owns a large plot of land and is responsible for maintenance.

The MHOA has separate legal documents from the project HOA. The MHOA documents must be provided for review.

Amendments of the legal documents

The project documents or applicable state law:

- Must provide that amendments of a material adverse nature to first-lien Mortgagees be agreed to by Mortgagees that represent at least 51% of the unit votes (based on one vote for each first mortgage owned) subject to first-lien mortgages.
- Must provide for any action to terminate the legal status of the project or to use insurance proceeds for any purpose other than to rebuild, to be agreed to by first-lien Mortgagees that represent at least 51% of the unit votes (based on one vote for each first mortgage owned) that are subject to first-lien mortgages.
- Allow implied approval to be assumed when a Mortgagee fails to submit a response to any written proposal for an amendment within 60 days after the Mortgagee actually receives proper notice of the proposal provided the notice was delivered by certified or registered mail with a return receipt requested.
- Seek to abandon, partition, subdivide, encumber, sell, or transfer the common elements by act or omission. The granting of easements for public utilities or other public purposes consistent with the intended use of the common elements by the condo project is not a transfer within the meaning of this clause. In the case of a condo project subject to additions or expansions in which sections or phases are established by the condo constituent documents, this requirement will be deemed waived to the extent necessary to allow the phasing or additions in accordance with the condo constituent documents.
- Allow the use hazard insurance proceeds for losses to any condo property (whether units or common elements) for other than the repair, replacement, or reconstruction of the condominium property.

Rights of condo Mortgagees and their assignees

For any Loan secured by a unit in a condo project, the project documents must give the Mortgagee and its assignees the right to timely written notice of any and all of the following:

- Condemnation or casualty loss that affects either a material portion of the condo project or the subject unit
- 60-day delinquency in the payment of assessments or charges owed by the owner of any unit for which it holds the mortgage
- Lapse, cancellation, or material modification of any insurance policy maintained by the HOA
- Proposed action that requires the consent of a specified percentage of Mortgagees

HOA budget

The project budget is required for Full Project Review and CPM review, although more financial information could be required to confirm project eligibility.

The HOA budget must have provisions, at a minimum, for the following:

- Insurance
- Replacement reserves
- All common areas have been considered for maintenance and reserves:
 - Electricity
 - Water
 - Maintenance
 - Other

The HOA budget is reviewed for items that are not consistent with condo operations such as maid service, room service, or other indications the project is a condotel.

	<p>Reserve requirement</p> <p>Replacement reserves of at least 10% of annual HOA maintenance assessments are required. However, if reserves are less than 10%, one of the following is required:</p> <ul style="list-style-type: none"> • Reserves are supported by a reserves study not more than three years old. • Reserves are increased by capital contributions paid at closing to meet the 10% reserves requirements if project is defined as new and all buyers are required to pay up to two months of monthly HOA assessments at closing. <p>Final condo project acceptance through Fannie Mae Project Eligibility Review Service (PERS)</p> <p>In addition to the GENERAL CONDO PROJECT ELIGIBILITY REQUIREMENTS, the eligibility requirements below apply when using a PERS approval.</p> <ul style="list-style-type: none"> • The PERS approval must include the phase in which the subject unit is located and must be in effect at Loan Closing. • All conditions noted on the PERS final approval must be met prior to Loan Closing. • Any new project information that is not consistent with the information used by Fannie Mae to approve the project must be addressed. An updated PERS project approval or documentation from Fannie Mae may be required to validate the approval. <p>Investor reserves the right to limit the ability of a PERS approval to be used for transactions based on any adverse findings within the project.</p>
<p>825.12(c): Specific Property Types - Cooperatives</p>	<p>COOPERATIVE PROPERTIES</p> <p>All cooperative (co-op) projects must be submitted to and approved by Investor’s Cooperative Project Approval Team (CPAT) prior to Closing. See Investor Cooperative Project Approval Process below for details.</p> <p>The co-op project must qualify as a cooperative housing corporation pursuant to Section 216 of the Internal Revenue Code in effect as of the Closing date. The co-op must be a validly formed entity authorized to carry out its independent purposes and must be in compliance with all applicable state and local laws.</p> <p>Eligible geographic locations</p> <ul style="list-style-type: none"> • Loans without subordinate financing are eligible in the states of New York and New Jersey (Bergen and Hudson counties only). • Loans with subordinate financing are eligible in the state of New York. • Certain guidelines, detailed in this section, (e.g., leaseholds, new construction, new conversion, and pro rata share) apply to New York City only. <ul style="list-style-type: none"> ○ New York City is defined as: <ul style="list-style-type: none"> ▪ Boroughs of Bronx, Brooklyn, Staten Island, Manhattan, and Queens ▪ Counties of Nassau, Rockland, Suffolk, and Westchester <p>Eligible occupancy types</p> <ul style="list-style-type: none"> • Primary residence • Second home <p>Eligible products, transactions, and LTV/TLTV/CLTV</p> <p>Refer to Sections 950-975 for eligible products, transactions, and LTV/TLTV/CLTV limitations.</p> <p>Additional Loan eligibility requirements</p> <ul style="list-style-type: none"> • New construction and new conversion projects allowed in New York City only. Refer to Additional requirements for new construction and new conversion projects within this section. • Existing construction allowed in the states of New York and New Jersey. • Project must have a minimum of two units. • Two- to four-unit co-op projects: <ul style="list-style-type: none"> ○ Must be 100% owner-occupied ○ Only one unit in the project is eligible to be financed by Investor • Must meet Appraisal requirements within this Section. • Co-op maintenance fee must be included in the borrower’s housing expense for qualifying. Maintenance fees must be paid and current on the Closing date. • Project must be complete and not subject to additional phasing or annexation. • Secondary financing allowed in the state of New York if the co-op does not prohibit and the second is not a Investor loan/line. • Work escrow for completion is not allowed. • Financing to combine two co-op units into one unit is not allowed.

Ineligible projects

The following types of projects are ineligible for purchase by Investor:

- Projects composed of single-family detached units.
- Co-op hotels or time share, fractured, fragmented or segmented ownership projects.
- Houseboat projects.
- Restricted units. Co-op Share Mortgages in co-op projects with units that are subject to resale restrictions or located on land owned by community land trusts that could have an adverse effect on the security of the co-op share loan. This applies to any project or unit with any type of resale restriction such as, but not limited to, the following: artist in residence, Mitchell-Lama, and Housing Development Fund Corporation (HDFC).
- A tax-sheltered syndicate leasing to a co-op or "leasing" co-op, i.e., projects that involve the leasing of the land and improvements to the co-op corporation, even if the co-op corporation owns part of the building.
- Co-op projects that are subject to leasehold estates or ground rent outside of New York City. (This is not a reference to the Proprietary Lease, which gives the borrower the right to occupy the unit.)
- Multi-dwelling unit co-ops, i.e., projects that permit an individual or entity to hold individual stock ownership and the accompanying occupancy rights for more than one dwelling unit, with ownership of all of his/her shares financed by a single share loan.
- Limited equity co-ops in which the co-op corporation places a limit on the amount of return that can be received when stock or shares are sold.
- Co-op projects in which the developer or sponsor has an ownership interest or other rights in the project real estate or facilities, other than the interest or rights it has in relation to any unsold units.
- Any project where the builder, developer, or property seller is offering contributions that affect the value of property such as rent backs or lease backs, payment of PITI, and undisclosed contributions. Refer to Section 825.17: Contributions for seller contribution requirements.
- Co-op projects in New Jersey created (new construction or conversions) after May 9, 1988.
- Any project identified with a blanket insurance policy that covers multiple unaffiliated associations or projects. Refer to Blanket insurance (pooled insurance) in Section 825.12(b): Specific Property Types - Condominiums for a definition of unaffiliated.
- Significant deferred maintenance or significant special assessments, as determined by Investor review of Form 44: Cooperative Project Condition Questionnaire.

INVESTOR COOPERATIVE PROJECT APPROVAL PROCESS

All co-op projects must be submitted to and approved by Investor's Cooperative Project Approval Team (CPAT). Outlined below are instructions for Sellers to:

- Validate an existing project review status and/or
- Initiate a co-op project review with Investor.

Form 44: Cooperative Project Condition Questionnaire is required for all attached projects with more than four units and must be completed by a representative of the co-op board. If Investor determines that the project has significant deferred maintenance or significant special assessments the project is ineligible.

The Loan must Close (Note signed by the borrower and funds disbursed) on or before the Investor CPAT project approval or the Project Condition Questionnaire expiration date, whichever comes first.

Validate a project's status

- Select the Validate Status of Co-op Project option on the Cooperative (Co-op) Project Approval and Validation Request Form (Form 22) and complete sections one and three.
- Submit the completed form to CPAT. Refer to Seller Submission to CPAT below for submission details.

Within two business days from receipt of your inquiry, we will contact you via email to let you know whether the project is currently approved, or not approved, with Investor. If the project has not yet been reviewed by Investor, we will:

- Indicate what documentation is needed to begin the review, and request that you provide any applicable documentation already obtained.
- Contact the management company to obtain additional documents.

Initiating a co-op project review

Before delivering a Prior Approval Credit Package or a Non-Conforming Correspondent Credit Underwrite (CCU) Closed Loan Package:

- Select the Initiate Co-op Project Review option on the Form 22 and complete all sections.
- Submit the completed form and the required documentation to CPAT. Refer to Seller Submission to CPAT below for submission details and required documentation. CPAT will work directly with the co-op board contact, or management company to obtain all the required documentation and

complete the review.

- Sellers don't need to contact the co-op board for documents and information.

Note: Full co-op project approval is subject to an acceptable review of appraisals on individual Loans in the project. Additional information about the coop project obtained from an appraisal or during the Loan approval process could result in a change to the project's approval status.

Seller submission to CPAT

Fax or email the completed form as follows:

Fax: 1-866-967-2312

Email: (request info from lender)

Contact CPAT team with questions at: (request info from lender)

Required documentation for project approval

CPAT works with Sellers to obtain the following documents required to evaluate the co-op project:

- Documentation required for all projects
 - Individual Cooperative Interest Appraisal Report (Fannie Mae form 2090, dated March 2005).
 - Most recent financial statements available, including footnotes if available, for the project. If the project is new construction or a conversion, the budget is used instead of financials. The budget is included in the offering plan.
 - New York attorney general financial disclosure amendment is required when the sponsor/holder of unsold shares owns more than 10% of the project shares.
 - Evidence of adequate hazard, liability, fidelity, and flood (if applicable) insurance coverage.
 - Combined Cooperative Certification/Questionnaire (Form 23).
 - Cooperative Project Condition Questionnaire (Form 44) completed by a representative of the co-op board.
 - Leasehold documentation for leasehold projects in New York City.
 - If the ownership document is not the standard stock certificate, a copy or example of the ownership documentation.
 - If the occupancy document is not the standard Proprietary Lease or occupancy agreement, a copy or example of the occupancy documentation.
- Additional documentation required for new construction/conversion
 - The complete offering plan with all amendments is required (see Offering plan and prospectus).
 - Conversion projects fewer than three years old require that the co-op board has been operating for at least one year and an engineer survey/property condition assessment is provided.
 - Sales status report with contract dates and closed dates.
 - Builder resume with history of past projects.
 - Certification memorandum from a qualified attorney, based on a review of the project's legal documents, stating they are in compliance with Investor's requirements. Memorandum can be prepared by the same attorney who prepared the co-op's legal documents, but he/she must not be an employee, principal, or officer of the developer, or sponsor of the project.

APPRAISAL REQUIREMENTS

The appraisal must demonstrate market acceptance for the co-op form of ownership by the availability of similar comparable sales for co-op units in the market area.

- For areas outside of New York City, the appraisal must report the value of the co-op interest excluding its pro rata share of the blanket mortgage.
 - Appraisers must certify in the appraisal report that the pro rata share of the blanket mortgage on the real estate has not been included in the opinion of the market value of the co-op interest.
- For two- to four-unit co-op projects:
 - The appraisal must reflect that the project is located in an area with a demonstrated market acceptance by including the following:
 - Comparable sales from other two- to four-unit co-ops located in the subject co-op market area.
 - If there is a lack of comparable sales from other two- to four-unit co-ops in the subject market area, the appraiser must provide a list of two- to four-unit co-ops in the subject market area to support that two- to four-unit co-ops are common and customary in the market.
- The appraiser must address any impact to marketability for co-op projects that represent a legal nonconforming use of land.

PROJECT REVIEW REQUIREMENTS

Commercial use

Commercial units must not exceed 35% of the project's total square footage. Additionally the following must be reviewed:

- The presence of commercial units must not negatively impact the marketability of the project.
- The project must not be unique in its market.
- The commercial units' intended use must not affect the viability of the co-op project. For example, retail use may cause more traffic and impede parking availability more than a doctor's or dentist's office.

Common elements

The unit owners must be the sole owners of and have the sole right to the use of the project's facilities, common elements, and limited common elements. If both requirements are not met the project is ineligible.

Amenities shared with one or more community association(s) are acceptable provided the sharing agreement includes terms for use, expenses, and dispute resolution.

The developer or sponsor must not retain an ownership interest in any of the facilities related to the project such as parking, recreational facilities, etc.

Cond-ops

A cond-op is a condo project consisting of multiple condo units, one of which would be the residential condo (co-op) and the others being non-residential.

Because the commercial portion of the project impacts the financial viability of the residential co-op units, the financial statements of the condo must be obtained and reviewed in conjunction with the review of the financial statements for the co-op. The underwriter must look for any indication that one of the entities has a loan with the other entity or is in arrears on any obligations. Both the co-op corporation and condo association must be financially viable.

If the legal relationship between the co-op corporation and condo association cannot be determined from the financial statements, a review of the co-op offering statement is required. In addition, the underwriter must determine that the commercial use does not adversely impact the marketability of the residential units.

Financial stability

The project documentation must provide for the co-op to make financial statements for the most recent fiscal year available to the holder, insurer, or guarantor of any co-op loan for a unit in the project on submission of a written request. Federal tax returns may be requested at the CPAT underwriter's discretion.

On existing co-op projects, the most recent financial statements (income and expense statement and balance sheet (including footnotes, if available)) must be obtained and reviewed for financial stability. The most recent New York attorney general's disclosure statement, which includes the financial statements and operating budget for the co-op, is acceptable in addition to the financial statements from the co-op corporation.

The following are required:

- Maintenance fees cover the expenses of the co-op corporation.
- No more than 15% of owners (shareholders) are more than 60 days delinquent on any obligation to the co-op corporation.
- If rent from unsold units does not support the portion of maintenance fees related to those units, the negative cash flow from the unsold units does not cause the borrower's maintenance fees to increase by more than 20%.
- Reserves and other funding cover any proposed capital improvements.
- The sponsor (or holder of unsold shares) is current and has been current on maintenance fees and any other obligations to the co-op corporation for the previous 18 months. Verify this with a written certification from the co-op board or in the New York attorney general's financial disclosure amendment.
- The sponsor (or holder of unsold shares) is current on all financial obligations relating to other projects in which the sponsor (or holder of unsold shares) has at least a 10% interest. Verify this with an offering plan amendment, co-op questionnaire, sponsor disclosure form, or written certification from the accountant for the sponsor (or holder of unsold shares) or in the New York attorney general's financial disclosure amendment.

Current operating budget

The operating budget is not required on co-op projects with positive cash flows, reserves, and consistent information between the financial statements and the appraisal (with nothing adverse noted).

The operating budget is required when any of the following apply:

- The financial statements are more than 16 months old.
- The information provided by the appraiser is inconsistent with the information in the financial statements (i.e., changes in co-op eligibility).
- The financial statements show a negative cash flow of 15% or more of co-op annual income.

Underlying blanket mortgage

- The amount and terms of the underlying blanket mortgage must be verified by the appraiser and be reflected in the financial statements for the project.

- If the blanket mortgage for the project is a balloon mortgage, the remaining term must be at least six months.
- If the balloon mortgage incorporates an adjustable rate feature, and the remaining term is less than three years, then the current interest rate must not be subject to an interest rate adjustment prior to the maturity date.

Hazard insurance

- The co-op corporation must maintain a blanket all risk policy equal to 100% of the insurable replacement cost of the project improvements, including co-op units.
- Policy must show the co-op as the named insured.
- Unless a higher maximum is required by state law, the maximum deductible is 5% of the policy face amount.

Hazard endorsements

The HOA's policy must also include all of the following endorsements:

- Inflation Guard (or similar endorsement) unless it is not obtainable in the insurance market available to the co-op corporation.
- Ordinance or Law, if the enforcement of any building, zoning, or land-use law results in loss or damage, increased cost of repairs or reconstruction or additional demolition and removal costs unless it is not obtainable in the insurance market available to the co-op corporation.
- Mechanical Breakdown and Equipment Failure (aka Steam Boiler and Machinery Coverage), when the project units are stacked and the building has centralized heating or cooling
 - The insurance limit per covered mechanical breakdown or equipment failure must equal the lesser of:
 - 100% of the insurable value of the building housing the equipment
 - \$2 million
 - A standard policy purchased by the co-op corporation in acceptable in lieu of obtaining this as an endorsement.

Liability insurance

General liability coverage of at least \$1,000,000 for any single occurrence of bodily injury and property damage is required. If not already included in the terms of the policy, there must be a severability of interest (or similar endorsement) precluding the insurer's denial of a unit owner's claim because of negligent acts by the co-op corporation or other unit owners.

Fidelity insurance

Fidelity insurance is also known as employee dishonesty or crime insurance. Directors and officers insurance is not the same as fidelity insurance.

The fidelity insurance policy must name the co-op project as the insured and the premiums must be paid as common expense by the co-op.

Evidence of fidelity insurance is required unless any of the following apply:

- The project has 20 or fewer units
- The required amount of coverage is less than or equal to \$5,000 or less

For transaction where fidelity insurance is required, the coverage must meet one of the following:

- The minimum coverage required by state law, in states with statutory fidelity insurance requirements
- Sufficient to cover the greater of three months of assessments/maintenance fees or the amount of dues within the reserve fund monies that are in the custody of the co-op corporation or its management agent
- Sufficient to cover two months of HOA dues with one of the following financial controls:
 - The co-op corporation or the management company maintains separate bank accounts for the working account and the reserve account, each with appropriate access controls, and the bank in which funds are deposited sends copies of the monthly bank statements directly to the co-op corporation
 - The management company maintains separate records and bank accounts for each co-op project that uses its services and the management company does not have the authority to draw checks on, or to transfer funds from, the co-op corporation's reserve account
 - Two members of the board of directors must sign any check written on the reserve account

The co-op must carry fidelity insurance or employee dishonesty insurance to cover losses resulting from dishonest or fraudulent acts committed by the directors, managers, trustees, employees, or volunteers who manage the funds collected by the project. If the co-op uses a management company, it must be covered as well via an endorsement to the co-op corporation's policy that recognizes the management company as a designated agent. If the management company carries its own fidelity insurance, it must meet or exceed the level of coverage the management company is required to have by the co-op corporation and must adhere to at least one of the following controls:

- The management company maintains separate bank accounts for each project managed and cannot access the reserve account
- Two members of the board of directors must sign any checks written to the reserve account

Flood insurance

If any part of the co-op project's improvements are in a Special Flood Hazard Area, the co-op corporation must maintain flood insurance equal to the replacement value of the building, up to the maximum available under the National Flood Insurance Program (NFIP):

- \$250,000 on any one building with fewer than five units
- \$500,000 on any one building with five or more units

The maximum deductible allowed is the maximum available through the NFIP, which is currently \$10,000 on any one building regardless of the number of units. For private (non-NFIP) policies, a higher deductible is acceptable only when all of the following conditions are met:

- The deductible does not exceed 5% of the coverage amount.
- The per-unit deductible does not exceed \$2,500 per unit.
- Co-op corporation's reserves are equal to at least 75% of the deductible.

Refer to Section 545.06: Flood Insurance for additional details.

Leaseholds – eligible in New York City only

- The lessee must be the co-op board not the sponsor/developer and must not be a commercial entity.
- The ground and Proprietary Lease expiration must be at least five years longer than the term of the Loan being requested.
- The original ground lease terms must be no less than 60 years with at least one option to renew for a term not less than the original term.
- The ground lease provides that the co-op blanket Mortgagee shall receive notice of any monetary or nonmonetary default by the co-op and grants the Mortgagee the right to cure any such monetary or nonmonetary default on behalf of the co-op.
- The co-op's interest in the ground lease is assignable or transferrable.
- If an increase in the co-ops obligation to pay annual ground rent, over and above any other payments to be made by the co-op, is scheduled to occur on or before the second anniversary of the date of Loan delivery, the maximum increase is 10% of the co-op's annual operating budget, as disclosed in the co-op's fiscal year-end financial statements. The increase must be included in the monthly debt-to-income ratio.
- If the co-op's blanket mortgage is a balloon mortgage with a remaining term of fewer than three years, but not fewer than two years, or if the mortgage provides for interest rate adjustments, those increases in debt obligations and any ground rent increases must not cause the borrower's monthly assessment to be increased by more than 10% at the time the Loan is underwritten.
- CPAT confirms the enforceability of the terms and conditions of the ground lease.
- CPAT confirms the existence of monetary and nonmonetary defaults under the terms and conditions of the ground lease.

Litigation

If the co-op is involved in any litigation, arbitration, mediation, or other dispute resolution process, obtain the details from the co-op board and evaluate the risk. This information must be verified with a letter from the attorney for the co-op board, or if new construction or conversion, a sponsor's or an attorney's letter, insurance information, structural engineer's report, or other documentation as appropriate.

The following are some examples of types of litigation that pose little risk to the project and are acceptable:

- Board is suing individual owners for unpaid dues.
- Co-op is being sued for a slip and fall liability issue and the project has adequate liability insurance to cover the damages being sought by the plaintiff.
- Other suits filed by the co-op that do not impact the value or livability of the project.
- Project is involved in a matter described below:
 - Nonmonetary litigation involving neighbor disputes or rights of quiet enjoyment;
 - Litigation for which the claimed amount is known, the insurance carrier has agreed to provide the defense, and the amount is covered by the association's insurance; or
 - The co-op board is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due maintenance fees.
 - The co-op is the plaintiff and the litigation will not impact the project's financial stability;
 - The co-op is the plaintiff and the co-op is seeking recovery of funds for issues that have already been remediated, repaired, or replaced by the co-op and there is no anticipated material adverse impact to the HOA if the funds are not recovered.

- The project is acceptable if the construction defects have been corrected and the project is financially sound and marketable or adequate insurance coverage exists.
- Litigation related to anticipated damages and legal expenses will not exceed 10% of the project's funded reserves.
- Litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project.

The following are some examples of types of litigation or threatened litigation that impact the project's marketability and are ineligible:

- Lawsuit against the sponsor/developer for construction defects or other property deficiencies that impact health and safety.
- Suits filed against the co-op in which the damages exceed or are not covered by insurance.

Projects involved in threatened litigation (lawsuit has not yet been filed), excluding structural defects or property deficiencies that impact health and safety, are only acceptable when the risk to the project is assessed and it is determined that the:

- Co-op's insurance will cover potential damages or
- Project is in a position to benefit from the lawsuit

Presale and owner occupancy guidelines

A maximum of 20% of the units are allowed to be owned by any single entity other than the sponsor or holder of unsold shares.

For new construction properties, at least 50% of the total stock or shares in the co-op corporation and related occupancy rights of units in the project must be under bona fide contract for sale to primary residence purchasers.

For existing construction properties, at least 50% of the total stock or shares in the co-op corporation and related occupancy rights of units in the project must have been sold and conveyed to primary residence purchasers.

Pro rata share – New York City

For co-op projects in New York City, calculate the pro rata share of the underlying mortgage as follows:

$$\frac{[(\text{Underlying blanket mortgage balance} \div \text{total number of outstanding shares in co-op corporation} \times \text{subject shares}) \div (\text{appraised value} + \text{subject share of underlying blanket mortgage})]}{1}$$

The maximum pro-rata share is 35%.

Refer to the Appraisal requirements in this section for pro rata share requirements when the property is outside of New York City.

Proprietary Lease/occupancy agreement

The borrower must have a right to occupy the unit for a period that extends at least to the maturity date of the Loan. The Proprietary Lease/occupancy agreement must also prohibit the co-op from imposing unreasonable limitations on the borrower's ability to sell, transfer, or convey membership, or to sublease unit.

Recognition Agreement/right to cure borrower's default

In the event of a default by the borrower, the co-op corporation must permit the servicer to cure the borrower's default to the co-op corporation.

Special assessment

Current or planned special assessments must be reviewed by CPAT to determine that there are no adverse impacts to the project.

The following will be reviewed:

- The reason for the special assessment
- Total amount and payment terms
- Documentation to support that there is no negative impact to the financial stability, viability, condition, or marketability of the project.

A project may be eligible if the special assessments are:

- Not to remediate structural deferred maintenance, structural integrity, safety, habitability, or to replace failed major project components, depending on the amount. Financial statements may be required to determine if the co-op is paying special assessments or if the co-op has funds to make repairs.
- For remediation of structural deferred maintenance, structural integrity, safety, habitability, or replacement of failed project components including, but not limited to, roof, elevator, windows, HVAC, plumbing, electrical systems, mechanical systems, life/fire safety, or other significant deferred maintenance items. The project is ineligible until evidence of remediation has been provided.

Unpaid special assessment payments must be included in the borrower's debt to income ratio analysis.

Subsidies/tax abatements

Any subsidies, tax abatements, or similar benefits that will terminate in whole, or in part, within three years must be added to the borrower's monthly housing expense for qualifying. Use the portion of such subsidies or benefits that will be in effect on the third underwriting anniversary.

Transfer fees (flip taxes/waiver fee)

A transfer fee or flip tax is a fee paid by a seller or buyer on a housing co-op transaction typically in New York City. It is not a tax, and not deductible as a property tax. It is a transfer fee payable upon the sale of a unit to the co-op.

- The co-op project's legal documents must indicate that that a flip tax is allowed and provide for one of the following:
 - Exemption for lenders from paying the flip tax if the property is taken back in foreclosure, deed in lieu, etc.
 - Flip tax is only payable when the unit is being sold for a profit
 - Flip tax is calculated based on one of the following and does not exceed 5%:
 - Flat fee
 - Fee per share
 - Percentage of the appraised value or sales price
 - Dollar amount per room
- Transfer fees are found in the sales contract and noted by the appraiser or within the project legal documents.
- A project is ineligible if it has a transfer fee (flip tax) that does not have a stated value or if the co-op board is establishing the value at a later date.

Note: If the transfer fee is to be paid by the borrower at the time of purchase, that amount must be included in the cash to close.

Investor exposure

Investor exposure is calculated as the number of Investor loans in the co-op divided by the total number of units in the co-op. The maximum Investor exposure is 30%, unless one of the following is met:

- The current exposure is less than 30% and the subject Loan will put the exposure over 30%
- A Loan is a refinance or a purchase of a current co-op Loan that will replace a loan already being consider in the current exposure calculation

Exposure is contingent upon daily loan production and verified during the project review.

If the 30% exposure is exceeded during the project review process, the Loan is ineligible for purchase by Investor. The project review process includes the time frame after the Cooperative (Co-op) Project Approval and Validation Request Form (Form 22) is submitted by the Seller until the time the project approval is provided to the Seller.

ADDITIONAL REQUIREMENTS FOR NEW CONSTRUCTION AND NEW CONVERSION PROJECTS

New construction co-ops are defined as projects and units that have not been turned over to the co-op board or the units have never been occupied. New conversion co-ops are defined as projects and units that are being converted to a co-ops form of ownership and the co-op board has not been in existence for more than three years.

Architect or engineering report

Project conversions that do not involve gut rehabilitation (the renovation of a property down to the shell of the structure, including replacement of all HVAC and electrical components) must be reviewed to:

- Verify that all necessary repairs are complete.
- Ensure replacement reserves are identified for all capital improvements and noted as adequate by the party evaluating the project.

If the conversion was legally created during the past three years, the report must comment favorably on the following:

- Structural integrity of the project
- Condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.

All rehabilitation work involved in the co-op conversion must be completed in a professional manner.

Developer resume

Obtain a developer resume with a history of past projects. Complete a due diligence review into the developer and their previous experience via a web search.

Marketing plan

Information on the number of units sold must be obtained. Documentation or information is obtained from the sponsor.

Offering plan or prospectus

The entire offering plan and all amendments must be obtained. Areas of focus for review include, but are not limited to the items below.

- Special Risk Section – The Special Risk section must be reviewed in its entirety. Any items of concern must be addressed.
- Some examples of items that may be of concern are:
 - Litigation.
 - Sponsor's length of control of project (if less than 75% sold, recommend up to five years, no date may be of concern or over five years, recommend modification of offering plan).
 - Responsibility for payment of transfer taxes (typically borrowers cost).
 - Sponsor's unconditional right to rent rather than sell. The sponsor is to at least provide assurance of the intent to sell.
 - Lot line windows. Need to identify if any concerns with future window restrictions that may impact future value of unit as this may restrict the number of legal bedrooms, for example.
 - Summary of any ground leases, if applicable.
 - Summary of Proprietary Lease.
- Resale restrictions
- Expiration date
 - Existence of tax exemption or tax abatement program
 - Rights and obligations of the sponsor, board, and owners
- Introduction Section
 - Budget
 - Schedule of purchase prices and share allocations.
 - Identity of parties – who's involved in the transactions?
 - Procedures to purchase including closing costs, penalties, and fees.
 - Terms of underlying mortgage, if one exists.

COLLATERAL LOAN FILE DOCUMENTATION

Refer to Seller Guide Section 505.13: Additional Documentation Required for Cooperative Loans for specific collateral Loan file documentation required for co-ops.

NEW CONSTRUCTION

New construction Loans involve the granting of a long-term mortgage to a borrower for the purchase and/or construction of a new residence. To be considered new construction, the property must have never been occupied.:

Notes:

- These are considered purchase transactions.
- The borrower may or may not be the obligor of the construction financing.
- The borrower may or may not be the owner of the lot on which the residence is constructed.

Long-term financing to make a single disbursement to a builder or contractor or other party for the purchase of a completed property is considered a purchase transaction and subject to the guidelines for purchase transactions.

Refer also to Section 800.01(c): Identity-of-Interest Transactions Guiding Principles.

CONSTRUCTION-TO-PERMANENT FINANCING

Construction-to-permanent financing involves the granting of a long-term mortgage to a borrower to replace interim construction financing used for the construction of a new residence. Investor does not participate in the interim financing.

To be a construction-to-permanent transaction, one of the following conditions must be met:

- The borrower is the primary obligor of the construction financing that is obtained through a legitimate financial institution.
- The borrower is the owner of the lot on which the residence is constructed.

Rate/term refinance

Construction-to-permanent rate/term refinance transactions are subject to the following:

- The LTV/CLTV must be within the rate/term guidelines for the product and is based on the current appraised value for the property (both the lot and the improvements).
- Acceptable uses of rate/term refinance proceeds include:
 - Pay off the interim construction financing secured by the property, including paying off a lot lien.
 - Pay closing costs and prepaids on the new Loan.
 - Pay off the remainder owed to the builder and/or subcontractors when the interim construction loan is insufficient to pay the amount contractually owed to the builder.
 - Incidental cash to the borrower not to exceed 1% of the principal balance of the new Loan amount.

825.13: New Construction

	<p>Note: Borrowers recouping costs as part of a construction-to-permanent transaction is a cash-out refinance. See requirements below.</p> <p>Cash-out refinance Any construction-to-permanent transaction not meeting the requirements for a rate/term refinance is a cash-out refinance, and the Loan must be underwritten as a cash-out refinance. Borrowers recouping costs as part of a construction-to-permanent transaction is a cash-out refinance.</p> <p>Borrower in construction industry If the borrower is acting as his/her own builder (general contractor or sub-contractor) and his/her primary occupation is in the construction industry, the subject property must be an owner occupied primary residence.</p> <p>SINGLE-CLOSE CONSTRUCTION Single-close construction-to-permanent financing offers borrowers a one-time closing by allowing a modification of the interim construction Loan. Investor does not purchase single-close construction-to-permanent Loans.</p>
<p>825.14: Disasters</p>	<p>DISASTER POLICY Investor Disaster Policy requirements are listed in this section.</p> <p>Properties and areas subject to disaster policy Investor's disaster policy applies to the following:</p> <ul style="list-style-type: none"> Disaster declarations allowing individual assistance issued by the Federal Emergency Management Agency (FEMA) Investor issued disaster notifications The Seller is aware the subject is located in an area where a disaster has occurred, but not declared by Investor or FEMA <p>Affected area Investor may redefine the areas of a disaster based on information from FEMA Declarations, market knowledge, and other sources.</p> <p>Duration of disaster policy Investor's disaster policy applies to all loan applications prior to the disaster and 90 days following FEMA's or Investor's declaration. Investor or FEMA may extend or retract disaster declarations.</p> <p>Appraisals with effective dates prior to the disaster For appraisals with effective dates prior to the disaster (for subject property or departure residence), Investor requires a property inspection for any Loan secured by a property in an affected area.</p> <ul style="list-style-type: none"> If the inspection notes the property is uninhabitable, unsound, or the condition of the property has been materially affected by the disaster, repairs must be completed and a new full appraisal is required. If the inspection notes the property is habitable, sound, and the property has not been materially affected by the disaster: <ul style="list-style-type: none"> Investor does not require repairs to be completed. The original collateral valuation obtained can be used; however, professional estimates of the repair costs must be obtained and the Seller must establish an escrow account with sufficient funds to guarantee completion of the repairs. Refer to Section 825.19: Postponed Improvement/Repair Escrows for further requirements. <p>The following property inspection formats are acceptable:</p> <ul style="list-style-type: none"> Final inspection or appraisal update of the property signed by the original appraiser, or substitute appraiser if the original appraiser is not available Seller's certification executed by a person employed by the Lender, but who does not receive direct compensation from the subject transaction, stating an acceptable inspection of the property was completed; refer to Seller's Certification (Exhibit 27) Fannie Mae Desktop Underwriter Property Inspection Report (Form 2075) Freddie Mac Loan Prospector Condition and Marketability Report (Form 2070) Exterior property inspection from a third-party inspector <ul style="list-style-type: none"> The inspector must be in compliance with all applicable state and local licensing/ certification requirements. The inspection must include the following: <ul style="list-style-type: none"> Full property address Investor loan number Signed attestation that an inspection was completed and the property was not materially damaged; refer to Third-Party Disaster Inspection Certification (Exhibit 25)

	<ul style="list-style-type: none"> Photos of all available exterior walls of the property demonstrating that the property does not have damage <p>Appraisals with effective dates after the disaster For appraisals with effective dates after the disaster, the appraiser must address the disaster’s effect on property values in the market. The commentary must include post-disaster market data (i.e., closed sales, pending sales, or listings) or analysis demonstrating the appraiser considered the impact of the disaster in developing their opinion of value.</p> <p>Employment In the event of widespread property destruction, a reverification of the borrower’s employment may be required by Investor. Sellers will be notified when reverification of employment is required.</p>
<p>825.15(a): Eligible Transactions</p>	<p>LOAN SIZE LIMIT</p> <ul style="list-style-type: none"> First loan amounts must be greater than the standard maximum contiguous U.S. one-, two-, or three-to four-unit conforming loan limit (as applicable). All Loans must be submitted in whole dollar amounts. The maximum loan amount is \$3 million. <ul style="list-style-type: none"> For Loans with LTVs less than or equal to 80%, refer to Section 950: Non-Conforming LTV Matrix For Loans with LTVs greater than 80%, refer to Section 825.50: Loans with LTVs Greater Than 80%. <p>AUCTION TRANSACTIONS Buyer’s premium and fees</p> <ul style="list-style-type: none"> When the auction buyer’s premium combined with other sales and marketing charges or fees exceed 12% of the total purchase price, the excess amount over 12% must be deducted from the purchase price. If expenses for repairs will be reflected on the seller’s Closing Disclosure, the repairs must be fully documented including but not limited to contracts, supporting work orders, or other acceptable documentation in order to be excluded from the 12% cap. If documentation is not obtained, the fees must be included in the 12% cap. <p>Collateral policy The auction terms must be included as part of the sales contract provided to the appraiser for review.</p> <p>Determining purchase price and maximum LTV/CLTV</p> <ul style="list-style-type: none"> Only the auction buyer’s premium is allowed to be added to the accepted bid to determine the total purchase price. The maximum LTV/CLTV is calculated from the lesser of the accepted bid plus the auction buyer’s premium, or the appraised value. <p>NONOCCUPANT COBORROWER When there is at least one borrower that will occupy the subject property as a primary residence and there is a nonoccupant coborrower on the Loan, follow primary residence guidelines and refer to Section 850: Qualifying Ratio Tables for DTI requirements. Transaction must not be treated as a second home or investment property when any borrower intends to occupy the subject property as a primary residence.</p> <p>REO CONTRACTS Real Estate Owned (REO) properties are eligible for purchase when the following requirements are met:</p> <ul style="list-style-type: none"> The purchase contract for the property has no financing restrictions. LTV is based on the lesser of the appraised value, sales price, auction/foreclosure bid value, or auction/foreclosure sales price. <p>REFINANCE OF LOANS WITH LESS THAN ONE YEAR SEASONING The underwriter must analyze transactions involving the payoff of a first lien that has been seasoned for less than one year. Seasoning is calculated from the Note date of the previous loan to the initial loan application date.</p> <p>If the first lien being paid off was a purchase transaction, the LTV/CLTV must be determined as follows:</p> <ul style="list-style-type: none"> For properties with no home improvements completed, use the lower of: <ul style="list-style-type: none"> Original documented purchase price New appraised value For properties with home improvements completed, use the lower of: <ul style="list-style-type: none"> Original documented purchase price plus documented home improvements New appraised value

Home improvements must have been completed since the lien was originated, construction costs must be documented (paid receipts, cancelled checks, construction contracts, etc.), and the improvements must be supported by the current valuation. Home improvements may not equate to a dollar-for-dollar increase in value, and contributory value should be considered.

RATE/TERM REFINANCES

Investor's definition of a rate/term refinance is a new first lien that replaces the borrower's existing financing on a property. The purpose of any simultaneous secondary financing must not impact the rate/term classification of the new first lien.

The new first lien amount for a rate/term refinance may not exceed the sum of:

- Payoff of the existing first Mortgage (principal balance plus accrued interest, and any required prepayment penalty, only; other costs such as late fees and past-due amounts may not be paid with the new Loan)
- Payoff (as defined above) or pay down of any home equity line of credit (HELOC) (in any lien position) or subordinate mortgage loan, used in its entirety to acquire the subject property. Any remaining balance or lien must be subordinated to the new Loan.
 - The Closing Disclosure from the borrower's purchase of the subject property must be provided evidencing the proceeds were used in their
 - entirety to acquire the subject property.
- Payoff of a VA Partial Claim that was filed to resolve a borrower's deferred COVID-19 forbearance payments. Any remaining balance must be paid off prior to Closing and cannot be subordinated.
- Standard Loan fees (e.g., closing costs on the new mortgage; prepaids, such as interest, taxes and insurance, etc. and points).
- Incidental cash to the borrower not to exceed 1% of the principal balance of the new Loan amount.

Payoff of contracts for deed (installment land contracts)

The payoff of contract for deed (also called installment land contract or contract for bond) is treated as a purchase or rate/term refinance based on the date the contract was executed.

- When the proceeds of a Loan are used to pay off the outstanding balance on an installment land contract that was executed within the 12 months preceding the date of the loan application, the Loan must be treated as a purchase transaction.
 - The LTV/CLTV ratio must be determined by dividing the new loan amount by the lesser of the total acquisition cost (defined as the purchase price indicated in the land contract, plus any costs the borrower incurs for rehabilitation, renovation, or energy conservation improvements) or the current appraised value of the property.
 - Acquisition costs must be documented.
 - No cash back is allowed at Closing.
- When the installment land contract was executed more than 12 months before the date of the loan application, the Loan must be treated as a rate/term refinance.
 - The LTV/CLTV ratio must be determined by dividing the new loan amount by the current appraised value of the property.
 - The borrower must provide third-party documentation for the most recent 12 months as evidence that the payments were made according to the contract terms.
- Cash-out refinances involving the payoff of an installment land contract/contract for deed are not eligible.

CASH-OUT REFINANCES

Cash-out refinances are eligible. Any refinance transaction not meeting the requirements for a rate/term refinance is a cash-out refinance. The maximum cash-out limit is \$1 million for all transactions.

Cash-out purpose

The full purpose of the cash-out must be provided.

If the loan application or other documentation shows the purpose of the funds from the cash-out refinance is to purchase cryptocurrency or other related virtual currency, the loan is ineligible.

Owelyt lien

A transaction that requires one owner to buy out the interest of another owner due to divorce or to buy out the interest of another on an inherited property is known as payoff of an owelyt lien. The following requirements apply:

- Provide evidence that the subject property was jointly owned for at least 12 months preceding the loan application date, except in the case of an inheritance.
- Estate documents are required if ownership by inheritance.
- Provide evidence the borrower and the co-owner receiving the buy-out proceeds have occupied the subject property as their primary residence, except in the case of an inheritance.

- Provide a written agreement signed by all parties that states the terms of the property transfer and the proposed disposition of the proceeds from the refinance transaction.
- Borrowers who acquire sole ownership of the property may not receive any of the proceeds of the refinance.
- The borrower buying out the other party's interest must meet all qualifying requirements.
- If the property is a homestead property in Texas, refer to Section 825.15(c): Texas Homestead Properties

Delayed financing/allowable cash out for properties recently purchased with cash

If borrowers have purchased a property for cash within the preceding 90 days, reimbursement of the borrower's cash investment is allowed subject to all of the following:

- Closing Disclosure indicates cash purchase within 90 days prior to the application.
- Underwrite the Loan based on purchase transaction guidelines including:
 - 80% maximum LTV/CLTV
 - Maximum DTI
 - Minimum Loan Score
- The LTV/CLTV is based on the lesser of the original purchase price or current appraised value.
- Borrower has exhibited a historic level of assets to support the cash purchase supported by Schedule B of the last two years' tax returns or other supporting documentation to verify receipt of such funds.
 - A paper trail evidencing the funds used to acquire the subject property is acceptable as long as the funds had been on deposit at least 90 days prior to the date of the original transaction.
- Funds used for the original purchase must not be borrowed, except by means of a fully secured loan (for example, margin account or other real estate).
- The Loan must be Registered and Closed as a cash-out refinance since the borrower is already in title to the property.

SECOND HOMES

All of the following requirements apply for second homes:

- Loan must be secured against a one-unit property.
- The borrower must occupy property for at least two weeks of the year.
- Property may not be subject to any agreements restricting the borrower's occupancy such as mandatory rental pools.
- Property must be suitable for year-round occupancy.
- While, there are no minimum mileage requirements from the primary residence, the subject property must be located (in a resort area or where the borrower regularly conducts business) so as to function as a second home.
- Income from the property is not allowed to be used to qualify.

INVESTMENT PROPERTIES

Investment properties are eligible with the following restrictions:

- One- to four-unit property allowed for purchase and rate/term refinances.
- One-unit property allowed for cash-out refinances.
- Cooperatives are not allowed.
- Condominiums (attached/detached) in Miami-Dade County are not allowed.
- 5-year ARMs are not allowed.
- Gift funds are not allowed.

PROPERTIES LISTED FOR SALE

Any refinance transaction secured by a property is ineligible if it is:

- Currently listed for sale, or
- Listed for sale within the six months prior to the loan application.

THIRD PARTY ORIGINATIONS

Originations, other than the Seller's own, are permitted. Additional approval is required, refer to Section 200.04: Net Worth and Financial Requirements for approval requirements and restrictions.

TITLE CHANGES LESS THAN 12 MONTHS

These are transactions where the borrowers have been transferred into title, perhaps by a quit claim deed, and may or may not include a transfer from one individual to another or from an LLC or another business entity to an individual. The borrowers are attempting to refinance the existing mortgage from the previous owner's name to their name. This situation presents red flags for credit and transaction risk.

The following title changes are eligible with appropriate documentation to evidence the relationship and to show that there is not an unrelated party entering the chain of title:

	Eligible title changes	Required documentation
	Marriage/domestic partnership/civil union	Marriage, domestic partnership, or civil union certificate
	Court-ordered, including but not limited to, divorce, death, or inheritance	Divorce decree, court order, or estate documents
	Transfer out of an LLC where the borrowers match the members of the LLC	LLC certification or Articles of Organization showing no members other than the borrowers on the subject transaction
	Transfer in or out of a trust where the borrowers match the settlor/trustor/grantor of the trust	Trust agreement or Trust Certification
	<p>In addition to the documentation requirements above, the following must be met:</p> <ul style="list-style-type: none"> Borrower(s) qualify under standard underwriting requirements. Transaction is acceptable as a rate/term or cash-out refinance (refer to eligible transaction requirements specified previously in this section). The reason for the title transfer is explained. Status of the new title holders is identified and listed in Schedule B-1 of the preliminary title policy. <p>Transactions that do not meet the requirements above are eligible when all of the following are met:</p> <ul style="list-style-type: none"> The borrower has been on title for more than six months. The reason for the title transfer is explained. Requirements listed in Section 825.15(b): Identity-of-Interest Transactions, with the exception that the transaction must be considered a rate/term or cash-out refinance (refer to eligible transaction requirements specified previously in this section). 	
825.15(b): Identity-of-Interest Transactions	<p>IDENTITY-OF-INTEREST TRANSACTIONS</p> <p>Identity-of-interest transactions includes both non-arm's length and at-interest transactions. Refer to Section 800.01(c): Identity-of-Interest Transactions Guiding Principles.</p> <p>Eligibility requirements</p> <p>Second homes and investment properties are ineligible for purchase by Investor if the transaction includes non-arm's length and/or at-interest characteristics.</p> <p>For newly constructed properties, the Loan is not an eligible transaction when the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or seller of the property.</p> <p>Documentation requirements:</p> <p>Identity-of-interest transactions are subject to the following additional requirements:</p> <ul style="list-style-type: none"> Copy of the canceled earnest money check to verify payment to the seller. If there is a relationship between the borrower and the seller, the borrower must provide a written explanation stating the relationship to the seller and the reason for purchase. Verification that the borrower is not now, nor has been in the previous 24 months, in title to the property. Sales contract assignments must also meet the following: <ul style="list-style-type: none"> There is no increase in sales price. The explanation for the assignment is required. If the earnest money is being transferred, it is treated as a sales concession and deducted from the sales price. <p>Title changes</p> <p>Title changes from LLC or partnership to an individual are not allowed.</p> <p>TYPES OF IDENTITY-OF-INTEREST TRANSACTIONS</p> <p>Assignment of sales contract</p> <p>This is a transaction where the sales contract for the subject property has been assigned from another buyer to the borrower. These are considered identity-of-interest transactions when the assignment creates a non-arm's length or at-interest influence.</p> <p>Borrowers who are builders or developers</p> <p>New construction transaction is considered to be non-arm's length when the borrower is self-employed as the builder or developer (or holds principal ownership in the construction or development company) that is selling the property.</p> <p>Employer/employee sales</p> <p>This is a transaction in which a builder or developer is selling a property to one of its employees who does not hold a principal ownership interest.</p>	

Family sales

This is a transaction where one family member is selling to another. Often there is no real estate agent involved or the agent may also be a family member. These transactions carry the potential for increased risk as they may be bailout situations (e.g. the selling party has financial problems and is unable to refinance).

Gift of equity

Gift equity in the subject property is an acceptable source of down payment, as long as the amount of equity has been verified. The donor must provide a gift letter. Equity gifts are only allowed after the required minimum down payment has been made from the borrower's own funds.

TEXAS HOMESTEAD PROPERTY

In addition to standard guidelines, the following guidelines apply to purchasing and refinancing of a primary residence in the state of Texas.

Texas Section 50(a)(6) transactions

Loans closed as a Texas Section 50(a)(6) transaction are ineligible for purchase by Investor.

Texas refinance

Investor requires the Seller to provide documentation (commitment for title insurance, Mortgage/deed of trust and/or Closing Disclosure/HUD-1) in each Loan package to verify if the loan being paid off or subordinate lien is a Texas Section 50(a)(6).

Texas Section 50(f)(2) transactions

A Texas Section 50(f)(2) is eligible for purchase and the following apply:

- The Texas Section 50(a)(6) lien being refinanced must be seasoned for at least 12 months. Seasoning is calculated from Note date to Note date.
- Maximum LTV/CLTV is 80%.
- The new Loan is not allowed to include the advance of any additional funds other than the amount necessary to pay off the Texas Section 50(a)(6) balance, other valid debt secured against the homestead property (if applicable), and actual closing costs required to refinance, and the borrower is not allowed to receive incidental cash back.

Investor's definition of a rate/term refinance or a cash-out refinance (as defined above) may differ from the way mortgages are defined under Texas law.

- Texas law defines the type of transaction the Loan must be closed as, and
- Investor defines the type of transaction the Loan must be underwritten and priced as.

All Mortgages that constitute Texas Section 50(f)(2) under Texas law must comply with Texas provisions, regardless of whether Investor classifies the Loan as a rate/term or cash-out.

The table below illustrates the difference between how the Loan must be underwritten and priced versus how it must be closed.

TEXAS REFINANCE TRANSACTIONS		
Lien being paid off or down with new Mortgage	Loans to be underwritten and priced as	To ensure valid first lien, Loan must be closed as
Texas home improvement non-Texas Section 50(a)(6) lien, regardless of seasoning	Rate/term	Rate/term
Purchase money lien, regardless of seasoning	Rate/term	Rate/term
Texas Section 50(a)(6) Lien, seasoned less than 12 months	Ineligible for purchase	N/A
Texas Section 50(a)(6) lien, seasoned at least 12 months that meets the Texas Section 50(f)(2) requirements	According to Investor's rate/term or cash-out definition	Rate/term
Federal Tax or Owelty Lien	Cash-out	Rate/term

Rate/term refinances

- Total financed closing costs are limited to 10% of the new loan amount.
- Special title insurance coverage must be obtained when impounds for prepaid expenses* are included in the new loan amount. The following must be included as a Schedule B Exception:
 - Possible defect in lien of the insured mortgage because of the insured's inclusion of reserves or impounds for taxes and insurance in the original principal of the indebtedness secured by the insured mortgage.
- Incidental cash back to the borrower at Closing is not allowed.

825.15(c): Texas Homestead Properties

	<p>*Prepays are defined as funds collected for the payment of:</p> <ul style="list-style-type: none"> • Real estate taxes (includes non-delinquent taxes which are due and payable, as well as reserves) • Hazard insurance premiums • Monthly mortgage insurance (MI) premiums covering any period after the settlement date <p>Options when paid outside Closing (POCs) costs are credited to closing costs</p> <p>The maximum amount of paid outside closing (POC) costs applied as principal reduction at Closing is \$1,000. Adjusting the principal and interest payment on the Loan or reamortizing the Loan is not allowed. If the amount to be credited exceeds \$1,000 the loan amount must be reduced and the closing documents redrawn. It is acceptable for the amount of the POC to be applied as a credit towards closing costs:</p> <ul style="list-style-type: none"> • Reducing the amount of cash needed to close, or • Resulting in reimbursement to the borrower of not more than the amount paid prior to Closing. <p>Please note this is the only circumstance when the Closing Disclosure may reflect any cash back to the borrower on rate/term refinance transactions of homestead property in Texas.</p> <p>Subordinate liens</p> <p>Transactions that include subordinate liens have the following restrictions:</p> <ul style="list-style-type: none"> • Only one lien subject to Texas Section 50(a)(6) provisions is allowed to be secured by the subject property at any given time, regardless of lien position. • When the subordinate lien is subject to Texas Section 50(a)(6) provisions, the maximum LTV/ CLTV is the lesser of 80% or the maximum allowed by product or loan amount. <p>Pay Off of subordinate lien(s)</p> <ul style="list-style-type: none"> • If the subordinate lien was used entirely for home improvements, it must have been originally closed using the entire amount for home improvements as evidenced by a mechanic's lien contract on the commitment for title insurance. Documenting home improvements by obtaining canceled checks, invoices, receipts, lien waivers, etc., is not acceptable. • If loan proceeds are being used to pay off a federal tax lien or a co-owners' interest in the subject property (known as an owelty lien), the lien must be recorded and appear on the commitment for title insurance.
<p>825.16: Prepays</p>	<p>CREDIT FOR INTEREST RATE CHOSEN</p> <p>For all transactions, the funds derived from premium pricing (Credit for Interest Rate Chosen, CFIRC), are only allowed to be used to pay the borrower's typical closing costs and/or prepaid expenses.</p> <p>Typical prepaid items paid by the borrower include:</p> <ul style="list-style-type: none"> • Interest charges covering any period after the settlement date • Real estate taxes covering any period after the settlement date • Hazard insurance premiums • Homeowner association (HOA) dues <p>Typical Closing costs paid by the borrower:</p> <ul style="list-style-type: none"> • Origination fee • Discount points • Appraisal fees • Title searches and surveys • Title insurance • Taxes • Deed-recording fees • Credit report charges <p>CFIRC is not allowed to be used to pay any portion of the borrower's down payment, personal debts (e.g., revolving debt), collection accounts, judgments, escrow shortages or any other item that is not considered a typical prepaid item or typical closing cost paid by the borrower as listed above. This interest credit does not affect the amount of cash reserves required to be verified. Other property improvement expenses not related to the transaction or not required by the purchase contract are not allowed.</p> <p>For transactions where CFIRC exists, cash back to the borrower as a result of the premium pricing is restricted to the lesser of 1% of the loan amount or \$2500.</p> <p>PREPAIDS</p> <p>Prepaid settlement costs (prepays) are:</p> <ul style="list-style-type: none"> • Interest charges covering any period after the settlement date • Real estate taxes covering any period after the settlement date

- Hazard insurance premiums
- Homeowners association (HOA) fees

Prepays are normally paid by the customer.

Property seller prepaids

The amount that the property seller pays towards these prepaid settlement costs (prepaids) must be included in the seller contribution limitations outlined in Section 825.17: Contributions.

The amount that the borrower's employer pays towards the prepaids is not included in the seller contribution limitations.

Refinances

Prepays are allowed to be financed in a refinance transaction.

Refer to Section 825.15(c): Texas Homestead Properties for Texas homestead properties.

825.17: Contributions

CONTRIBUTIONS

Interested party contributions (IPCs) include the following:

- Financing contributions
- Sales concessions

Financing contributions are any costs paid by a party to the transaction that are normally paid by the borrower. Some examples include:

- Closing costs
- Discount points
- Commitment fees
- Origination fee
- Interest rate buydown for the purpose of permanently lowering the borrower's monthly payment or interest rate on the Loan
- Transfer-related charges normally paid by the borrower (e.g., transfer taxes, tax stamps, costs of title insurance policies and surveys, recording fees, and attorneys' fees)
- The costs of any other items related to the transactions that are traditionally paid by the borrower (e.g., application fees or appraisal costs)

It is acceptable for financing contributions to be paid by the seller, builder, developer, real estate agent, or any other interested party to the transaction, including any affiliates as long as the total contribution is within the contribution limits based on occupancy and LTV.

A lender or employer is not an interested party to a sales transaction unless it is the property seller or affiliated with the property seller or another interested party to the transaction.

Interested party contributions are not allowed to be used to meet the borrower's down payment or reserves/post-closing liquidity requirements.

Contribution limits

The maximum allowable financing contributions from interested parties is based on the lesser of the purchase price or appraised value.

Property Type	CLTV	Contribution
Primary residence	>80%	3%
	≤80%	6%
Second home	≤80%	6%
Investment	Any	2%

Refer to Section 950: Non-Conforming Conventional LTV Matrix for LTV/CLTV limits.

Homeowners association dues

It is acceptable for the property seller, builder, developer, real estate agent, or any other interested party to the transaction, including any affiliates, to pay up to 12 months of homeowners association (HOA) fees/dues on behalf of the borrower when all of the following requirements are met:

- Monthly HOA dues are counted in the DTI.
- Total amount is included in the interested party contributions.
- Fees/dues are paid directly to the HOA and not the borrower.
- HOA fees/dues paid by an interested party must be reflected on the Closing Disclosure.

Contributions excluded from limits

Financing contributions that are not included in the contribution limits are:

- Property seller-paid transfer-related charges
- Unplanned buydowns

Property seller-paid transfer-related charges

Excluding property seller-paid transfer-related charges from the contribution limits is acceptable if these charges are paid by property sellers in the subject market area in virtually all sales transactions.

Unplanned buydowns

- Unplanned buydowns are funds paid at Closing by the builder, developer, or other interested party to reduce the effective interest rate on the borrower's Loan to a rate that is closer or equal to the rate specified in the sales contract.
- Unplanned buydowns arise from an increase in mortgage market interest rates between the date of the sales contract and the date of the Loan Closing. For example, during construction and prior to Closing, prevailing interest rates rise and the builder increases the amount of financing concessions (using funds from the profit margin) to comply with the sales contract financing terms.
- To be an unplanned buydown, all of the following must be met:
 - The sales price of the property must not have changed and the transaction must be closed at the original sales price.
 - The terms of financing must be specified in the sales contract. The interest rate must be adequately identified in the contract.
 - The amount paid as an unplanned buydown must have been caused by an increase in the mortgage market interest rates between the date of the contract and the Closing date.

Costs and charges resulting from financing terms listed in the sales contract that are more favorable to the borrower than the market conditions that existed on the date of the sales contract are not an unplanned buydown and must not exceed the contribution limits.

Sales concessions

Sales concessions include any of the following:

- Financing contributions in excess of the maximum financing contribution limits
- A cash credit, cash rebate, incentive, or inducement/enticement to purchase from the property seller, builder, or developer (e.g., excessive marketing costs, commissions, or seller financing at below market interest rates)
- Any personal property/non-realty contributions such as furniture, decorator items, automobiles, or other giveaways
- Funds used to reimburse the borrower for payment of fees charged to process or negotiate a short sale.

For underwriting purposes, a downward adjustment to the property's sales price must be made to reflect the amount of the sales concession. The maximum LTV/CLTV ratio must then be calculated based upon the lesser of the reduced sales price or the appraised value.

The appraised value of a subject property must reflect the value of the real property and exclude all personal property. Personal items sold with the property or left at the convenience of the seller are acceptable if they do not provide an inducement for the buyer to purchase the property.

Examples of personal property where a value determination is required include, but are not limited to:

- Automobiles
- Farm equipment
- Fully furnished model homes

Examples of personal property acceptable with no value assigned include, but are not limited to:

- Customary items (e.g., stove, refrigerator, dishwasher, washer/dryer, window coverings, and carpeting)
- Used items left for the convenience of the seller (e.g., a swing set, above-ground pool/spa, pool cleaning equipment, lawn mower, and picnic table/patio furniture)

All personal property transferring in a purchase transaction must be analyzed by the appraiser. The appraiser must include comments that personal items were considered and whether or not they affected the sales price. If applicable, negative adjustments should be made to the comparable sales when personal items affected the sales price. Positive adjustments to comparable sales are not acceptable.

CLOSING DISCLOSURE REVIEW

All fees, disbursements, and charges associated with the purchase transaction must be fully disclosed in the purchase agreement and available to the appraiser for consideration in determination of the property's market value; therefore, a review of both the borrower and seller's charges/contributions on the Closing Disclosure is required. Disbursements on the seller's Closing Disclosure paid to the borrower or an entity controlled by the borrower, or to a company owned by the seller requires additional consideration.

Undisclosed interested party contributions (IPCs)

In some cases there are contributions that are outside of the loan closing and are not disclosed on the Closing Disclosure. Undisclosed contributions tend to reduce the effective sales price of the property and therefore may compromise the LTV ratio for the Mortgage. Loans with undisclosed contributions are ineligible.

<p>825.18: Tax and Insurance Escrows</p>	<p>ESCROWS Sellers are responsible for adhering to applicable state laws for LTV requirements. Refer to Section 515.04: Escrow/Impound Accounts for additional information.</p> <p>LOANS WITH FLOOD INSURANCE For all Loans where the property is located in a Special Flood Hazard Area (SFHA), an escrow/impound account must be established for the payment of flood insurance premiums, regardless of LTV.</p> <p>SPECIAL ASSESSMENTS If the special assessment is included in the tax bill, it is treated like other real estate taxes and included in the total monthly housing expense for qualification purposes.</p>
<p>825.19: Postponed Improvement/Repair Escrows</p>	<p>ESCROW ELIGIBILITY Escrows for existing and new construction properties are allowed if the incomplete items do not affect the marketability, safety, livability, soundness, or structural integrity of the property. The appraiser must provide the "as completed" value as the appraised value. Refer to Section 545.11: Escrow for Postponed Improvements/Repairs for additional delivery requirements when a Loan has an escrow holdback.</p> <p>Eligible escrows Postponed improvements and/or repairs can be escrowed if:</p> <ul style="list-style-type: none"> • They are part of the sales contract (third-party contracts are not permissible) for purchase transactions. • They are postponed for a valid reason, such as inclement weather or a shortage of building materials. • The establishment of an escrow does not impair or adversely affect the mortgage or title insurance during the completion period. • They do not affect the ability to obtain a certificate of occupancy for new construction properties. <p>Ineligible escrows Properties with a current condition rating of C5 or C6 or quality rating of Q6 are not eligible for escrows. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations. Examples of incomplete improvements and/or repairs that cannot be escrowed for are:</p> <ul style="list-style-type: none"> • Partially completed additions, renovations, or ongoing construction (including swimming pools) • Physical deficiencies that could affect the soundness or structural integrity of the improvements, including but not limited to: <ul style="list-style-type: none"> ○ Cracks or settlement in the foundation ○ Water seepage ○ Active roof leaks ○ Curled or cupped roof shingles ○ Inadequate electrical service or plumbing <p>Escrows not required If the appraiser reports minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, an escrow for completion account is not required (and repairs do not need to be complete) provided all of the following are met:</p> <ul style="list-style-type: none"> • The appraisal is completed "as is" and/or the cost to cure is less than or equal to 2% of the appraised value. • The minor conditions or deferred maintenance items are included in the appraised value. • The property has a current UAD condition rating of C4 or better and a quality rating of Q5 or better. <p>Examples of minor conditions or deferred maintenance items that are typically due to normal wear and tear include but are not limited to:</p> <ul style="list-style-type: none"> • Worn floor finishes or carpet • Minor plumbing leaks • Holes in window screens • Cracked window glass <p>AMOUNT AND LENGTH OF ESCROW An escrow account equal to 120% of the estimated costs for completing the postponed improvements and/or repairs must be withheld from the Loan proceeds. However, if the contractor or builder can guarantee a fixed-price contract for the improvements and/or repairs it is acceptable to use the contract price for the escrow amount.</p>

	<p>The cost to complete the postponed improvements and/or repairs must not be greater than 10% of the “as completed” appraised value.</p> <p>Incomplete items must be completed within 180 days of the date printed on the Note.</p> <p>DOCUMENTATION REQUIREMENTS</p> <p>All of the following documents are required when an escrow account is set up:</p> <ul style="list-style-type: none"> The appraiser must provide a list of the incomplete items; the appraiser or a disinterested (but relevant) party may provide a cost to complete the incomplete items. <ul style="list-style-type: none"> An example of a disinterested (but relevant) party is a contractor/painter who provides an estimate to paint interior walls. A relevant party <ul style="list-style-type: none"> includes, but is not limited to, a representative of a home improvement store or an independent contractor that performs the services needed to complete the improvements. The escrow agreement must be completed and fully executed. A clear final inspection to be obtained at completion of postponed improvements and/or repairs within the specified time frame. Final title report that does not show any outstanding mechanic's liens, take any exceptions to the postponed improvements or the escrow agreement. If the final title report is issued before the completion of the improvements, an endorsement to the title policy that ensures the priority of the Mortgage lien must be obtained. <p>ESCROW FOR MASSACHUSETTS SEPTIC SYSTEM REPAIR OR REPLACEMENT</p> <p>Loans with escrows for repairs or replacement of septic systems in Massachusetts are eligible subject to the following:</p> <ul style="list-style-type: none"> Existing properties with a functioning septic system. A copy of the bid, approved by the County Board of Health must be provided. Required escrow amount is one times the estimated cost to complete the repair or replacement. Work must be completed within 60 days of Closing (180 days if weather related).
<p>825.20: Relocation</p>	<p>TRANSACTION TYPE AND OCCUPANCY</p> <ul style="list-style-type: none"> Purchase transactions Primary residence <p>DOCUMENTATION REQUIREMENTS</p> <p>Written documentation of the borrower’s employee relocation program must be obtained.</p> <p>The documentation must confirm:</p> <ul style="list-style-type: none"> Borrower’s transfer Terms and conditions of the relocation <p>EMPLOYER FINANCING</p> <p>Financing provided by the employer, whether secured by the property or unsecured, must be treated as secondary financing and meet subordinate financing requirements in Section 825.09: Capacity and Liabilities Analysis and Section 950: Non-Conforming Conventional LTV Matrix.</p>
<p>825.23: Departure Residence Policy</p>	<p>DEPARTURE RESIDENCE POLICY</p> <p>Current primary residence is pending sale but will not be sold (closed) prior to the new transaction</p> <p>Both the current and the proposed mortgage principal, interest, taxes, and insurance (PITI) payments must be used to qualify the borrower for the new transaction, unless all of the following are met:</p> <ul style="list-style-type: none"> Fully executed noncontingent sales contract is provided for the departure residence (cash sale of the departure residence is not allowed) Lender’s commitment is provided from a regulated institution to the buyer of the departure residence with any financing contingencies cleared Standard reserve/post-closing liquidity (PCL) requirements plus an additional six months’ PITI for the departure residence <p>When the departure residence will not be sold at the time of the new transaction’s Closing and is in a negative equity position, additional reserves to cover the negative equity are required.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Refer to Exhibit 4 for the policy that applies to Loans with applications prior to March 1, 2021, and Loans that are not QMs based on APR to APOR spread (application must be prior to June 21, 2021). Refer to Newsflash C21-031, dated June 21, 2021, for details.</p> </div>

	<p>Existing primary residence converting to second home</p> <p>If the existing primary residence will become a second home, all of the following requirements must be met:</p> <ul style="list-style-type: none"> Both the current and the proposed Mortgage PITI payments must be used to qualify the borrower for the new transaction Required reserves are the greater of six months PITI for both properties or the standard reserves/PCL requirements <p>Existing primary residence converting to investment property</p> <p>If the existing primary residence will become an investment property and at least 30% equity in the departure property is documented, 75% of rental income is eligible to be used to offset the mortgage PITI payment in qualifying when all of the following are met:</p> <ul style="list-style-type: none"> Greater of six months PITI for both properties or the standard reserves/PCL requirements Rental income is documented with a fully executed lease agreement and the borrower's most recent two years' complete individual federal tax returns reflecting a two-year history of managing investment properties Proof is provided that a security deposit was received from the tenant and deposited into the borrower's account <p>If rental income will not be used to offset the mortgage payment to qualify, the greater of six months PITI for both properties or the standard reserves/PCL are required.</p> <p>If 30% equity in the departure property is not documented, or the borrower does not have a two-year history of managing investment properties (as evidenced by the most recent two years complete individual federal tax returns), all of the follow apply:</p> <ul style="list-style-type: none"> Rental income is not allowed to offset the mortgage PITI payment in qualifying. Both the current and the proposed mortgage PITI payments must be used to qualify the borrower for the new transaction. Required reserves/PCL are the greater of six months PITI for both properties or the standard reserves/PCL requirements. <p>Appraisal requirements</p> <p>To document equity position in the departure residence, a full appraisal must be obtained from an authorized appraisal management company (AMC). Refer to Section 800.10: Appraisal/Valuation Policy for authorized AMCs and ordering requirements.</p> <p>The appraisal must be dated within 120 days of the date printed on the Note of the current transaction.</p>
<p>825.24: Private Transfer Fee Covenants</p>	<p>PRIVATE TRANSFER FEE COVENANTS</p> <p>A private transfer fee covenant is a covenant attached to real property that requires a fee to be paid to a third party (frequently the property developer) upon each resale of the property. The fee is expressed as a fixed amount or as a percentage, and is also called a reconveyance fee or a capital recovery fee.</p> <p>Properties encumbered by a private transfer fee covenant are ineligible for purchase unless the fee directly benefits the property owners and is paid to:</p> <ul style="list-style-type: none"> A mandatory homeowners association, including master and sub-associations, or A non-profit organization as defined in the Internal Revenue Code <p>Direct benefit may include acquisition, improvement, administration, and maintenance of property owned by the HOA; or cultural, educational, charitable, recreational, environmental, conservation or other similar activities that directly benefit the home owners.</p> <p>This policy does not apply to mortgages on properties encumbered by private transfer fee covenants, if those covenants were created before February 8, 2011. This policy applies to mortgages on properties encumbered by private transfer fee covenants that were created on or after February 8, 2011.</p>
<p>825.50: Loans with LTVs Greater Than 80%</p>	<p>Non-Conforming Loans with LTVs greater than 80% must be underwritten to the standards and guidelines stated in this section. Where policy is not stated, refer to Section 825: Non-Conforming Underwriting Guidelines.</p> <p>Eligible occupancy</p> <p>Primary residences only</p> <p>Eligible products</p> <ul style="list-style-type: none"> Fixed-rate mortgages 7-year ARMs 10-year ARMs <p>Eligible property types</p> <ul style="list-style-type: none"> One-unit single-family detached or attached dwellings Condominiums (condos) Cooperatives (co-ops) Planned unit developments (PUDs) <p>Eligible transactions</p> <p>Purchase transactions only</p> <p>Collections and delinquent taxes</p> <p>Loans with open collection accounts or delinquent taxes from the IRS, state, county, or city, including installment agreements are ineligible.</p> <p>Eligible condominium project reviews</p>

- Investor Full Project Review
- Final Condo Project Acceptance through Fannie Mae Project Eligibility Review Service (PERS)

Escrows

Escrows for taxes and hazard insurance are required (subject to state law). Refer to Section 515.04: Escrow/Impound Accounts for additional information.

Gift funds

Gifts of cash, equity, or land are not allowed.

Loan Score

- 740 is the minimum Loan Score

Multiple owned properties

The maximum number of one- to four-unit residential properties owned for all borrowers on the Loan is two. This includes all properties that any:

- Borrower personally owns.
- Borrower's business owns, regardless of the type of business, if the borrower owns 25% or more of the business.

Mortgage insurance

Mortgage insurance is not required.

Metropolitan statistical area median home price (MSA MHP)

Refer to Metropolitan Statistical Area Median Home Price (MSA MHP) List (Exhibit 26) to identify the median home price for the MSA in which the subject property resides to determine maximum loan amount eligibility.

The exhibit only displays MSA MHPs greater than \$400,000. If the county for the subject property is not listed on the exhibit, the MSA MHP is less than or equal to \$400,000.

Nonoccupant coborrowers

Nonoccupant coborrowers are not allowed.

Property restrictions

All of the following are ineligible:

- Condos (attached or detached) located in Miami-Dade county, Florida
- Properties with more than 10 acres
- Properties experiencing interrupted or unstable utility service hazards (such as severely curtailed water service, water contamination, or extended power shortages) as identified by the appraiser

Subordinate financing

Subordinate financing is not allowed.

Qualifying ratios

The maximum total debt-to-income (DTI) ratio is 35%.

LTV matrix

MSA MHP1	Market class2	Max. Loan amount	Min. Loan Score	Max LTV
≤\$400,000	1	\$1,000,000	740	85%
>\$400,000	1	\$1,500,000	740	

1. Refer to Metropolitan Statistical Area Median Home Price (MSA MHP) List (Exhibit 26).

2. Market classes 3 and 4 are not allowed.

850: Qualifying Ratios

850: Qualifying Ratio Tables

In addition to the information in this section, refer to requirements for specific product descriptions in Sections 905-922 or Section 950: Non-Conforming Conventional LTV Matrix.

Table I: Standard qualifying ratios for Non-Conforming Loans

- Applies to Non-Conforming Loans with LTVs less than or equal to 80%. Refer to Table II for Loans with a nonoccupant coborrower.
- For qualifying ratios on Loans with LTVs greater than 80%, refer to Section 825.50: Loans with LTVs Greater Than 80%.
- Refer to specific product and program guidelines for complete parameters.

Primary residence purchase or rate/term refinance	Total DTI Ratio
	43%
Second Home	40%
3- to 4-unit primary residence property	40%
1- to 4-unit investment property	38%
Cash-out refinance	40%

Table II: Qualifying ratios when an occupant borrower and a nonoccupant coborrower exist for Non-Conforming Loans

- Applies to Non-Conforming Loans with LTVs less than or equal to 80%.
- Refer to specific product and program guidelines for complete parameters.

	If the occupying borrower's individual DTI is	Total DTI Ratio
Primary residence purchase or rate/term refinance ¹	≤43%	43%
	>43%	38% ²
Primary residence cash-out refinance ¹	≤40%	40%
	>40%	38% ²
Primary residence 3- to 4-unit property ¹	≤40%	40%
	>40%	38% ²

1. Transaction must be treated as a primary residence if any borrower intends to occupy the subject property as a primary residence. Refer to Table I if no borrowers will occupy the subject property as a primary residence.

2. 740 minimum Loan Score required.

Table III: Qualifying rates for ARM products

Product	Qualifying rate for calculating ratios
Delegated Conforming 5-year ARMs	Refer to AUS feedback or recommendation.
Delegated Conforming 7-year and 10-year ARMs	
Prior Approval Conforming 5-year ARMs	
Prior Approval Conforming 7-year and 10-year ARMs	The higher of: <ul style="list-style-type: none"> • Fully indexed rate (index plus margin) • Initial Note rate
Non-Conforming 5-year ARMs	The higher of: <ul style="list-style-type: none"> • Fully indexed rate (index plus margin rounded to the nearest one-eighth percent) • Initial Note rate plus 2%
Non-Conforming 7-year and 10-year ARMs	The higher of: <ul style="list-style-type: none"> • Fully indexed rate (index plus margin rounded to the nearest one-eighth percent) • Initial Note rate