OAKTREE FUNDING

Platinum Advantage Loan Eligibility Guidelines

Important:
This Document is Used only Oaktree Funding Platinum Advantage

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1 LENDING POLICY

These guidelines serve to provide direction and consistency in loan, borrower, and property eligibility.

LOAN APPROVAL & ELIGIBILITY PHILOSOPHY

Oaktree Funding's underwriters will evaluate many aspects of the loan but primarily relies on evaluation of the borrower's ability to repay the loan to predict loan performance. Additional characteristics of the loan are also examined including credit history, asset position and the property being used for collateral.

Oaktree Funding's Guidelines establish the criteria under which a loan will be eligible for purchase or funding by Oaktree Funding Corp. Oaktree does not require originators or clients to make any loan simply because it is eligible for funding by Oaktree, nor does Oaktree prohibit originators or clients from originating a loan that is ineligible with Oaktree. Clients should rely on their own underwriting guidelines to determine whether to extend credit to any applicant.

Oaktree Funding has a no-tolerance policy as it relates to fraud. All clients should follow their own established fraud and identity procedures on every loan to prevent and detect fraud (including, but not limited to, Social Security number verification, verbal verifications of employment, processing of 4506-T, etc.) Loans containing fraudulent documentation or information will immediately be declined and forwarded for further review. If there is any determination of client involvement, the client will be made inactive, and the appropriate agencies notified. Oaktree Funding will fully also pursue borrower fraud of the law.

100 FAIR LENDING STATEMENT

Oaktree Funding operates in accordance with the provisions of the Fair Housing Act and Equal Credit Opportunity Act. The Fair Housing Act makes it unlawful to discriminate in housing-related activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. The Equal Credit Opportunity Act prohibits discrimination with respect to any aspect of a credit transaction based on sex, race, color, religion, national origin, marital status, age (provided the borrower has the

capacity to enter a binding contract), receipt of public assistance, or because the borrower has in good faith exercised any right under the Consumer Credit Protection Act. Oaktree Funding fully supports the letter and spirit of both laws and will not condone discrimination in any mortgage transaction.

101 RESPONSIBLE LENDING STATEMENT

The primary focus of this lending program is the borrower's ability to repay the mortgage obligation. Loans acquired or made by Oaktree Funding should be affordable to the borrower in his or her pursuit of homeownership.

Under the general Ability-to-Repay (ATR) standard, Oaktree will make a reasonable, good-faith determination that the consumer has a reasonable ability to repay the loan. Oaktree will verify information using third-party records that provide reasonably reliable evidence of income or assets.

If a loan is subject to the ATR rules under the Federal Truth in Lending Act ("TILA"), lenders must consider eight underwriting factors to be compliant:

1. Current or reasonably expected income or assets (other than the value of the property that secures the loan) that the consumer will rely on to repay the loan.

2. Current employment status (if you rely on employment income when assessing the consumer's ability to repay)

3. Monthly mortgage payment for this loan. You calculate this using the introductory or fully indexed rate, whichever is higher, and monthly, fully amortizing payments that are substantially equal.

4. Monthly payment on any simultaneous loans secured by the same property.

5. Monthly payments for property taxes and insurance that you require the consumer to buy, and certain other costs related to the property such as homeowner's association fees or ground rent.

6. Debts, alimony, and child support obligations

7. Monthly debt-to-income ratio or residual income, that you calculated using the total of all the mortgage and non-mortgage obligations listed above, as a ratio of gross monthly income

8. Credit history

Oaktree will not fund nor purchase a loan subject to the ATR requirement under TILA unless it meets the requirements of the rule. Certain loans may be exempt from TILA or otherwise exempt from the ATR rule. In those cases, though Oaktree may choose to

purchase a loan that does not adhere to the formal requirements of the ATR rule, Oaktree will only fund or purchase loans that the applicant appears able to afford based on application of prudent underwriting standards.

2 GENERAL PROGRAM INFORMATION

102 OAKTREE FUNDING LOAN PROGRAMS

Oaktree Funding offers several Agency and Non-Agency loan programs. This Underwriting Guideline set focuses specifically on our Platinum ASee the appropriate Loan Program Matrix for additional details not contained herein. Oaktree requires our partners to select the very best product / program for your borrower, based on their needs and circumstances.

Other Products Not Covered by these Guidelines Offered by Oaktree Funding:

Oaktree Non-Agency Advantage

Oaktree Titanium Advantage

Oaktree Investor Advantage

Oaktree Jumbo A+ Program

Oaktree Conforming

Oaktree Government

103 PRODUCTS

Fixed Rate Products

A fixed rate mortgage is a mortgage transaction in which the interest rate remains fixed throughout the amortized term.

Fixed Rate Term: 10 to 40 year amortization

Assumable: Not allowed

Convertible: Not allowed

Interest-only option: Fixed Rate interest only is available with a 30 or 40-year term and a 10-year initial interest-only period, followed by a 20 or 30-year fully amortizing period

Prepayment Penalty: Prepayment penalties are allowed on investment loans as permitted by law. Where a prepayment penalty is applied, it must be a hard prepayment penalty (i.e. a prepayment penalty that applies to both the sale of the home and a refinance transaction).

103.1 ADJUSTABLE-RATE PRODUCTS

An Adjustable-Rate Mortgage (ARM) is a mortgage transaction in which the interest rate changes at specified intervals.

ARM Term: 5/6m, 7/6m, and 10/6m, initial adjustable-rate period

options with 30 year amortization only, and
10 Year Interest Only Option with 20 year amortization period

Caps: 5/6m ARM

2%: Initial Cap (Max increase or decrease at first Change Date) 1%: Periodic Cap (Max periodic increase or decrease after the first Change Date)

5%: Life Cap (Max increase in interest rate over the initial rate during the life of the loan)

7/6m & 10/6m ARM

5%: Initial Cap (Max increase or decrease at first Change Date) 1%: Periodic Cap (Max periodic increase or decrease after the first Change Date)

5%: Life Cap (Max increase in interest rate over the initial rate during the life of the loan)

Floor: Subject to minimum margin and caps

Index:	SOFR
Margin:	3.5%
Rounding:	To the nearest one-eighth of one percentage point (0.125%)
Look-back:	45 days
Assumable:	Not allowed
Convertible:	Not allowed
Interest Only Loans:	Interest-only loans qualify using the fully amortized payment calculated over the fully amortizing period, based on the greater of the note rate or the fully indexed rate to determine qualifying PITIA.
Prepayment Penalty:	Are allowed on investment loans as permitted by law

103.2 DOCUMENTATION TYPES

Full Documentation, 1 Year Documentation, Bank Statement Program, Asset Depletion, 1099, Profit & Loss ("P&L") and Debt Service Coverage Ratio ("DSCR").

101.5 LOAN AGE

The period between the note date and the purchaser's fund date cannot exceed 180 days.

101.6 HIGH COST LOANS

Loans that are classified as "high cost," "covered" or any other similar designation as defined under federal, state or local law are not eligible for purchase.

101.7 TEMPORARY RATE BUYDOWNS

Not allowed

101.8 SPECIAL PROGRAM FEATURES

See Rate Sheets.

101.9 FORMS – NOTE AND ARM RIDER(S)

Originator should use appropriate Fannie Mae form or state specific version.

101.10 MAXIMUM BORROWER EXPOSURE

Max Exposure to for 1 borrower/ Guarantor is 10 loans or $5,000,000

104 ELIGIBILITY

104.1 BORROWERS

104.1.1 U. S. Citizenship

U.S. citizens are eligible for financing.

104.1.2 Permanent Resident Aliens

Permanent Resident Aliens with an Alien Registration Card (Green Card) are eligible for financing with the same terms as U.S. Citizens. A Permanent Resident Alien is:

- Not a United States (U.S.) citizen;
- Employed in the U.S.; and
- A lawful permanent resident of the U.S. (Green Card Holder).

If the Borrower is a Permanent Resident Alien, the file must contain evidence of lawful permanent residency.

104.1.3 Non-Permanent Resident Aliens

Non-Permanent Resident Aliens are eligible. A Non-Permanent Resident Alien is someone who is:

- Not a United States (U.S.) citizen;
- Granted the right to live and work in the U.S. on a temporary basis; and
- A lawful non-permanent resident of the U.S. (Visa Holder).

If the Borrower is a Non-Permanent Resident Alien, the file must contain evidence of lawful residency. Borrowers who are Non-Permanent Resident Aliens and provide evidence of lawful residency are eligible for financing with the same terms as U.S. Citizens.

A borrower with an expired, but otherwise acceptable Visa type, is permitted with supporting documentation. For example, supporting documentation includes, but is not limited to, any of the following:

- Form I-797 which is issued when an application or petition is approved;
- Form I-797C or I-797E which must not state that the

application has been declined;

- Application for extension of current visa I-539 (or equivalent) or copy of application for green card I-485 (or equivalent) and electronic verification of receipt from the USCIS web site;
- If the borrower is sponsored by the employer, the employer may verify that they are sponsoring the Visa renewal;
- In lieu of a Visa, an Unexpired Employment Authorization Document (EAD), or I-94 or I-797; and a letter from the employer or a verification of employment reflecting continuance is likely are required;
- Grant of Asylum (Asylee) is permitted with letter from U.S. Citizenship and Immigration Services indicating eligibility and completed form I-94, Arrival and Departure Record, indicating borrower has been granted asylum in the U.S.; or
- Deferred Action for Childhood Arrivals (DACA) approval.

104.1.4 Foreign Nationals who primarily live and work outside the U.S.

Foreign Nationals whose primary residence is located outside the U.S are eligible. Foreign Nationals are not permitted for Primary Residence Transactions. See additional requirements under 104.21. This Borrower is:

- Not a United States (U.S.) citizen;
- Periodically visits the U.S.;
- Primary residence and employment are outside the U.S.; and
- Not a permanent resident of the U.S. (Visa Holder).

104.1.5 Trust Estates

Inter Vivos (Living) Revocable Trusts are not permitted.

104.1.1 Ineligible Borrowers

The following Borrowers are not eligible for financing:

- Borrowers with diplomatic immunity or otherwise excluded from U.S. jurisdiction; or
- Borrowers whose income is not likely to continue for at least three (3) years.

104.1.2 Non-Occupying Co-Borrowers

Non-occupying Borrowers are permitted provided that:

- Occupying Borrower must demonstrate sole financial capacity for the mortgage by not exceeding a total Debt-to-income (DTI) ratio of

43%.

- Subject property must be Primary Residence for the Occupying Borrower.
- Property is a 1-unit; and
- The non-occupying Borrower(s) must:
  - Sign the Note.
  - Meet the minimum credit history and credit score requirements; and
  - Not be an interested party to the transaction (i.e., seller, builder, realtor, etc.), and must have family or other similar long-standing relationship with the Borrower.

104.1.3 Limited Power of Attorney (POA)

A Limited Power of Attorney is acceptable when all the following are met:

- It is specific to the transaction.
- It is recorded with the Mortgage/Deed of Trust.
- It contains an expiration date.
- It is used to execute only the final loan documents; and
- The Borrower who executed the POA signed the initial 1003, and
- An interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may not act as Power of Attorney.

104.1.4 Interested Parties

All parties involved on each transaction must be screened through an exclusionary list used by the originator. The lender must apply its exclusionary list policy to the origination of any loans.

104.1.5 Multiple Financed Properties

- If subject is primary, defer to FNMA
- 10 max financed properties OR
- 20 max financed if DSCR

The minimum required reserves may increase for Borrower's who own more than the subject property. See Reserves section 108.7.

104.1.6 First-Time Homebuyer

A "First-Time Homebuyer" is defined as a Borrower who had no ownership interest in a residential property in the United States during the preceding three (3) year period. A First-Time Homebuyer is permitted with the below restrictions:

- Investment Property not permitted; and
- Interest Only not permitted.

104.2 OCCUPANCY

104.2.1 Primary Occupancy

Primary occupancy refers to a property that is occupied as the Borrower's primary residence for a major portion of the year. Primary occupancy is allowed on 1-4 family dwellings (including condominiums and PUDs). A typical primary residence meets the following criteria:

- Usually located in the same general area as the Borrower's income source; and
- Borrower(s) declares their intention to occupy the subject property.

104.2.2 Second Home Occupancy (Vacation Home)

Second home occupancy is a single-family dwelling that the Borrower occupies in addition to their primary residence. A typical second home will meet the following criteria:

- Must be located a reasonable distance away from the Borrower's principal residence.
- Borrower may not own any other residential real estate in the same locale or vicinity.
- Suitable for year around occupancy.
- It must be available for Borrower's exclusive use. It may not be subject to any timesharing arrangements, rental pools or other agreements which require the Borrower to rent the subject property or otherwise give control of the subject property to a management firm.
- Any rental income received will not be considered; and
- 2–4-unit properties are not permitted.

104.2.3 Investment Property (Non-Owner-Occupied Property)

An investment property is owned but not occupied by the borrower. Investment occupancy is allowed on 1- 4 family dwellings (including condominiums and PUDs).

104.3 TRANSACTIONS

104.3.1 Purchase Transactions

A purchase transaction is one in which the proceeds are used to finance the acquisition of a property.

- A copy of the fully executed purchase contract and all attachments or addenda is required.

- For purposes of calculating the LTV, the property value is defined as the lesser of the purchase price or appraised value of the mortgaged premises.
- The seller must be on title for a minimum of 90 days, excludes new construction (from the date seller takes title to date sales contract executed);
- 12-month chain of title to ensure not a flip transaction. Property flipping schemes and other similar type transactions not permitted.

When the Borrower is purchasing a new property as an Owner-Occupied residence, but will still retain ownership of their existing residence, the following requirements apply:

- If the current principal residence is pending sale but the transaction will not be closed prior to the new transaction, or the property is being converted to a second home, both the current and proposed mortgage payments (PITIA) must be included in the debt-to-income ratio used for qualification; or
- If the current principal residence is being converted to an investment property, see Section 104.2.21 – Rental Income.

104.3.2 Rate/Term Refinance (aka, Limited Cash-Out Refinance)

For rate-term refinances, the loan amount is limited to the sum of the following:

- Existing first mortgage payoff, closing costs, fees, and any prepaid items.
- Any subordinate financing which was used to acquire the subject property.
- Any subordinate financing that was not used to purchase the subject property provided:
    - For closed end seconds, the loan is at least one (1) year seasoned as determined by the time between the note date of the subordinate lien and the application date of the new mortgage, or
    - For HELOCs and other open-ended lines of credit, the loan is at least one (1) year seasoned and there have been less than $2,000 in total draws over the past 12 months; and
- Cash to Borrower no greater than $5,000.

A property owned free and clear by the Borrower is not eligible for Rate/Term Refinance. Please refer to Section 111.5 (Chain of Title/Continuity of Obligation) for rules surrounding continuity of an obligation.

Refinance to buy out an owner's interest is permitted and should follow FNMA guidance.

104.3.3 Cash-Out Refinance

A cash-out refinance involves a refinance that does not meet the rate term refinance definition. Typically, this would include a refinance where the Borrower received more than $5,000 cash from the transaction or when an open-ended subordinate lien that does not meet the rate-term requirements is paid off. Cash-Out Refinances are permitted with the following requirements:

- A minimum of six (6) months must have elapsed since the most recent mortgage

transaction on the subject property (either the original purchase transaction or subsequent refinance). This timeframe is measured from the note date of the previous transaction to the note date of the current transaction.

- A mortgage placed on a property previously owned free and clear by the Borrower is

always considered a cash-out refinance mortgage; and

- The maximum amount of cash out for a cash-out refinance transaction is $1,000,000.
- Loans secured by homestead property in Texas are eligible provided they comply with Article 16, Section 50 of the Texas Constitution, and applicable regulations.

Subordinate financing:

The Borrower is not required to satisfy outstanding junior liens secured by the subject property provided:

- There is a fully executed copy of the subordination agreement verifying our lien is in first position.
- The subordinate financing was provided by a financial institution; and
- A copy of the note is provided and reviewed to ensure terms are consistent with other requirements of these guidelines.

Please refer to Section 111.5 (Chain of Title/Continuity of Obligation) for rules surrounding continuity of an obligation.

104.3.4 Delayed Financing

Borrowers who purchased the subject property within the past six months (measured from the date on which the property was purchased to the disbursement date of the new mortgage loan) are eligible for a cash-out refinance if all of the following requirements are met.

The original purchase transaction was an arms-length transaction.

The borrower(s) may have initially purchased the property as one of the following:

- A natural person; an eligible inter vivos revocable trust, when the borrower is both the individual establishing the trust and the beneficiary of the trust; or
- An eligible land trust when the borrower is the beneficiary of the land trust; or an LLC or partnership in which the borrower(s) have an individual or joint ownership of 100%.

The original purchase transaction is documented by a settlement statement, which confirms that no mortgage financing was used to obtain the subject property. (A recorded trustee's deed (or similar alternative) confirming the amount paid by the grantee to trustee may be substituted for a settlement statement if a settlement statement was not provided to the purchaser at time of sale.)

The preliminary title search or report must confirm that there are no existing liens on the subject property.

The sources of funds for the purchase transaction are documented (such as bank statements, personal loan documents, or a HELOC on another property).

If the source of funds used to acquire the property was an unsecured loan or a loan secured by an asset other than the subject property (such as a HELOC secured by another property), the settlement statement for the refinance transaction must reflect that all cash-out proceeds be used to pay off or pay down, as applicable, the loan used to purchase the property. Any payments on the balance remaining from the original loan must be included in the debt-to-income ratio calculation for the refinance transaction.

Note: Funds received as gifts and used to purchase the property may not be reimbursed with proceeds of the new mortgage loan.

The new loan amount can be no more than the actual documented amount of the borrower's initial investment in purchasing the property plus the financing of closing costs, prepaid fees, and points on the new mortgage loan (subject to the maximum LTV, CLTV, and HCLTV ratios for the cash-out transaction based on the current appraised value).

All other cash-out refinance eligibility requirements are met. Cash-out pricing is applicable.

104.3.5 Permanent Financing for Newly Constructed Homes

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence.

Construction-to-permanent financing can be structured as a transaction with one closing or a transaction with two separate closings. The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction.

All construction work, including any work that could entitle a party to file a mechanics' or materialmen's lien, must be completed and paid for, and all mechanics' liens, materialmen's liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered. The lender must retain in its individual loan file the appraiser's certificate of completion and a photograph of the completed property. When a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the lot, the lender must retain a certificate of occupancy or an equivalent form from the applicable government authority.

The lender must use Fannie Mae's uniform mortgage instruments to document the permanent mortgage. These documents may not be altered to include any reference to construction of the property, other than any alteration that Fannie Mae specifically requires.

Attached units in a condo project, all co-op projects, and manufactured housing are not eligible for construction-to-permanent financing. Detached units in condo projects are permitted for construction-to- permanent financing.

Single–Closing Construction–to-Permanent Mortgages:

A single-closing construction-to-permanent mortgage loan may be closed as:

- A purchase transaction; or
- A limited cash-out refinance transaction.

When a purchase transaction is used, the borrower is not the owner of the lot at the time of the first advance of interim construction financing, and the borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.

When a limited cash-out refinance transaction is used, the borrower must have held legal title to the lot before he or she receives the first advance of interim construction financing. The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property. This type of transaction is not a "true" limited cash-out refinance whereby the borrower refinances a loan(s) that was used to purchase a completed property; however, all other requirements for limited cash-out refinances apply.

Note: Cash-out refinance transactions are not eligible for single-closing construction-to permanent mortgages.

Calculating the LTV Ratio for Single-Closing Construction-to-Permanent Mortgages

Single-closing construction-to-permanent mortgages are subject to the purchase and limited cash-out refinance maximum LTV, CLTV, and HCLTV ratios provided in the

Eligibility Matrix, as applicable. The LTV ratio calculation differs depending on whether the transaction is a purchase or a limited cash-out refinance, as shown in the table below.

Transaction Type	Lot Ownership Requirement	LTV Ratio Calculation
Purchase	The borrower is not the owner of record of the lot at the time of the first advance of interim construction financing	Divide the loan amount of the construction-to-permanent financing by the lesser of the purchase price (sum of the cost of construction and the sales price of the lot), or the "as completed" appraised value of the property (the lot and improvements).
Limited Cash-out Refinance	The borrower is the owner of record of the lot at the time of the first advance of interim construction financing.	Divide the loan amount of the construction-to-permanent financing by the "as completed" appraised value of the property (the lot and improvements).

Down Payment Requirements for Single-Closing Purchase Transactions

The borrower must use his or her own funds to make the minimum borrower contribution unless:

- The LTV, CLTV, or HCLTV ratio is less than or equal to 80%; or
- The borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some for all of the borrower's minimum contribution.

Modifications of Single-Closing Construction-to-Permanent Mortgages

If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified to reflect the new terms if it meets all of the following criteria:

- The modification must take place prior to or at the time of conversion; and
- Only the following loan terms may be modified in a single-closing transaction:
  - Interest rate;
  - Loan amount;
  - Loan term; and
  - Amortization type.

The only amortization change permitted is from an adjustable-rate amortization to a fixed-rate amortization. Changes made to any other loan terms will require a two-closing construction-to-permanent transaction.

- The loan must be underwritten based on the terms of the loan

as modified and delivered;
- Increases to the loan amount are permitted only as necessary to cover documented increased costs of construction of the property; and
- If the modification results in an increase in the original loan amount, the lender remains responsible for all standard title insurance requirements. In addition, the lender must obtain an endorsement to the title insurance policy that
    - Extends the effective date of the coverage to the date of the recording of the modification agreement;
    - Increases the amount of the policy to the original loan amount, as increased; and
    - Confirms that the lien of the mortgage, as modified, continues to be a first lien.

Note: Both the original construction loan amount at closing and the final modified loan amount delivered must meet the loan limits currently in effect.

- The original construction loan must be documented on Fannie Mae uniform instruments or substantially similar documents, subject to the non-standard document representations and warranties; and
- The modification must be documented on one of the following:
    - Loan Modification Agreement (Providing for Fixed Interest Rate) (Fannie Mae Form 3179);
    - Loan Modification Agreement (Providing for Adjustable Interest Rate) (Fannie Mae Form 3161); or
    - A substantially similar document, subject to the non-standard document representations and warranties.

Two-Closings \ Construction-to-Permanent Mortgages

In a two-closing construction-to-permanent transaction, the permanent mortgage delivered may be closed as:

- A limited cash-out refinance transaction; or
- A cash-out refinance transaction.

Two-closing construction-to-permanent mortgages are subject to the limited cash-out and cash-out refinance maximum LTV, CLTV, and HCLTV ratios provided in the Eligibility Matrix, as applicable. For the borrower to be eligible for a cash-out refinance transaction, the borrower must have held legal title to the lot for at least six months prior to the closing of the permanent mortgage. All other standard cash-out refinance eligibility and underwriting requirements apply.

The following are required for all construction-to-permanent mortgages:

- Certificate of Occupancy;
- Appraisal report 1004-D; and
- For qualification purposes, taxes are calculated at one and a half percent (1.5%) or actual tax rate of the appraised value.

Age of Credit and Appraisal Documents

Single-closing transactions with credit and appraisal documents dated more than 4 months but not exceeding 18 months old at the time of the conversion to permanent financing are eligible for delivery if all of the following conditions were met at the time of the original closing of the construction loan:

- The documents were dated within 120 days of the original closing date of the construction loan;
- The LTV, CLTV, and HCLTV ratios do not exceed 70%; and
- The borrower has a minimum credit score of 700.

Additional Requirements:

The following are required for all construction-to-permanent mortgages:

- Certificate of Occupancy from applicable government authority (required on all new construction regardless of if transaction is construction-to-permanent); and
- For qualification purposes, if the tax assessed value of the property is based on the final fully improved value of the property, then the actual taxes may be used, otherwise taxes are calculated at 1.5% or the actual tax rate of the appraised value.

104.3.6 Land Contracts (Installment land contract, or contract or bond for deed)

When the proceeds of a mortgage transaction are used to pay off the outstanding balance on an installment land contract that was executed within 12 months preceding the date of the loan application, the transaction must be considered a purchase transaction.

The LTV ratio for the mortgage loan 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 purchaser incurs for rehabilitation, renovation, or energy conservation improvements) or the appraised value of the property at the time the new mortgage loan is closed. The expenditures included in the total acquisition cost must be fully documented by the borrower.

When the installment land contract was executed more than 12 months before the date of the loan application, the loan will be considered a limited cash-out refinance. In this case, the LTV ratio for the mortgage loan must be determined by dividing the new loan amount by the appraised value of the property at the time of the new mortgage loan is closed.

Cash-out refinance transactions involving installment land contracts are not eligible.

104.3.7 Properties Listed for Sale

Properties listed for sale in the last six (6) months are not eligible for a refinance transaction. This timeframe is measured from the date the property was no longer listed or offered for sale to the application date of the current transaction.

104.3.8 Lease-Purchase Option

Not eligible.

104.3.9 Non-Arm's Length Transactions

Non-arm's length transactions involve a personal relationship or business relationship (outside of the subject transaction) between the Borrower and any interested party to the transaction. These transactions must be fully disclosed as such, and the appraiser must be informed of the non-arm's length transaction and address whether or not the market value has been affected.

A "family member" is defined as the Borrower's spouse, child, dependent, domestic partner, fiancé, fiancée, or any other individual related to the borrower by blood, marriage, adoption, or legal guardianship.

Non-arm's length transactions are considered only under the following conditions:

- Relationships are clearly disclosed with initial submission;
- Primary residence only;
- Additional risk factors are not present (i.e., distress sale, selling assets for down payment, etc.);
- Loans made to principals or employees of the lender or service provider cannot provide services on their own transactions (closing agent, title agent, appraiser, etc.); and
- In purchase transactions where the lender is a corporation, partnership or any other business entity, the seller must ensure that the Borrower is not one of the owners of the business entity selling the subject property.

Family transactions occur when a family member deeds the title to their home to another family member. The following apply to family transactions:

- Relationships are clearly disclosed with initial submission;
- Primary residence only;
- Purchase contract must be provided;
- A Gift of Equity letter is required to explain the relationship and reason for the gift;
- Appraiser must note this is a non-arm's length transaction;
- Foreclosure bailouts are not allowed. Payoff statement and Verification of Mortgage (VOM) on subject required as verification;
- The HUD-1 must reflect all liens on title are paid and not all loan proceeds going to the family member; and
- Current appraised value is used for LTV purposes.

104.3.10 Model Home Lease-Back

Not eligible.

104.4 ESCROWS

Unless required by applicable state law, escrow waivers are permitted.

Flood insurance premiums are required to be escrowed on mortgages made, increased, extended or renewed after Jan. 1, 2016, for customers in special flood hazard areas, as designated on Federal Emergency Management Agency maps. Loans secured by properties that are covered by a blanket condo, HOA or similar group policy are not subject to escrow provided the policy meets the requirements under the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters) and Homeowner Flood Insurance Affordability Act of 2014 (HFIAA).

104.5 PREPAYMENT PENALTY

Prepayment penalties are allowed on investment loans as permitted by law. Where a prepayment penalty is applied, it must be a hard prepayment penalty (i.e. a prepayment penalty that applies to both the sale of the home and a refinance transaction).

104.6 INELIGIBLE TRANSACTIONS

The following are unacceptable loan types:

- Section 32 and/or High Cost Loans;
- Blanket loans (with the exception of DSCR loans);
- Bridge loans on the subject property;

- Escrows for Work Completion;
- Loans to Loan Purchaser employees;
- Borrowers less than 18 years old;
- Refinancing of a subsidized loan, including Habitat for Humanity, USDA, FHA with a recapture or any city/county grant;
- Straw Borrowers/Straw Buyer;
- Builder/Seller Bailout plans;
- Multiple property payment skimming which typically involves investors who purchase investment properties with seller carry back financing and collect rents but do not make the mortgage payments; or
- Foreclosure Bailouts of any kind.
- Loans with Shared Appreciation second liens

Please note that an arms-length purchase of a short sale is not deemed a foreclosure bailout.

105 ALTERNATIVE DOCUMENTATION PROGRAMS

105.1 GENERAL

The documentation that is required for the Non-Qualified Mortgage programs is used to determine whether the Borrower's ability to repay the mortgage debt is reasonable.

Reasonable ability to repay the mortgage debt is based (among other information) on the Borrower's employment history, income source and past credit experience which must be commensurate with the loan request. For example, information on the Credit Report must corroborate information on the application. Borrower's income source must be documented and verified by a third party and must also establish a reasonable expectation that it will continue. Inconsistencies must be investigated.

All files must include the completed initial application. All income sources must be itemized on the signed loan application when applicable.

Where the guide is silent, defer to FNMA.

105.2 1 YEAR DOCUMENTATION PROGRAM

Loans that are part of the 1 Year Documentation require only 1 year of income docs versus the Full Documentation Program which requires 2 years. Originators should refer

to full documentation guidelines for specifics on income requirements except as stated below.

Wage Earners:

- One year W2 plus most recent pay stub including year-to-date earnings (YTD must cover minimum of 30 days) OR
- Written Verification of Employment following FNMA guidance
- IRS 1040s are not required unless also using other sources of income to qualify i.e., self-employment, interest/dividends, rental income, fixed income (retirement/social security/ child support/alimony;
- 4506-C W2 transcripts (If 1040 transcripts are provided, W2 transcripts are not required). In the case where taxes have been files and the wage transcripts are not available from the IRS, the IRA response to the request must reflect, “No Record Found” and be present in the loan file. Evidence of any IRS filing extensions must be present in the file; and
- Verbal Verification of Employment is required for all wage earner Borrowers and must be completed within 10 calendar days of the closing date. Wage Earners VVOE should include name of contact at place of employment, phone number and title along with company name, address and borrower’s job description and title.

Self-Employed Borrowers:

- Borrowers must be at least 25% self-employed to qualify;
- One-year personal and business tax returns (along with all schedules and K-1's) plus a borrower prepared P&L covering time period since last tax filing;
- All Borrowers must also provide evidence that business has been in existence for at 2 least years via CPA/Tax preparer letter, confirmation from regulatory or state agency, or applicable licensing bureau;
- Self-employed borrower income in a licensed profession (i.e., Medical, Legal, Accounting) will be considered from a business that's been in existence for less than 2 years, but greater than 1 year if the borrower has at least 2 years of documented previous experience in the same profession, or evidence of formal education in a related field; and
- IRS FORM 1040 personal and business 4506-C tax transcripts required for the tax return year used for qualifying.

105.3 BANK STATEMENT PROGRAM

Only self-employed Borrowers are eligible for the Bank Statement Program. Borrowers may provide either 12 or 24 consecutive months of bank statements. A Borrower who submits tax returns will not be eligible for Bank Statement Documentation. Income from other sources that do not require tax returns, such as w2 wage earners or fixed income, are eligible.

- Rental income can be used if deposited into a separate bank account than what is being utilized for self-employed bank statement income. Income to be documented with a current lease and supported with 12/24 months statements that match lease agreement, Rental income should be calculated per FNMA requirements.
- For both the Personal and Business Bank statement programs, the Borrower's business ownership percentage must be at least 25%.
- Businesses and bank statements must be American based, statements must be in English and in US dollars.
- Max NSFs are 3 within the most current 12 months or 6 in the last 24 months. If any NSF's within the most current 3 months, sufficient LOE required.

105.3.1 Personal Bank Statements:

- Minimum of 12 consecutive monthly personal bank statements;
- Maximum DTI of 50%;
- 4506-C transcripts not required;
- Borrowers operating a business out of a personal account (co-mingling) can qualify under the business bank statement program in certain instances

- Two (2) months of business bank statements must be provided to validate borrower utilizes separate bank accounts for personal and business banking transactions;
- All Borrowers must also provide evidence that the business has been in existence for at least two (2) years via CPA/Tax preparer letter, confirmation from regulatory or state agency or applicable licensing bureau;
- Verify percentage of ownership via reliable third party and
- Self-employed borrower income in a licensed profession (i.e. Medical, Legal, Accounting) will be considered from a business that's been in existence for less than two (2) years, but greater than one (1) year if the borrower has at least two (2) years of documented previous experience in the same profession, or evidence of formal education in a related field.

Personal Bank Statement Documentation Review:

- Transfers between personal accounts must be excluded, as well as any deposits that are not consistent with a self-employed income (credit card refunds, IRS refunds, etc.);
- Transfers from business accounts can be included;
- Any deposits into a personal account deemed to derive from a source other than the business (rents, SSI, joint account holder wage income, IRS refunds, etc.) must be excluded from the analysis;
- Large deposits exceeding 50% of monthly income (as defined by Fannie Mae) that are being used to qualify, must be documented with an LOE and must be consistent with the business profile. If LOE is sufficient, no additional sourcing is required; Qualifying Income Calculation: Personal bank statement average (total eligible deposits / 12 or 24 months).

105.3.2 Business Bank Statements:

- Minimum of 12 month's consecutive business bank statements*;
- *Comingled funds may be considered IF the borrower's sole proprietorship is also the borrowers name. For example: Doctors, Lawyers, Consultants
- Transfers from personal accounts must be excluded, as well as any deposits that are not consistent with a self-employed income (credit card refunds, IRS refunds, etc.);
- Income for qualification must be multiplied by borrowers verified percentage of ownership in business
- 4506-C transcripts not required;

        - All Borrowers must also provide evidence that business has been in existence for at least two (2) years via CPA/Tax preparer letter, confirmation from regulatory or state agency, or applicable licensing bureau;
        - Verify percentage of ownership via reliable third party source;
- Self-employed Borrower income in a licensed profession (i.e. Medical, Legal, Accounting) will be considered from a business that's been in existence for less than (two) 2 years, but greater than one (1) year if the Borrower has at least two (2) years of documented previous experience in the same profession, or evidence of formal education in a related field;
    - Qualifying income is determined by one of the following approaches:
        - Third Party Prepared P&L;
        - CPA Expense Ratio; or
        - Fixed Expense Ratio.

Third Party Prepared P&L:

Net income from the P&L statement can be used as qualifying income provided it meets the requirements below:

- P&L must be prepared by a CPA or licensed tax preparer;
- P&L must be signed and dated by third party;
- Separate P&Ls are required for each business being used to qualify;
- The P&L should generally cover the same calendar months as the bank statements provided (within three (3) months);
- Eligible deposits from the bank statements should generally be within +/- 10% of the gross income as shown on the P&L;
- Any amounts on the P&L representing salary/wages paid to the Borrower/business owner can be added back and considered in the net income analysis; and
- Qualifying Income Calculation: Monthly net income from the P&L or the average monthly deposits multiplied by (1 minus expense ratio as determined on the Third Party Prepared P&L)

CPA Expense Ratio:

- CPA letter providing the expense ratio of the business;
- Letter must be signed and dated by CPA;
- CPA cannot be an employee or a relative of the Borrower; and
- Qualifying Income Calculation:
    - Eligible deposits from the business bank statements are reduced by the expense ratio to determine net income of the business; and
    - Qualifying Income: Average monthly eligible deposits multiplied by (1 minus the expense ratio from CPA letter).

Fixed Expense Ratio:

- A 50% expense ratio is always required regardless of business type; and

Qualifying Income Calculation: Eligible deposits from the business bank statements are reduced by a 50% expense ratio to determine the qualifying income of the business.

Tiered Expense Ratio

- Eligible deposits from the bank statements are reduced by the expense ratio to determine qualifying income of the business
- Expense Ratio:
  - The expense ratio in the originators underwriting guidelines is tiered based on certain aspects of the borrower's business including, but not limited to the industry, number of employees, inventory vs services business, physical place of business vs work from home etc
  - Expense ratios below 50% will generally be for borrowers whose businesses have limited employees, are in service industries or other industries without the need of heavy equipment and minimal facilities
  - Expense ratios can be as low as 15%, which is generally reserved for businesses with no employees in a service industry and no other employees other than the borrowers on the loan
- Maximum Qualifying Income: Average monthly eligible deposits multiplied by (1 minus the applicable Expense Ratio)

105.3.3 Properties Listed for Sale

Properties listed for sale in the last six (6) months are not eligible for a refinance transaction. This timeframe is measured from the date the property was no longer listed or offered for sale to the application date of the current transaction.

105.3.4 Lease-Purchase Option

Not eligible.

105.3.5 Non-Arm's Length Transactions

Non-arm's length transactions involve a personal relationship or business relationship (outside of the subject transaction) between the Borrower and any interested party to the transaction. These transactions must be fully disclosed as such, and the appraiser must be informed of the non-arm's length transaction and address whether or not the market value has been affected.

A "family member" is defined as the Borrower's spouse, child, dependent, domestic partner, fiancé, fiancée, or any other individual related to the borrower by blood, marriage, adoption, or legal guardianship.

Non-arm's length transactions are considered only under the following conditions:

- Relationships are clearly disclosed with initial submission;
- Primary residence only;
- Additional risk factors are not present (i.e., distress sale, selling assets for down payment, etc.);
- Loans made to principals or employees of the lender or service provider cannot provide services on their own transactions (closing agent, title agent, appraiser, etc.); and
- In purchase transactions where the lender is a corporation, partnership or any other business entity, the seller must ensure that the Borrower is not one of the owners of the business entity selling the subject property.

Family transactions occur when a family member deeds the title to their home to another family member. The following apply to family transactions:

- Relationships are clearly disclosed with initial submission;
- Primary residence only;
- Purchase contract must be provided;
- A Gift of Equity letter is required to explain the relationship and reason for the gift;
- Appraiser must note this is a non-arm's length transaction;
- Foreclosure bailouts are not allowed. Payoff statement and Verification of Mortgage (VOM) on subject required as verification;
- The HUD-1 must reflect all liens on title are paid and not all loan proceeds going to the family member; and
- Current appraised value is used for LTV purposes.

105.3.6 Model Home Lease-Back

Not eligible.

105.4 ESCROWS

Unless required by applicable state law, escrow waivers are permitted.

Flood insurance premiums are required to be escrowed on mortgages made, increased, extended or renewed after Jan. 1, 2016, for customers in special flood hazard areas, as

designated on Federal Emergency Management Agency maps. Loans secured by properties that are covered by a blanket condo, HOA or similar group policy are not subject to escrow provided the policy meets the requirements under the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters) and Homeowner Flood Insurance Affordability Act of 2014 (HFIAA).

105.5 PREPAYMENT PENALTY

Prepayment penalties are allowed on investment loans as permitted by law. Where a prepayment penalty is applied, it must be a hard prepayment penalty (i.e. a prepayment penalty that applies to both the sale of the home and a refinance transaction).

105.6 INELIGIBLE TRANSACTIONS

The following are unacceptable loan types:

- Section 32 and/or High Cost Loans;
- Blanket loans (with the exception of DSCR loans);
- Bridge loans on the subject property;
- Escrows for Work Completion;
- Loans to Loan Purchaser employees;
- Borrowers less than 18 years old;
- Refinancing of a subsidized loan, including Habitat for Humanity, USDA, FHA with a recapture or any city/county grant;
- Straw Borrowers/Straw Buyer;
- Builder/Seller Bailout plans;
- Multiple property payment skimming which typically involves investors who purchase investment properties with seller carry back financing and collect rents but do not make the mortgage payments; or
- Foreclosure Bailouts of any kind.
- Loans with Shared Appreciation second liens

Please note that an arms-length purchase of a short sale is not deemed a foreclosure bailout.

106 ALTERNATIVE DOCUMENTATION PROGRAMS

106.1 GENERAL

The documentation that is required for the Non-Qualified Mortgage programs is used to determine whether the Borrower's ability to repay the mortgage debt is reasonable.

Reasonable ability to repay the mortgage debt is based (among other information) on the Borrower's employment history, income source and past credit experience which must be commensurate with the loan request. For example, information on the Credit Report must corroborate information on the application. Borrower's income source must

be documented and verified by a third party and must also establish a reasonable expectation that it will continue. Inconsistencies must be investigated.

All files must include the completed initial application. All income sources must be itemized on the signed loan application when applicable.

Where the guide is silent, defer to FNMA.

106.2 1 YEAR DOCUMENTATION PROGRAM

Loans that are part of the 1 Year Documentation require only 1 year of income docs versus the Full Documentation Program which requires 2 years. Originators should refer to full documentation guidelines for specifics on income requirements except as stated below:

Wage Earners:

- One year W2 plus most recent pay stub including year-to-date earnings (YTD must cover minimum of 30 days) OR
- Written Verification of Employment following FNMA guidance
- IRS 1040s are not required unless also using other sources of income to qualify i.e., self-employment, interest/dividends, rental income, fixed income (retirement/social security/ child support/alimony;
- 4506-C W2 transcripts (If 1040 transcripts are provided, W2 transcripts are not required). In the case where taxes have been files and the wage transcripts are not available from the IRS, the IRA response to the request must reflect, “No Record Found” and be present in the loan file. Evidence of any IRS filing extensions must be present in the file; and
- Verbal Verification of Employment is required for all wage earner Borrowers and must be completed within 10 calendar days of the closing date. Wage Earners VVOE should include name of contact at place of employment, phone number and title along with company name, address and borrower’s job description and title.

Self-Employed Borrowers:

- Borrowers must be at least 25% self-employed to qualify;
- One-year personal and business tax returns (along with all schedules and K-1's) plus a borrower prepared P&L covering time period since last tax filing;
- All Borrowers must also provide evidence that business has been in existence for at 2 least years via CPA/Tax preparer letter, confirmation from regulatory or state agency, or applicable licensing bureau;
- Self-employed borrower income in a licensed profession (i.e., Medical, Legal, Accounting) will be considered from a business that's been in existence for less than 2 years, but greater than 1 year if the borrower has at least 2 years of documented previous experience in the same profession, or evidence of formal education in a related field; and
- IRS FORM 1040 personal and business 4506-C tax transcripts required for the tax return year used for qualifying.

106.3 BANK STATEMENT PROGRAM

Only self-employed Borrowers are eligible for the Bank Statement Program. Borrowers may provide either 12 or 24 consecutive months of bank statements. A Borrower who submits tax returns will not be eligible for Bank Statement Documentation. Income from other sources that do not require tax returns, such as w2 wage earners or fixed income, are eligible.

- Rental income can be used if deposited into a separate bank account than what is being utilized for self-employed bank statement income. Income to be documented with a current lease and supported with 12/24 months statements that match lease agreement, Rental income should be calculated per FNMA requirements.
- For both the Personal and Business Bank statement programs, the Borrower's business ownership percentage must be at least 25%.
- Businesses and bank statements must be American based, statements must be in English and in US dollars.
- Max NSFs are 3 within the most current 12 months or 6 in the last 24 months. If any NSF's within the most current 3 months, sufficient LOE required.

106.3.1 Personal Bank Statements:

- Minimum of 12 consecutive monthly personal bank statements;
- Maximum DTI of 50%;
- 4506-C transcripts not required;
- Borrowers operating a business out of a personal account (co-mingling) can qualify under the business bank statement program in certain instances
- Two (2) months of business bank statements must be provided to validate borrower utilizes separate bank accounts for personal and business banking transactions;

- All Borrowers must also provide evidence that the business has been in existence for at least two (2) years via CPA/Tax preparer letter, confirmation from regulatory or state agency or applicable licensing bureau;
- Verify percentage of ownership via reliable third party and
- Self-employed borrower income in a licensed profession (i.e. Medical, Legal, Accounting) will be considered from a business that's been in existence for less than two (2) years, but greater than one (1) year if the borrower has at least two (2) years of documented previous experience in the same profession, or evidence of formal education in a related field.

Personal Bank Statement Documentation Review:

- Transfers between personal accounts must be excluded, as well as any deposits that are not consistent with a self-employed income (credit card refunds, IRS refunds, etc.);
- Transfers from business accounts can be included;
- Any deposits into a personal account deemed to derive from a source other than the business (rents, SSI, joint account holder wage income, IRS refunds, etc.) must be excluded from the analysis;
- Large deposits exceeding 50% of monthly income (as defined by Fannie Mae) that are being used to qualify, must be documented with an LOE and must be consistent with the business profile. If LOE is sufficient, no additional sourcing is required; Qualifying Income Calculation: Personal bank statement average (total eligible deposits / 12 or 24 months).

106.3.2 Business Bank Statements:

- Minimum of 12 month's consecutive business bank statements*;
- *Comingled funds may be considered IF the borrower's sole proprietorship is also the borrowers name. For example: Doctors, Lawyers, Consultants
- Transfers from personal accounts must be excluded, as well as any deposits that are not consistent with a self-employed income (credit card refunds, IRS refunds, etc.);
- Income for qualification must be multiplied by borrowers verified percentage of ownership in business
- 4506-C transcripts not required;
- All Borrowers must also provide evidence that business has been in existence for at least two (2) years via CPA/Tax preparer letter, confirmation from regulatory or state agency, or applicable licensing bureau;
- Verify percentage of ownership via reliable third party source;

- Self-employed Borrower income in a licensed profession (i.e. Medical, Legal, Accounting) will be considered from a business that's been in existence for less than (two) 2 years, but greater than one (1) year if the Borrower has at least two (2) years of documented previous experience in the same profession, or evidence of formal education in a related field;
    - Qualifying income is determined by one of the following approaches:
        - Third Party Prepared P&L;
        - CPA Expense Ratio; or
        - Fixed Expense Ratio.

Third Party Prepared P&L:

Net income from the P&L statement can be used as qualifying income provided it meets the requirements below:

- P&L must be prepared by a CPA or licensed tax preparer;
- P&L must be signed and dated by third party;
- Separate P&Ls are required for each business being used to qualify;
- The P&L should generally cover the same calendar months as the bank statements provided (within three (3) months);
- Eligible deposits from the bank statements should generally be within +/- 10% of the gross income as shown on the P&L;
- Any amounts on the P&L representing salary/wages paid to the Borrower/business owner can be added back and considered in the net income analysis; and
- Qualifying Income Calculation: Monthly net income from the P&L or the average monthly deposits multiplied by (1 minus expense ratio as determined on the Third Party Prepared P&L)

CPA Expense Ratio:

- CPA letter providing the expense ratio of the business;
- Letter must be signed and dated by CPA;
- CPA cannot be an employee or a relative of the Borrower; and
- Qualifying Income Calculation:
    - Eligible deposits from the business bank statements are reduced by the expense ratio to determine net income of the business; and
    - Qualifying Income: Average monthly eligible deposits multiplied by (1 minus the expense ratio from CPA letter).

Fixed Expense Ratio:

- A 50% expense ratio is always required regardless of business type; and Qualifying Income Calculation: Eligible deposits from the business bank statements are reduced by a 50% expense ratio to determine the qualifying income of the business.

Tiered Expense Ratio

- Eligible deposits from the bank statements are reduced by the expense ratio to determine qualifying income of the business
- Expense Ratio:
    - The expense ratio in the originators underwriting guidelines is tiered based on certain aspects of the borrower's business including, but not limited to the industry, number of employees, inventory vs services business, physical place of business vs work from home etc
    - Expense ratios below 50% will generally be for borrowers whose businesses have limited employees, are in service industries or other industries without the need of heavy equipment and minimal facilities
    - Expense ratios can be as low as 15%, which is generally reserved for businesses with no employees in a service industry and no other employees other than the borrowers on the loan
- Maximum Qualifying Income: Average monthly eligible deposits multiplied by (1 minus the applicable Expense Ratio)

Business Type	Employees		
Service Business (Offers Services)	**0**	**1-5**	**>5**
Examples of Service Business: Consulting, Accounting, Legal, Therapy, Counseling, Financial Planning, Insurance, Information Technology	15% Expense Factor	30% Expense Factor	50% Expense Factor
Product Business (Sells Goods)	**0**	**1-5**	**>5**
Examples of Product Business: Retail, Food Services, Restaurant, Manufacturing, Contracting, Construction	25% Expense Factor	50% Expense Factor	85% Expense Factor

106.4 1099 INCOME

- Borrower to have a verified 2-year history of earning 1099 income.
- Income source required to be from the same industry permitted for borrower's earning 100% commission or for independent contractors.
    - 1 or 2-years of 1099s permitted.
    - 4506-C required along with a transcript for the 1099s
- One of the following Business expense analysis methods:
    - 85% Net Margin (15% Expense Factor)
    - Business Expense Statement Letter (CPA, accountant, tax preparer)
- Qualifying income is the 12 or 24-month average from the total number of 1099's minus the expense factor from the method chosen above.
- YTD earnings must be documented to support the ongoing receipt of income on the 1099s by:

    - Checks or a single check stub(s) with YTD totals or
    - YTD Bank statements:
        - The YTD earnings from the total of check stubs or the tally of deposits from bank statements must be within 10% of the qualifying income.
- Funding VVOE within 10 days of the Note

106.5 P&L INCOME

- 12-month Profit and Loss must cover the most four (4) recent complete quarters and be prepared by a Licensed Tax Preparer.
- Compares the two most recent months bank statements with the third party prepared 12-month P&L.
    - Borrower prepared P&L will not be permitted under any circumstances
- Gross deposits on the 2 months bank statements must support gross revenue on the P&L
- The (CTEC, EA, CPA) must have prepared or filed the most recent 2 years business tax filing for the borrower/business.
    - Preparer must have a valid CTEC, EA, CPA license and not be an employee of the business.
- If the expenses are less than 50%, then the business narrative must be signed/validated by one of the following prior to closing:
    - CTEC, EA, or CPA.
    - Or Controller, CFO, Finance/Accounting manager of the business.
- Maximum DTI 50%
- 80% max LTV
- Verification business has been in existence for 2 years.
- Verification of business existence required within 10 calendar days of closing.
- Verification the borrower is at least 50% owner of the business by providing one of the following:
    - Tax Preparer letter, operating agreement, or equivalent; reflecting the borrower's ownership percentage.

Calculating Income requirements:

- Minimum expense ratio of 15%
- Qualifying income is the net income from the P&L divided by 12

106.6 DEBT SERVICE COVERAGE RATIO (DSCR) PROGRAM

Loans that are part of the DSCR Program are calculated solely from the income of the subject property in lieu of documenting Borrower income. Borrower income is not required and there is no calculation for debt-to-income. See DSCR eligibility matrix for program parameters.

General Requirements:

- Investment properties only;
- Loan must be deemed business purpose loans and be exempt from the ATR, QM and HPML requirements;
- Maximum loan term 480 months.
- 1007 required.
- Interest Only Permitted.
- Eligible Property Types: 1-4 unit single-family residence, PUD, Co-op, Condotel and Warrantable & Non-Warrantable Condo;
- 6 month's reserves on the subject property documented with 30 days bank statements;
- First-Time Homebuyers are not permitted;
- Minimum seasoning since Housing Event – 24 months;
- Gift funds permitted for down payment. 5% on LTV's <= 80% or 10% on LTV's <70%
- For loans backed by more than one property, the 10% LTV reduction applies if more than 50% of the appraised value of the blanket mortgage is unleased; and
- Borrower's certification of business purpose that includes:
  - Borrower's and subject property's address;
  - Borrower intends to use the proceeds of the mortgage loan for a business purpose;
  - Borrower does not currently occupy the subject property or plan to occupy the subject property;
  - Subject property is leased or will be leased; and
  - Certification must be signed and dated by the Borrower.

Eligible Borrowers:

- U.S. Citizens;
- Permanent Resident Aliens;
- Non-Permanent Resident Aliens;
- Foreign Nationals who primarily live and work outside the U.S.;
- Inter-Vivos Revocable Trust; and
- Limited Partnerships, General Partnerships, Corporations, Limited Liability Company – Personal guarantor required.

Income Calculation:

Debt Service Coverage Ratio = Gross Income / Proposed PITIA*

- Tenant Occupied: Use the lower of the (a) executed lease agreement or (b) market rent from appraisal (form 1007); or
  - Determined by fully executed lease in file with tenant currently occupying or will occupy within 30 days of the Note date,

month to month lease also permitted

- Non-Tenant Occupied: The market rent from the appraisal (form 1007) may be used solely; or
- Short Term Rental income can be used, see below section.
- *For Interest Only loans < 5 years, DSCR is based on PITIA payment with principal and interest payments amortized over the scheduled remaining loan term
- *For Interest Only loans >=5 years, DSCR is based on interest only payments

Short Term Rental Calculation- The following requirements apply to short-term rentals such as Airbnb or VRBO:

- Max loan size: $2,000,000
- Mortgage refinancing only (no purchase transactions)
- Minimum 12-month rental history
- DSCR would be calculated based on average actual rental income calculated over 12 months. No market rents are used in calculations.
- 3rd party verification STR are legally permissible (city, county etc) and licensed where applicable
- Rent loss coverage is not required

106.7 ASSET DEPLETION

Assets must be held in the borrower's name; this includes trust accounts where the borrowers are the owner and only trustees of the trust. Business assets are not permitted. Assets must be held in an American based bank, be in English and in US dollars. This can be combined with other sources of income (i.e., rent, pension, social security etc.) and W2 income but cannot be used in conjunction with other asset-related income derived from the same source such as bank statement Interest/Dividend income, Capital Gains, etc.

Assets to be documented with 90 days of bank statements and not greater than 60 days from Note date. Large deposits sourced/ seasoned for a minimum of 90 days.

Qualifying Income: Qualified Assets divided by 120 (ten (10) year utilization draw schedule)

Qualified Assets: Net Assets (excluding any funds being used for down payment, cash to close and/or reserves) multiplied by the following percentages:

- 100% of the value of checking/savings/money market;
- 85% of the remaining value of stock/bonds/mutual funds/CDs; and
- 80% for all retirement assets regardless of age. Must meet

FNMA criteria for unrestricted access

107 FULL DOCUMENTATION PROGRAM

Full Documentation requires 24 months of verified income and employment history that can reasonably be expected to continue, and verification of assets for funds to close (if applicable) and required reserves.

Regardless of income source and in addition to other verification required or provided, each Borrower must sign an IRS Form 4506-C, which must be executed by the originator. Process the executed IRS Form 4506- C to obtain full tax return transcripts for the two (2) most recent years. Where GS guideline is silent on documentation in this section, defer to FNMA.

107.1 EMPLOYMENT HISTORY

Employment must be stable with at least a two (2) year history in the same job or jobs in the same or related field. Self-employed Borrowers must have been in business for at least two (2) years. Other circumstances may also be acceptable as outlined in this section.

Frequent Job Changes

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

Gaps in Employment:

- Borrower must explain, in writing, any job gaps that span one (1) month or more and
- Be employed at current job for a minimum of 6 months

Previously in School or Military:

- Originator must require the Borrower to indicate whether he or she is or has been in school or the military for the recent two full years and, if so, provide evidence supporting this claim, such as college transcripts, or discharge papers.

107.2 SOURCE OF INCOME

The income of each Borrower who will be obligated for the mortgage debt and whose income is being relied upon in determining ability to repay must be analyzed to determine whether their income level can be reasonably expected to continue. Borrowers are qualified based on calculated stable monthly income over the most recent two (2) year period. Stable monthly income consists of those amounts and sources which are reasonably expected to continue. Income can be reasonably expected to continue where the Borrower's employer verifies current employment and income and does not indicate that employment has been or is set to be terminated. However, an originator should not assume that income can be reasonably expected to continue if a verification of employment includes an affirmative statement that the employment is likely to cease. Income from sources other than salaries or wages, such as bonus, commission, self-employment, etc., may be considered, when properly verified and documented by the originator.

Use the most conservative approach for the income calculation when income, which is substantial or comprises the majority of qualifying income, is declining or inconsistent. An explanation for the decline must be obtained. If income has been declining or inconsistent, the lowest annual compensation over the prior two

(2) year period must be used qualify the Borrower. Unreimbursed expenses, for either the Borrower or co- Borrower, must be subtracted from qualifying income.

The source(s) of income used to qualify must be reviewed with regard to the Borrower's ability to meet their total debt obligation. Varying types and levels of income documentation may be necessary for different types of income and programs.

107.2.1 Foreign Nationals who primarily live and work outside the U.S.

Foreign Nationals who primarily live and work outside the U.S. are subject to the following restrictions:

- Maximum LTV of 70%;
- Maximum DTI of 50%;
- If US credit report with FICO's is not available, assume 650 FICO and
- Primary Residence is not permitted.

Wage Earners:

- A letter (on company letterhead) from an authorized representative the employer stating all of the following:
  - Employment history (position/title, time on job); and
  - Current monthly salary and year-to-date earnings.
- A valid pay stub/ pay ledger or financial institution deposit/transaction record that supports the employment.

Self Employed:

- A letter (on company letterhead) from a professional based in the Borrower's country of residence – Accountant/CPA/Financial Institution Officer/ Licensed Financial Advisor verifying:
  - The nature of the business;
  - Income figures for the last 2 years; and
  - A year-to-date income figure.
- Validation of the existence of the business must include:
  - Internet Web page address; or
  - Business and/or operator license from a governmental office.

Additional Requirements:

- Must provide a copy of their last 4 month's bank statements;
- Bank statements must be translated into English language and must be shown in U.S. currency;
- If no foreign credit report is available, all of the following is required:
  - 2 credit reference letters written or translated in English;
  - Can include non-traditional credit sources, i.e., utility company;
  - Letter should reference time as a customer and is good standing; and
  - .
- One (1) bank reference letter written or translated in English:
  - Letter should reference time as a customer, type/number of accounts, and is good standing.

107.2.2 Salaried Income/Wage Earner Income

Income is derived from a consistent hourly, weekly or monthly wage, must be verified by all of the following:

- Most recent pay stub(s) covering a 30-day period (28 days for a Borrower who is paid bi-weekly), with year-to-date earnings;
- IRS Form W-2's for the prior two (2) years;
- Signed and executed IRS Form 4506-C (Request for Transcript of Tax Return); and
- Verbal Verification of Employment within ten (10) calendar days of closing.

107.2.3 Overtime and Bonus Income

Overtime and bonus income can be used to qualify the Borrower if he/she has received this income for the past two (2) years, and documentation submitted for the loan does not indicate this income will likely cease. If, for example, the employment verification states that the overtime and bonus income is unlikely to continue, it may not be used in qualifying.

The creditor must develop an average of bonus or overtime income for the past two (2) years. Periods of overtime and bonus income less than two (2) years may be acceptable, provided the creditor can justify and document in writing the reason for using the income for qualifying purposes.

The creditor must establish and document an earnings trend for overtime and bonus income. If either type of income shows a continual decline, the creditor must document

in writing a sound rationalization for including the income when qualifying the Borrower.

A period of more than two (2) years must be used in calculating the average overtime and bonus income if the income varies significantly from year to year.

107.2.4 Capital Gains and Losses

Capital gains or losses generally occur one-time and should not be considered when determining effective income. However, if the individual has a consistent turnover of assets resulting in gains, the capital gain may be considered when determining the income. Two (2) years' tax returns are required to evaluate an earnings trend. Refer to FNMA for income calculation method and additional documentation requirements:

Creditor must document anticipated continuation of income through verified assets. Example: A creditor can consider the capital gains for an individual who purchased old houses, remodels them, and sells them for a profit.

107.2.5 Alimony, Child Support, or Maintenance Income

Alimony, child support, or maintenance income may be considered effective, if:

- Payments are likely to be received consistently for the first three (3) years of the mortgage;
- The Borrower provides the required documentation, which includes a copy of the:
  - Final divorce decree;
  - Legal separation agreement;
  - Court order or Voluntary payment agreement; and
- The Borrower can provide acceptable evidence that payments have been received during the last 12 months, such as:
  - Cancelled checks;
  - Deposit slips; or
  - Tax returns or Court records.

Notes:

Periods less than 12 months may be acceptable, provided the creditor can adequately document the payer's ability and willingness to make timely payments.

107.2.6 Commission Income

Commission income must be averaged over the previous two (2) years. To qualify commission income, the Borrower must provide:

- Copies of signed tax returns for the last two (2) years and most recent pay stub.

Borrowers whose commission income was received for more than one (1) year, but less than two (2) years may be considered favorably if the underwriter can:

- Document the likelihood that the income will continue and soundly rationalize accepting the commission income.**Notes:**
    - Unreimbursed business expenses must be subtracted from gross income;
    - A commissioned Borrower is one who receives more than 25 percent of his/her annual income from commissions; and
    - A tax transcript obtained directly from the IRS may be used in lieu of signed tax returns.

Qualifying Commission Income Earned for Less Than One Year.

- Commission income earned for less than one (1) year is not considered effective income. Exceptions may be made for situations in which the Borrower's compensation was changed from salary to commission within a similar position with the same employer; or
- A Borrower's income may also qualify when the portion of earnings not attributed to commissions would be sufficient to qualify the Borrower for the mortgage.

107.2.7 Disability Income

Disability benefits may be used as qualifying income. Benefits must be verified with a copy of the award letter or a statement from the benefit's payer (employer, insurance company or other qualified and disinterested party). If the benefits have a defined expiration date, verify that the remaining term is at least three (3) years from the date of the mortgage application. If the Borrower is receiving short-term payments that will decrease to a lesser amount within the next three (3) years because they will convert to long-term benefits, the long-term benefits amount must be used as qualifying income.

107.2.8 Dividend/Interest Income

Dividend and investment income may be used as qualifying income if the file contains the following documentation:

- Individual Federal income tax returns or account statements for the previous two (2) years to support history of receipt. This income must be averaged over the two (2) years; and
- Sufficient assets remain after closing to continue to generate an acceptable level of earnings. If assets that generated dividend/interest income are being sold or used as a source for down payment for the subject mortgage transaction, the qualifying income must be reduced by a percentage equal to the percentage reduction in the value of the assets that generated the income.

107.2.9 Employed by a Family Member

In addition to normal employment verification, a Borrower employed by a family owned business is required to provide evidence that he/she is not an owner of the business, which may include:

- Copies of signed personal tax returns, or a signed copy of the corporate tax return showing ownership percentage.

107.2.10 Farm Income

Farm income cannot be derived from the subject property. Farm income from a separate property can be included in the Borrower's qualifying income provided that a stable and consistent two (2) year history can be documented through individual Federal income tax returns. Income must be adjusted for items that have a one-time occurrence (i.e., federal programs/subsidies). Farm income is typically included on Schedule F of the individual Federal tax return.

107.2.11 Foreign Income

Permitted provided the Borrower meets eligibility requirements and any foreign income is documented for two (2) years through individual Federal income tax returns.

107.2.12 Foster Care Income

Income derived from foster care payments may be considered if it is regular and recurring. Documentation must include:

- Individual Federal income tax returns for the previous two (2) years to support history of receipt, and:
  - A letter from the organization providing the income; or
  - A bank statements or deposit slips that support a two (2) year history.

107.2.13 Installment Sales and Land Contracts

Not eligible.

107.2.14 Military Income

Military personnel not only receive base pay, but often times are entitled to additional forms of pay, such as:

- Income from variable housing allowances;
- Clothing allowances;

- Flight or hazard pay;
- Rations; or
- Proficiency pay.

The tax-exempt nature of some of the above payments should also be considered.

107.2.15 Minister/Clergy Income

Ministers and members of the clergy are generally considered self-employed unless exempted by IRS from self-employment taxes. If exempt an exception from the IRS must be provided

Rental or housing allowance received may be considered income for qualifying the Borrower. Written documentation, such as a VOE provided by the church, must be obtained showing receipt of this income. The Borrower's pay stub must also reflect receipt of the housing allowance. If the Borrower is newly employed, obtain a copy of the church budget (in lieu of a check) showing funds have been allocated for housing allowance. The housing allowance, although not subject to federal income taxes, is subject to self- employment taxes. Gross income on Schedule SE of the Borrower's IRS Form 1040 must include housing allowance paid.

107.2.16 Employer Differential Income

If the employer subsidizes a Borrower's mortgage payment through direct payments, the amount of the payments:

- Is considered gross income; and
- It cannot be used to offset the mortgage payment directly, even if the employer pays the servicing creditor directly.

107.2.17 Note Receivable Income

In order to include notes receivable income, the Borrower must provide:

- A copy of the note to establish the amount and length of payment; and
- Evidence that these payments have been consistently received for the last 12 months through deposit slips, deposit receipts, cancelled checks, bank or other account statements, or tax returns.

If the Borrower is not the original payee on the note, the creditor must establish that the Borrower is able to enforce the note.

107.2.18 Non-Taxable Income

Certain types of regular income may not be subject to Federal tax. Such types of non-taxable income include:

- Some portion of Social Security, some Federal government employee retirement income, Railroad Retirement Benefits, and some State government retirement income;
- Certain types of disability and public assistance payments;
- Child support;
- Military allowances; or
- Other income that is documented as being exempt from Federal income taxes.
  - Must document and support the amount of income grossed up for any non-taxable income source; and should use the tax rate used to calculate the Borrower's last year's income tax.

If the Borrower is not required to file a federal tax return, the tax rate to use is 25 percent.

Adding Non-Taxable Income to a Borrower's Gross Income.

- The amount of continuing tax savings attributed to regular income not subject to Federal taxes may be added to the Borrower's gross income.
- The percentage of non-taxable income that may be added cannot exceed the appropriate tax rate for the income amount. Additional allowances for dependents are not acceptable.
- The creditor:

107.2.19 Part-Time/Second Job Income

Part-time and income can be used to qualify the Borrower if the creditor documents that the Borrower has worked the part-time job uninterrupted for the past two (2) years and plans to continue.

Part-time income received for less than two (2) years may be included as effective income, provided that the creditor justifies and documents that the income is likely to continue.

Note:

For qualifying purposes, "part-time" income refers to employment taken to supplement the Borrower's income from regular employment; part-time employment is not a primary job, and it is worked less than 40 hours.

107.2.20 Public Assistance

This may be used as income, with verification of receipt and verification from the paying entity. Benefits must have been received for the past two (2) years and documentation must indicate that the income is expected to continue for at least three (3) years.

107.2.21 Rental Income

Rental income from the subject property, as well as from a non-subject property, can be used as qualifying income. The Borrower must provide individual Federal income tax returns for the prior two (2) years, including Schedule E, to verify a 2-year history of property management. All properties are not required to be in service for 2 years to use rental income. Short term rental income can only be used with a 2-year history of receipt for that property on the tax returns, leases are not acceptable to document income.

A separate schedule of real estate is not required for rental properties as long as all properties are Documented on the Uniform Residential Loan Application.

Note:

The underwriting analysis may not consider rental income from any property being vacated by the Borrower, except under the circumstances described below.

Rental income shall be analyzed in the following manner:

If rental properties are acquired since the last income tax filing and not shown on Schedule E, using a current signed lease or rental agreement, the rental income is calculated by reducing gross rental amount by 25% for vacancies and maintenance and subtracting PITIA.

When the Borrower is purchasing a new property as an Owner Occupied residence, but will still retain ownership of their existing residence which is being converted to an investment property, the following requirements apply:

- Up to 75% of the rental income can be used to offset the mortgage payment (PITIA) of the property being retained and rented, if there is:
    - A fully executed lease agreement AND either:
        - A copy of the tenant's check for security deposit as well as proof of deposit into the Borrower's account; or
        - The first month of rental payment as well as proof of deposit into the Borrower's account is required.

107.2.22 Retirement Income

Retirement income may be used as qualifying income. Acceptable income documentation types include:

Pension:

Retirement award letter(s) from former employer along with copies of the Borrower's two (2) most recent bank statements showing receipt of income, with income clearly identified on the bank statements OR Most recent prior year Federal tax return along with copies of the Borrower's two (2) most recent bank statements showing receipt of income, with income clearly identified on the bank statements.

Social Security:

Social Security income must be verified by a Social Security Administration benefit verification letter (Sometimes called a "proof of income letter," "budget letter," "benefits letter," or "proof of award letter"). If any benefits expire within the first full three (3) years of the loan, the income source may not be used in qualifying.

If any income will cease within the first full three (3) years of the mortgage loan, such income may not be used in qualifying.

If the Social Security Administration benefit verification letter does not indicate a defined expiration date within three (3) years of loan origination, the creditor shall consider the income effective and likely to continue. Pending or current re-evaluation of medical eligibility for benefit payments is not considered an indication that the benefit payments are not likely to continue

401K/IRA Distribution:

Distributions from a retirement account, such as a 401(k), IRA, SEP or Keogh retirement account can be use as qualifying income provided there is a three (3) year continuance. Document regular and continued receipt of the income for, as verified by:

- Letters from the organizations providing the income;
- Copies of retirement award letters;
- Copies of signed federal income tax returns;
- IRS W-2 or 1099 forms; or
- Proof of current receipt.

When retirement income is paid in the form of a distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the

date of the mortgage application. In addition:

- The borrower must have unrestricted access without penalty to the accounts;

and

- If the assets are in the form of stocks, bonds, or mutual funds, 70% of the value (remaining after any applicable costs for the subject transaction) must be used to determine the number of distributions remaining to account for the volatile nature of these assets.

107.2.23 Seasonal Income

Seasonal income is considered uninterrupted, and may be used to qualify the Borrower, if the creditor documents that the Borrower:

- Has worked the same job for the past two (2) years; and
- Expects to be rehired the next season.

107.2.24 Self-Employment Income

A Borrower is considered self-employed where he or she has a 25% or more ownership interest in a business. Borrowers who are self-employed but are not using self-employment income to qualify, do not have to meet the self-employed income requirements below if the income is positive and not being used or the self-employment is a secondary employment (borrower is a w2 wage earner) and the loss is minimal.

Qualifying income must be calculated using Fannie Mae's cash flow analysis (Form 1084) or a comparable income analysis form.

Income from self-employment must be received by the Borrower and documented for two (2) years (or more) to be used as qualifying income. The Borrower must own the business for the most recent two (2) years.

General Documentation Requirements for Self-Employed Borrower

- Signed, dated individual tax returns, with all applicable tax schedules for the most recent two (2) years;
- For a corporation, "S" corporation, or partnership, signed copies of Federal business income tax returns for the last two (2) years, with all applicable tax schedules; and
- Year-to-date profit and loss (P&L) statement and balance sheet.

Establishing Earnings Trend for a Self-Employed Borrower

When qualifying income, the creditor must establish the Borrower's earnings trend from the previous (2) two years using the Borrower's tax returns. If a Borrower:

- Provides quarterly tax returns, the income analysis may include income through the period covered by the tax filing; or
- Is not subject to quarterly tax returns, or does not file them, then the income shown on the P&L statement may be included 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 considerably greater than what is supported by the previous year's tax returns, the creditor must base the income analysis solely on the income verified through the tax returns;
- If the Borrower's earnings trend for the previous two (2) 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.

Analyzing the Financial Strength of the Business

The creditor must consider the business's financial strength by examining annual earnings. Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable

<u>Income Analysis: Individual Tax Returns (IRS Form 1040)</u>

General Policy on Adjusting Income Based on a Review of IRS Form 1040

The amount shown on a Borrower's IRS Form 1040 as adjusted gross income must either be increased or decreased based on the creditor's analysis of the individual tax return and any related tax schedules.

Guidelines for Analyzing IRS Form 1040

The table below contains guidelines for analyzing IRS Form 1040.

IRS Form 1040 Heading	Description
Wages, Salaries and Tips	An amount shown under this heading may indicate that the individual: • Is a salaried employee of a corporation, or • Has other sources of income This section may also indicate that the spouse is employed in which case the spouse's income must be subtracted from the Borrower's adjusted gross income
Business Income and Loss (from Schedule C)	Sole proprietorship income calculated on Schedule C is business income. Depreciation or depletion may be added back to the adjusted gross income.
Rent, Royalties, Partnerships (from Schedule E)	Any income received from rental properties or royalties may be used as income, after adding back any depreciation shown on Schedule E.
Capital Gains and Losses (from Schedule D)	Capital gains or losses generally occur only one time and should not be considered when determining effective income. However, if the individual has a constant turnover of assets resulting in gains, the capital gain may be considered when determining the income. Two (2) years tax returns are required to evaluate an earnings trend. Creditor must document anticipated continuation of income through verified assets. Refer to FNMA. Example: A creditor can consider the capital gains for an individual who purchases old houses, remodel them, and sells them for profit.
Interest and Dividend Income (from Schedule B)	This taxable/tax-exempt income may be added back to the adjusted gross income only if it: • Has been received for the past two (2) years; and • Is expected to continue The interest bearing assets will be liquidated as a source of the cash investment, the creditor must appropriately adjust the amount.
Farm Income or Loss (from Schedule F)	Any depreciation shown on Schedule F may be added back to the adjusted gross income.
IRA Distributions, Pensions, Annuities, and Social Security Benefits	The non-taxable portion of these items may be added back to the adjusted gross income, if the income is expected to continue for the first three (3) years of the mortgage.

Adjustments to Income	Adjustments to income may be added back to the adjusted gross income if they are: • IRA and Keogh retirement deductions; • Penalties on early withdrawal of savings; • Health insurance deductions; and • Alimony payments
Employee Business Expenses	Employee Business expenses are actual cash expenses that must be deducted from the adjusted gross income.

Income Analysis: Corporate Tax Returns (IRS Form 1120)

Description: Corporation.

A corporation is a State-chartered business owned by its stockholders.

Need to Obtain Borrower Percentage of Ownership Information.

Corporate compensation to the officers, generally in proportion to the percentage of ownership, is shown on the:

- Corporate tax return IRS Form 1120; or
- Individual tax returns.

When a Borrower's percentage of ownership does not appear on the tax returns, the creditor must obtain the information from the corporation's accountant, along with evidence that the Borrower has the right to any compensation.

Analyzing Corporate Tax Returns

In order to determine a Borrower's self-employed income from a corporation the adjusted business income must:

- Be determined; and
- Multiplied by the Borrower's percentage of ownership in the business

The table below describes the items found on IRS Form 1120 for which an adjustment must be made in order to determine adjusted business income.

IRS Form 1120 Heading	Description
Depreciation and Depletion	Add the corporation's depreciation and depletion back to the after-tax income.
Taxable Income	Taxable income is the corporation's net income before Federal taxes. Reduced taxable income by the tax liability.
Rent, Royalties, Partnerships (from Schedule E)	Taxable income is the corporation's net income before Federal taxes. Reduced taxable income by the tax liability.
Fiscal Year vs. Calendar Years	If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made to relate corporate income to the individual tax return.
Cash Withdrawals	The Borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.

Income Analysis: "S" Corporation Tax Returns (IRS Form 1120S)

Description: "S" Corporation

- An "S" corporation is generally a small, start-up business, with gains and losses passed to stockholders in proportion to each stockholder's percentage of business ownership
- Income for owners of "S" corporations comes from IRS Form W-2 wages and is taxed at the individual rate. The IRS Form 1120S, Compensation of Officers line item is transferred to the Borrower's individual IRS Form 1040

Analyzing "S" Corporation Tax Returns

- "S" corporation depreciation and depletion may be added back to income in proportion to the Borrower's share of the corporation's income
- The total amount of obligations on mortgages, notes, or bonds that are payable in less than one year. These adjustments are not required if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them**.** Income should be calculated in accordance with FNMA guidance
- Important: The Borrower's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating, and must be considered in the income analysis

Income Analysis: Partnership Tax Returns (IRS Form 1065)

Description: Partnership

- A partnership is formed when two (2) or more individuals form a business, and share in profits, losses, and responsibility for running the company
- Each partner pays taxes on his/her proportionate share of the partnership's net income

Analyzing Partnership Tax Returns

- Both general and limited partnerships report income on IRS Form 1065, and the partners' share of income is carried over to Schedule E of IRS Form 1040
- The creditor must review IRS Form 1065 to assess the viability of the business. Both depreciation and depletion may be added back to the income in proportion to the Borrower's share of income.
- The total amount of obligations on mortgages, notes, or bonds that are payable in less than one year. These adjustments are not required if there is evidence that these obligations roll over regularly and/or the business has sufficient liquid assets to cover them. Income should be calculated in accordance with FNMA guidance.

- Important: Cash withdrawals from the partnership may have a severe negative impact on the partnership's ability to continue operating, and must be considered in the income analysis

107.2.25 Restricted Stock Units and Stock Options

Restricted Stock Unites (RSUs) and Stock Options may only be used as qualifying income if the income has been consistently received for two (2) years and is identified on the pay stubs, W-2s and tax returns as income and the vesting schedule indicates the income will continue for a minimum of three (3) years at a similar level as prior three (3) years.

- A two (2) year average of prior income received from RSUs, or stock options should be used to calculate the income, and; The income used for qualifying must be supported by future vesting based on the stock price used for qualifying and vesting schedule. Using a stock price based on the lower of the current stock price or the 52- week average for the most recent twelve (12) months reporting at the time of application.
- Additional awards must be similar to the qualifying income and awarded on a consistent basis. There must be no indication the borrower will not continue to receive future awards consistent with historical awards received.
- Borrower must be currently employed by the employer issuing the RSUs/stock options for the RSUs/stock options to be considered in qualifying income.
- Stock must be a publicly traded stock and listed on a U.S. exchange.
- Vested restricted stock units and stock options cannot be used for reserves if using for income to qualify.

107.2.26 Teacher Income

Teachers may be paid on a 9-month, 10-month or 12-month basis. Determine how their pay is structured before calculating the income. Obtain additional documentation if uncertainty exists.

107.2.27 Tips and Gratuities

Tips and gratuity income may be acceptable if receipt of such income is typical for Borrower's occupation (i.e., waitperson, taxi driver, etc.). Income must be received for at least 24 months and documented through individual Federal income tax returns from the previous two (2) years. Income is averaged over the time period verified.

107.2.28 Trust Income

Income from trusts may be used if constant payments will continue for at least the first three (3) years of the mortgage term as evidenced by trust income documentation.

Required trust income documentation includes a copy of the Trust Agreement or other trustee statement, confirming the:

- Amount of the trust;
- Frequency of distribution; and
- Duration of payments.

Trust account funds may be used for the required cash investment if the Borrower provides adequate documentation that the withdrawal of funds will not negatively affect income. The Borrower may use funds from the trust account for the required cash investment, but the trust income used to determine repayment ability cannot be affected negatively by its use.

107.2.29 Unacceptable Income

The following types of income are unacceptable:

- Gambling winnings (except lottery continuing for five (5) years);
- Educational benefits;
- Refunds of federal, state, or local taxes; or
- Illegal income or income not reported to IRS.
- Any income generated from the cannabis or hemp industry
- Any income generated from the adult entertainment industry

107.2.30 Unemployment Compensation

Income derived from unemployment compensation is generally not to be considered stable due to the limited duration of its receipt. An exception to this would be a Borrower employed in a field where weather affects the ability to work and where unemployment compensation is often received (i.e., construction). The income may be used to qualify on an exception basis when a two (2) year employment history in the same field of work is verified along with a two (2) year history of receipt of unemployment compensation. There must also be a reasonable assurance that this income will continue. Verified income is averaged over the time period verified. Tax returns must be used to establish a history of the receipt of these benefits.

107.2.31 VA Survivors' Benefits/Dependent Care

Direct compensation for service-related disabilities from the Department of Veterans Affairs (VA) is acceptable, provided the creditor receives documentation from the VA.

Education benefits used to offset education expenses are not acceptable.

107.2.32 Welfare Benefits (Government Assistance Programs)

Income from government assistance programs is acceptable provided the paying agency provides documentation that the income is expected to continue for at least three (3) years. The file also must contain direct written verification from the welfare agency addressing the amount, duration and frequency of benefits. For unemployment income, the income must be documented for two (2) years and there must be a reasonable assurance that the income will continue.

107.3 EMPLOYMENT/INCOME DOCUMENTATION

107.3.1 Written Verification of Employment

Income and employment for non-self-employed Borrowers may be obtained via direct written verification from the Borrower's employer. The verification must be signed by a member of

the company's human resource department or one of the business owners/officers. At a minimum, the verification must include: Borrower's name, position, dates of employment, and base salary.

107.3.2 Pay stubs and IRS Form W-2s

When pay stubs and W-2's are provided for income and employment verification, the documentation must meet the following criteria:

- Most-recent computer generated pay stub(s) covering a 30 day period. It must include:
- Borrower's full name and address;
    - Employer's name; and
    - Year-to-date earnings and Borrower's rate of pay
- W-2's for the prior two (2) years

Pay stub should be reviewed to confirm it does not reflect garnishments (child support, IRS, etc.).

107.3.3 Declining Income

Use the most conservative approach for the income calculation when income is declining. An explanation for the decline must be obtained. If income has been declining or inconsistent, the lowest annual compensation over the prior two (2) year period must be used qualify the Borrower.

107.3.4 Hourly Wages

Borrowers paid on an hourly basis or who may not work a regular 40 hour work week throughout the year, will generally have their income averaged over the minimum employment history required. If there is an indication of declining income, the current income is used instead of the average.

107.3.5 Verbal Verification of Employment (VVOE) for Salaried Borrowers

- The lender must independently obtain a phone number and, if possible, an address for the borrower's employer. This can be accomplished by using a telephone book, the Internet, directory assistance, or by contacting the applicable licensing bureau
- The lender must contact the employer verbally and confirm the borrower's current employment status within 10 business days prior to the note date. Note: If the employer confirms the borrower is currently on temporary leave, the lender must consider the borrower "employed"
- The conversation must be documented. It should include the following:
    - Name and title of the person who confirmed the employment for the lender;
    - Name and title of the person who completed the verification for the employer;
    - Date of the call; and
    - The source of the phone number.

Verbal Verification of Employment (VVOE) for Military Personnel

If the Borrower is in the military, in lieu of a verbal or written VOE, the lender must obtain either

- A military Leave and Earnings Statement dated within 30 calendar days prior to the note date (or 31 days for longer months); or
- A verification of employment through the Defense Manpower Data Center (https://www.dmdc.osd.mil/appj/mla/).

Verbal Verification of Employment (VVOE) for Self-Employed Borrowers

- The lender must verify the existence of the Borrower's business within 120 calendar days prior to the note date – from a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible;
- By verifying a phone listing and address for the Borrower's business using a telephone book, the Internet, or directory assistance; and
- The lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information.

107.3.6 Pay stubs and IRS Form W-2s

When the pay stubs and IRS Form W-2's are provided for income and employment verification, the documentation must meet the following criteria:

- Pay stubs and IRS Form W-2's must be typed, or computer generated;
- They must verify:
  - Borrower's full name and address;
  - Employer's name; and
  - Year-to-date earnings and Borrower's rate of pay.

Also confirm if pay stub reflects garnishments (child support, IRS, etc.) or if there are any loan deductions.

For all IRS Form W-2's, confirm the Employer's ID (EIN) is nine (9) digits. Also, confirm that Social Security and Medicare are taxed at the appropriate rates at the time of the analysis.

107.3.7 Tax Returns

Individual Federal income tax returns must contain all schedules and attachments and must be signed and dated by the Borrower(s).

Business tax returns must contain all schedules and attachments and must be signed and dated by the Borrower(s).

107.3.8 Age of Income Documentation

The income documentation may not be greater than 120 days old at the time of closing (Note Date).

107.4 IRS FORM 4506-C

An IRS Form 4506-C document must be completed and signed by the Borrower(s) whenever the Borrower(s) discloses income on the loan application. The form must request the appropriate documentation type (IRS Form W-2s, full tax transcripts, etc.) and be executed by the originating

lender prior to closing. For Borrowers with qualifying income from only salary/wage sources and fully documented through IRS Form W-2s, the IRS Form 4506-C need only be executed for IRS Form W-2s. For self-employed Borrowers, or for non-self-employed Borrowers with taxable income other than from salary/wage sources, the IRS Form 4506-C must be executed for full transcripts (tax return, wage and income and account transcript).

Documentation received from executing the IRS Form 4506-C must be reviewed and compared to the qualifying income determined from the primary income source documentation to confirm consistency. Documentation from processing the IRS Form 4506-C must be equal to or greater than the income used to qualify the loan.

108 CREDIT ANALYSIS

108.1 CREDIT REPORT

108.1.1 General Requirements:

Determination of a Borrower's creditworthiness, as demonstrated by willingness to repay past and current debt obligations in a timely manner, is a critical aspect of credit analysis.

A credit report is required for every Borrower who executes the note. The credit report must meet all FNMA requirements, as well as any additional criteria in this guideline.

108.1.2 Age of Credit Report/Credit Verifications

The credit report and credit verifications may not be greater than 120 days old at the time of closing.

108.1.3 Qualifying Credit Score

The representative score per FNMA definition. An average score is not permitted.

108.1.4 Minimum Credit History

Each Borrower must have an established credit history and the following must appear on their credit bureau report:

- A minimum of three (3) trade lines from traditional credit sources that reported for 24 months or more;
- At least one (1) of these must be open and active for the last 12 months;
- VOR documented per guidelines can count as a tradeline and
- Authorized user accounts will not be considered as a credit reference for establishing this minimum required history, and alternative credit histories not permitted;
- If full document loan, DU/ LPA approval can be utilized in lieu of

tradeline requirement above

108.1.5 Alternative Credit History

Eligible on Foreign Nationals who primarily live outside the U.S. only, see section 104.2.1 for more details.

108.1.6 Derogatory Credit or Public Records

Housing Events do not require a seasoning period if there is a single event. However the event must be settled prior close and cannot be a bailout for the subject property. If there are multiple events, there is a three (3) year seasoning from the date of the last Housing Event.

- Housing Event is defined as a Foreclosure, Short Sale, Deed in Lieu, Loan Modification, Notice of Default, Forbearance or 120+ Days Delinquent;
- Defaulted first and second on same property is considered one event;
- Housing Events that occur on the same property are considered a Single Housing Event. For example, Borrower's primary residence is 120+ Days DQ, then goes into Foreclosure;
- Multiple Housing Events occur when two (2) or more separate properties have Housing Events within a three (3) year period. For example, Borrower's primary residence goes into Foreclosure, as well as his or her investment property;
- Events include all occupancy types – Primary, 2nd Home & Investment Properties
- Seasoning look back is from the date of discharge or property resolution (completion date), as of the note date;
- Forbearance, or repayment plans, for any property/mortgage owned by the borrower, must be completed with all related financial obligations satisfactorily met AND at least three (3) consecutive timely payments made as of the application date of the new loan
- Modification look back commences at inception;
- Bankruptcy ("BK") is not considered a housing event and is permitted in combination with a housing event;
- Foreclosures included in bankruptcy permitted based on BK discharge date if the borrower has vacated the property; and
- Foreclosure, Short Sale, Deed in Lieu, and Loan Modification must be settled at time of closing

Bankruptcies require a 12 month seasoning period:

- Chapter 7 bankruptcies – Duration since bankruptcy is calculated from the discharged or completed date to the loan application date;
- Chapter 13 bankruptcies – Duration since bankruptcy is calculated from the discharged, or dismissed or completed date to the loan application date; and
- Borrowers who are under the repayment plan of a Bankruptcy are not eligible.

For the DSCR Program only

- Minimum seasoning since Credit Event – 24 months
  - Housing Event is defined as a Foreclosure, Short Sale, Bankruptcy, Deed in Lieu, Loan Modification, Forbearance, Notice of Default, or 120+ Days Delinquent

108.1.7 Major Adverse/Derogatory Credit – Collections, Charge-offs, Judgments, Liens

All delinquent credit that will impact title – including delinquent taxes, judgments, charge-off accounts, tax liens and mechanics' lines – must be paid off prior to or at closing. Title must insure the lien position without exception. Any item secured against the subject must be paid in full.

However, non-medical collection accounts, charged-off accounts and judgments that do not impact title are not required to be paid off if the sum total of all derogatory accounts is $5,000 or less. When total exceeds

$5,000, all must be paid in their entirety and all past due accounts brought current.

108.1.8 Delinquent Credit belonging to Ex-spouse

Delinquent credit which belongs to an ex-spouse may be excluded from the credit evaluation when all of the following apply:

- File contains a copy of the divorce decree or separation agreement which shows the derogatory accounts belong solely to the ex-spouse;
- Late payments that have occurred after the date of the divorce or separation; and
- If debt in question is a mortgage, evidence of title transfer prior to any delinquent debt must be provided and evidence of "buyout" as part of court proceedings.

108.1.9 Delinquent Credit Belonging to Co-signer

A Co-signer is considered a Borrower on the loan, and therefore delinquent credit that belongs to a co- signer must be considered when evaluating the loan.

108.1.10 Written Explanations

A written explanation is required for significant derogatory information. The purpose for requiring a written explanation is to assist the Originator in determining whether the Borrower's credit problems were due to extenuating circumstances (factors clearly beyond the control of the Borrower) or whether they reflect financial mismanagement (the Borrower's disregard for the payment of obligations when due).

In order to accomplish this purpose, it may be necessary to allow someone to assist the Borrower in preparing the explanation.

A written explanation in and of itself does not satisfy the Originator's responsibility to determine the Borrower's willingness to repay. When adverse or derogatory information is considered significant, the Originator must relate the reasons for the late payments, as stated by the Borrower, to the other information about the Borrower's credit history contained in the Mortgage file. The Originator must reasonably be able to conclude that:

- The explanation is consistent with the adverse information reported and the other information in the Mortgage file;
- The explanation establishes a credible cause for the late payments; and
- The Borrower represents an acceptable credit risk and exhibits the ability and willingness to repay the Mortgage.

108.1.11 Inquiries

If the credit report indicated that a creditor has made inquiries within the previous 90 day period, the underwriter must determine whether additional credit was granted as a result of the Borrower's request. A letter from the creditor or letter of explanation from the Borrower is required for all inquiries inside this time period.

108.1.12 Mortgage/Rental Payment History

The Borrower's previous housing payment history is required. The file must contain verification of the Borrower's 12 month payment history on the primary residence, and any mortgage loans on a Second/Vacation Home or Investment Property. For all occupancies, no mortgage payment, including subordinate liens, may be (to date of loan application):

- 90 or more days past due in the last 12 months (0x90x12)

Mortgage Payment History:

The file must also contain a 12 month payment history (or since origination, whichever is less) for all mortgages (including subordinate liens). Mortgage history must be verified from the credit report or other acceptable documentation, such as a Verification of Mortgage (VOM) completed by a financial institution.

Rental Payment History:

If the Borrower previously paid rent for their residence, then the Borrower's rental housing payment history is required. Payments must be documented via an institutional Verification of Rent (VOR)/ credit supplement, or cancelled checks/bank records. A VOR from an individual or a private party landlord does not meet the requirement of verifying the Borrower's prior housing payment history.

Rent Free: Borrowers who have lived in a rent-free situation are ineligible. If a Borrower has lived in a temporarily rent-free situation for a time period of 3 months or less, and the prior 12 months can be documented, this is acceptable (example: Borrower sold residence then lived with family rent-free until a new home was available). Borrowers whose spouse has the mortgage in only their name but can verify payments are coming from a joint account or who have other mortgaged properties with satisfactory most recent 12 month pay histories, are excluded from rent free

restrictions. Borrowers with a primary home that is owned free & clear are also exempt from this requirement.

108.1.13 Timeshare

For credit review purposes, timeshare obligations are usually considered installment.

108.1.14 Lawsuit/Pending Litigation

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 may be required. 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 may also be needed. The title company closing the loan must be informed of the lawsuit or litigation and provide affirmative coverage of our first lien position.

Lawsuit/pending litigation is not permitted for any cash out transaction.

108.1.15 Rolling Late Payments

A "rolling" late is when a contractual monthly obligation to pay is made to the lender in a single month on an account that is 30 days' delinquent. The payment made prevents the account from becoming contractually 60 days' delinquent but does not bring it current. A single payment might follow for each of several months, such that the "missed payment" has not been made and is still past due. The payment history will reflect a 30 day late account for every month until two (2) payments are made to bring the account current.

109 LIABILITIES

109.1 RECURRING OBLIGATIONS- Defer to FNMA

109.2 PROJECTED OBLIGATIONS AND OBLIGATIONS NOT CONSIDERED DEBT

109.2.1 Projected Obligations

Debt payments, such as student loan or balloon-payment note scheduled to begin or come due within 12 months or the mortgage loan closing, must be included as anticipated monthly obligations. Balloon- payment notes that come due within one (1) year of loan closing must be considered in the underwriting analysis.

Debt payments do not have to be classified as a projected obligation if the Borrower provides written evidence that the debt will be deferred to a period outside the 12 month timeframe.

109.2.2 Obligations Not Considered Debt

The following obligations are not considered debt and, therefore, should not be subtracted from gross income:

- Federal, state and local taxes;
- Federal Insurance Contributions Act (FICA) or other retirement contributions, such as 401(k) accounts (including repayment of debt

secured by these funds);

- Commuting costs;
- Union dues;
- Open accounts with zero balances;
- Automatic deductions to savings accounts;
- Childcare; or
- Voluntary deductions.

109.3 DELINQUENT ACCOUNTS

109.3.1 Liens that Affect Title

All liens on title must be paid at closing.

Treatment of Judgments, non-medical Collections, Charge-offs, Civil Suits and Disputed Trade Lines All delinquent credit that will impact title – including delinquent taxes, judgments, charged-off accounts, tax liens and mechanics' liens – must be paid off prior to or at closing. Title must insure the lien position on the subject property without exception.

Any item secured against the subject property must be paid in full.

109.4 BRIDGE/SWING LOAN

The monthly payment for any bridge loan (or swing loan) must be included in the debt.

110 RATIOS AND QUALIFYING

110.1 DEBT-TO-INCOME RATIO AND QUALIFYING DEBT-TO-INCOME RATIO

The qualifying total DTI (Debt-to-Income) ratio compares the Borrower's total monthly debt obligations with their qualified monthly gross income.

The maximum DTI ratios are found on the Eligibility Matrix.

The DTI is calculated by the sum of the following divided by the Borrower's stable monthly income: Monthly housing expense as per qualifying rate.

- Fixed rate mortgages qualified using the fully amortized payment.
- All ARMs (regardless of term at initial adjustment) must be qualified based on the greater of the maximum rate that could apply at first adjustment (note rate plus first rate change cap) OR the fully indexed rate. Interest-only loans must be qualified at the fully amortized rate.

The monthly housing expense is the sum of the following charges as they apply to each loan divided by the Borrower's monthly income:

- Monthly principal and interest payment:
    - Fixed interest rate loans, qualify at the principal and interest calculated at the note rate; and
    - ARMs and Balloons (regardless of term or the date to initial adjustment) must be based on:
        - Greater of the maximum rate that could apply at first adjustment (note rate plus first rate change cap) OR the fully indexed rate
        - Fully amortizing payment (principal and interest); and
        - Term to maturity of the note.
- 1/12th of the annual hazard insurance premium;
- 1/12th of the annual real estate taxes. (Greater of the actual, or 1/12th of 1.5% of sales price if new construction);
- 1/12th of the annual flood insurance premium, when applicable;
- Monthly leasehold payments (when applicable);
- Monthly homeowner association dues, condominium maintenance fees, monthly assessments (when applicable);
- 1/12th of the annual private mortgage insurance premium (when applicable).
- Monthly payment for other secured financing (when applicable);
- HELOC monthly payment as reported on credit, if the HELOC is at a 0 balance, a monthly payment does not need to be developed

Outstanding monthly obligations such as:

- All installment debt with over ten (10) payments remaining. (Installment debts may not be "paid down" to ten (10) payments in order to eliminate from DTI calculation, but they may be paid in full);
- All revolving debt payments;
- Alimony, child support or maintenance payments with more than ten (10) payments remaining;
- Real estate net rental losses from all investment properties owned; and
- Other obligations where a monthly payment is legally required.

111 ASSET ANALYSIS

The file must evidence third party verification of sufficient funds for down payment, closing costs and reserves. The fiscal position of the Borrower, including accumulation of verifiable assets, is a strong indication of creditworthiness. An established pattern of savings demonstrates skill in financial management. Evidence that the savings are liquid also strengthens the loan transaction as these funds are readily available to repay debt obligations, pay unexpected expenses and provide protection against short term interruption of income.

111.1 ASSET DOCUMENTATION

Assets must be sourced/seasoned for 30 days and may be verified using:

- Direct written verification, completed by the depository; or

- Recent and consecutive account statements covering a period of one (1) month for each bank, brokerage, mutual fund account or investment portfolio. Account statements must provide all of the following information:
    - Borrower as the account holder;
    - Account number;
    - Time period covered;
    - Current balance in US Dollars ($); and
    - Statement date.

111.2 AGE OF ASSET DOCUMENTATION

The verification of assets (including the source of funds) may not be greater than 120 days old at the time of closing. If funds are required for closing, then the most recent account statement (s) at the time of the validation will be required for validation of funds.

111.3 ACCEPTABLE FUNDS

The following items are acceptable for down payment, closing costs, including pre-paids:

- Funds from a Borrower's checking account, savings account, money market or certificate of deposit held at a financial institution or brokerage.
- Gift or grant which does not have to be repaid may be permitted.
- Proceeds from the sale of the Borrower's personal asset(s). Value of assets must be verified; provide evidence of sale (i.e., bill of sale, copy of check, etc.).
- Proceeds from a loan which is secured by a Borrower's personal asset. For example, loans secured by other real estate are acceptable. Terms of the loan must be verified. Repayment of the loan must be included in the total expense ratio.
- Proceeds from a loan secured by a financial asset (such as 401(k), or mutual fund) may be used. Documentation must be provided verifying the asset, the withdrawal, and the Borrower's receipt of funds. Loans that are secured as against a liquid asset owned by the Borrower (such as 401(k) or mutual fund) do not have to be included as a debt liability if appropriate documentation is provided.
- Proceeds from liquidated stock, retirement accounts, certificates of deposit, pension or other savings plan. Note: "Penny" stocks are not considered liquid. Ownership of the account must be verified along with Borrower's actual receipt of funds.
- Proceeds from sale of other real estate. If part of the down payment is expected to be paid from the sale of the Borrower's current home, an executed closing statement verifying sufficient net proceeds must be received with the closing package.
- Funds from a business account (if the Borrower is the sole owner (or other owner is non-borrowing spouse) of the company and the company's CPA

provides a statement indicating withdrawal of the funds will not negatively impact the business OR meet FNMA guidance for cash flow analysis) may be used for down payment and reserves.

- Any payment received as a result of being a party to the sales transaction (i.e., real estate sales commission) after Borrower has met the minimum down payment requirement.

111.4 Unacceptable Funds

- Gift funds which must be repaid in full or in part;
- Cash-on-hand;
- Labor performed by the Borrower or goods or materials provided by the Borrower (sweat equity); or
- Gifts from seller-funded programs
- Shared appreciation second liens

111.5 Short Funds to Close Variance

Not allowed.

111.6 Bridge Loan

A bridge loan (aka, "swing loan") is typically a short-term secured loan (one (1) year or less), often interest-only, that is based on the equity in the Borrower's current home. It is paid off when the current home is sold and closed. Payments on existing loans must be included when qualifying the Borrower.

111.7 Reserves

Reserves are those assets remaining after down payment and closing costs have been paid. The Borrower must have adequate cash reserves available that are appropriate to the transaction. Cash reserves, as a reflection of the Borrower's savings prior to the subject loan transaction, may be an indicator of the Borrower's earnings and their spending patterns. The reserves listed below apply to all programs except the DSCR Program. See section 103.6 for DSCR requirements.

Reserves are generally represented as a number equal to PITIA for the relevant property. PITIA is the monthly payment obligation for all of the following:

- Principal and Interest;
- Hazard, flood, mortgage insurance premiums (as applicable);
- Real estate taxes;
- Ground rent;
- Special assessments;
- Association dues; and
- Any subordinate financing payments on mortgages secured by the subject property.

Reserves Required:

Loan Amount	Reserves

$1-$500,000	3 months
$500,001- $1,000,000	6 months
$1,000,001-$2,000,000	9 months
$2,000,000-$3,000,000	12 months
>$3,000,000	18 months

The following items are acceptable sources for Reserves:

- The full value of any non-retirement liquid asset the Borrower has available for withdrawal from any financial institution or brokerage, including funds on deposit in the Borrower's checking, savings, money market or certificate of deposit account or other depository account, stocks, bonds, mutual funds, U.S.;
- Government Securities and other securities that are traded on an exchange or marketplace generally available to the public (e.g., NYSE, NASDAQ, OTC or Chicago Board of Trade) for which the price can be readily verified through financial publications;
- Savings Bonds may be counted at 100% of face value if mature. If the bonds are not mature, the amount counted toward reserves is based on the redeemable value at the time of underwriting;
- Cash Value Life Insurance (rather than face value) that is verified. The Borrower must be the owner of the policy and not the beneficiary;
- Cash out proceeds from subject transaction; and
- Retirement Accounts, including personal IRA and SEP-IRA accounts that are owned by the Borrower, 401(k), KEOGH, 403(b) and other IRS qualified retirement plans:
    - Up to 60% of the vested amount, less any outstanding loans secured by the account funds, may be counted toward Reserves, and
    - Confirm the account is vested and allows withdrawals regardless of current employment status OR;
    - If the borrower is of retirement age, 100% of funds may be used for reserves if the account is not also an income source
- Other Assets and reserves must be sourced and seasoned for at least 30 days;

- Large disparities between the current balance and the opening balances may require additional verification or documentation;
- Large or irregular deposits must be explained and may require further documentation;
- Gift funds may not be used to meet the reserve requirements; and

Funds for the needed reserves may be verified by any of the following:

- Verification of Deposit (such as Fannie Mae Form 1006) executed by the financial institution, to include the current balance and the average balances for the preceding two (2) months;

- 30 days checking and/or savings account statements (indicating opening and closing balances to indicate a full 30 days of asset verification);
- One (1) quarterly account statement;
- For reserves generated from asset sales from taxable or tax-deferred accounts: 30 days of statements from brokerage, retirement savings or pension account (including IRA and 401k). Balances for tax-deferred accounts must be reduced by 40% to reflect income taxes and penalties when withdrawn. Taxable accounts with stocks, bonds and mutual funds must be reduced by 30% to reflect income taxes. Statements from the investment management company or bank are required to verify the ownership of the account/asset, the value of the asset at the time of sale or liquidation, and the Borrower's actual receipt of the funds realized from the sale or liquidation of the assets if needed to complete the transaction; and
- 30 days brokerage statements on publicly traded stocks and bonds, mutual funds, money market accounts, and CD's, (indicating opening and closing balances to indicate a full 30 days of asset verification).

111.8 DOWN PAYMENT

On purchase transactions, a minimum of 3% of the purchase price must come from the Borrower's own funds. Funds used for down payment to close must be fully documented. The loan application must clearly state the source of funds for down payment and closing costs. Documentation used to validate the Borrower's source of funds and the seasoning requirements below must be in line with the amount of actual funds the Borrower is required to bring to closing.

Acceptable documentation to season the funds (to verify that they are from the Borrower's own resources):

- HUD-1 or Final Closing Disclosure from the sale of another property;
- Verification of Deposit (such as Fannie Mae Form 1006) executed by the financialinstitution, to include the current balance and the average balances for the preceding two (2) months;
- 30 days of checking and/or savings account statements (indicating opening and closing balances to indicate a full 30 days of asset verification);
- One (1) quarterly account statement;
- 30 days statements from brokerage, retirement savings or pension account (including IRA and 401k). Balances for tax-deferred accounts must be reduced by 40% to reflect income taxes and penalties when withdrawn. Taxable accounts with stocks, bonds and mutual funds must be reduced by 30% to reflect income taxes. Statements from the investment management company or bank are required to verify the ownership of the account/asset, the value of the asset at the time of sale or liquidation, and the Borrower's actual receipt of the funds realized from the sale or liquidation of the assets if needed to complete the transaction; and
- Other forms of verification may be acceptable, so long as the verification clearly indicates that the funds were in the Borrower's possession for at

least 30 days prior to transfer.

The source of any earnest money deposits must be verified with a copy of the Borrower's check or other evidence of payment (wire receipt) from a third party unaffiliated with the transaction along with 30 days bank statements (up to and including the date the check was cleared). Bank statements must evidence a sufficient average balance to support the amount of the earnest money deposit.

Any other funds required to close must be supported by 30 days documentation as listed above.

111.9 LARGE DEPOSITS

Any large deposit not consistent with the Borrower's employment, earnings or savings profile must be fully explained and sourced with acceptable documentation in order to be eligible for down payment, closing costs, earnest money deposit and reserves. A large deposit is considered to be any amount greater than either: one (1) month total gross income or five (5) % of the loan amount.

A signed letter of explanation from the Borrower is required in these instances and must sufficiently explain and source the funds. All funds used for these purposes must be from an acceptable source and clearly not the result of undisclosed Borrower funds, debt, or an incentive from an interested party such as a seller, real estate agent or developer.

111.10 GIFT FUNDS

Gift funds can be used for down payment or to pay closing costs. The following parameters apply:

- Signed gift letter is provided, indicating:
  - Donor's relationship to Borrower, (per FNMA definition);
  - Donor's address, and phone number, and;
  - Dollar amount of gift; and
  - Certification it is an outright gift with no repayment required.
- Evidence of the donor's ability to provide and transfer funds, per FNMA requirements;
- Borrower minimum contribution is 3% of purchase price from their own source of seasoned funds.

Gifts of equity may be given provided all of the following are met:

- Signed gift letter is provided; and
- Gift of equity is listed on the HUD-1 or Closing Disclosure.

Gift funds not permitted:

- From any donor other than a relative or Family Member of the Borrower;
- From any donor that is a party to the transaction, (other than a gift of equity from the seller); or
- From any donor that is a real estate builder, developer or in the business

of owning, financing, or selling real estate.
- Investment properties (except DSCR)

111.11 JOINT ACCOUNTS

Funds held jointly with a non-borrowing spouse are considered the Borrower's funds. Funds held jointly with any other non-borrowing person may be considered if joint account holder is also a title holder on the subject property or a written verification of deposit or an access letter is provided showing the Borrower has authorized access to all funds as though they solely belong to the Borrower.

111.12 SECONDARY/SUBORDINATE FINANCING

Secondary financing is permitted and subject to the Eligibility Matrix when it meets all of the following:

- Made subordinate to the first lien;
- Title indicates it is in second lien position;
- Maximum CLTV/HCLTV does not exceed the maximum LTV allowed on the Eligibility Matrix; and
- Term of subordinate lien must be less than or equal to the term of the first lien.

Calculation of the CLTV ratio is the sum of the following divided by the property value (reference Section 102 (Transactions) for determining property value):

- The original loan amount of the first mortgage;
- The drawn portion (outstanding principal balance) of a HELOC; and
- The unpaid principal balance of all closed-end subordinate financing.

Calculation of the HCLTV ratio is the sum of the following divided by the property value (reference section 102 (Transactions) for determining property value):

- The original loan amount of the first mortgage;
- The full amount of any HELOCs (whether or not funds have been drawn); and
- The unpaid principal balance of all closed-end subordinate financing.

The following are not permitted with any subordinate financing:

- Loans made by any individual or any non-financial institution;
- Loan terms that restrict prepayment. (Terms that require payment of certain closing costs that were waived with the opening of the financing are not considered a prepayment penalty);
- Loans with a negative amortization feature;
- Loans with a balloon payment feature; and
- Loans with an interest rate significantly below market rates
- Shared appreciation second liens

If the secondary financing is a simultaneous closing, then the following required:

- A copy of the loan approval from the institution providing the secondary financing prior to closing; and
- A copy of the executed note at closing.

If the secondary financing is a subordinate, then the following items are required.

- The terms of the current second lien. An unsigned copy of the subordination agreement prior to closing; and
- A copy of the executed subordination agreement at closing.

111.13 SALES AND FINANCING CONCESSIONS

For purposes of determining the impact of costs paid by the seller or an interested third party, distinctions are made between financing concessions and sales concessions.

111.13.1 Financing Concessions (Seller Paid Closing Costs)

Financing concessions are considered to be funds originating from an interested party to pay closing costs on a purchase transaction.

Allowable financing concessions include any of the following:

- Permanently reduce the interest rate on the mortgage;
- Make contributions related to the mortgage financing charges which traditionally would be paid by the Borrower, including but not limited to the payment of discount points, loan fees, commitment fees and/or origination fees, property taxes, and insurance escrows;
- Pay the cost of other items traditionally paid by the Borrower such as application fees, appraisal fees, transfer taxes, tax stamps, attorney fees, surveys, non-recurring closing costs and title insurance; and
- HOA Dues are not allowed to be included in an interested party contribution. Maximum third party concessions (as a percentage of the purchase price) are equal to 6% for LTVs of 80% and less; 3% for LTVs greater than 80%.

The dollar amount of financing concessions in excess of the allowable percentage as indicated above is deducted from the purchase price prior to determining the adjusted LTV/CLTV/HCLTV.

111.13.2 Sales Concessions or Property Inducements

Concessions not addressed above or in excess of the allowed percentage of the purchase price are considered to be a sales concession. Sales concessions must be deducted from the purchase price prior to determining an adjusted LTV.

In cases where the appraisal does not clearly and adequately reflect the presence and effect of any financing and/or sales concessions, make a downward adjustment to the appraised value of the subject property to reflect the cost of the contribution. The revised LTV is based on the lesser of the appraised value or reduced sales price.

111.14 TRADE EQUITY IRS 1031 EXCHANGE

Assets for the down payment from a "like-kind exchange," also known as a 1031 exchange, are eligible if properly documented and in compliance with Internal Revenue Code Section 1031.

111.15 UNSECURED LOANS

Funds from personal unsecured loan are not an acceptable source of funds for the down payment, closing costs, or reserves. Examples of unsecured borrowed funds include signature loans, lines of credit on credit cards and overdraft protection on checking accounts.

111.16 CRYPTOCURRENCY

Not an eligible source of funds. Refer to section 108.1

112 HAZARD INSURANCE

112.1 HOMEOWNERS INSURANCE

The subject property must be protected (including when vacant) against loss or damage from fire and other perils within the standard extended coverage. Coverage requirements must follow FNMA. In the state of FL insurers coverage checklist is acceptable in lieu of RCE. In addition, homeowner's insurance must meet

the following:

- The loan file must evidence the existence of Homeowners Insurance for the subject property. Acceptable proof would be front and back copy of canceled check, HUD-1 showing payment, and receipt for payment of the premium, the insurance binder or the policy;
- In those states that require the originator to accept an insurance binder, the original policy must be received prior to loan funding; and
- The policy must be effective for at least 60 days after the date of funding.

The hazard insurance policy must be written by a carrier that meets the following requirements:

- Carriers rated by A.M. Best Company, Inc. must either:
  - a "B" or better Financial Strength Rating in Best's Insurance Reports; or
  - an "A" or better Financial Strength Rating and a Financial Size Category of "VIII" or greater in Best's Insurance Reports Non-US Edition;
- Carriers rated by Demotech, Inc. must have an "A" or better rating in Demotech's Hazard Insurance Financial Stability Ratings; or
- Carriers rated by Standard and Poor's must have a "BBB" or better Insurer Financial Strength Rating in the Standard and Poor's Ratings Direct Insurance Service.

The following alternative policies are also acceptable:

- Policies underwritten by a state's Fair Access to Insurance Requirements (FAIR) plan or other state insurance plan, if it is the only coverage that

can be obtained.

112.1.1 Project Hazard Insurance Requirements

If the subject property is an attached PUD (townhouse) or a condominium, the respective Associations may acquire a blanket policy to cover the project.

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in a condominium project. Coverage does not need to include land, foundations, excavations, or other items that are usually excluded from insurance coverage.

The owners' association must maintain a commercial general liability insurance policy for the entire project—including all common areas and elements, public ways, and any other areas that are under its supervision. The insurance must also cover commercial spaces that are owned by the owners' association, even if they are leased to others. The commercial general liability insurance policy must provide coverage for bodily injury and property damage that result from the operation, maintenance, or use of the project's common areas and elements.

An insurance policy that includes either of the following endorsements will assure full insurable value replacement cost coverage:

- A Guaranteed Replacement Cost Endorsement (under which the insurer agrees to replace the insurable property regardless of the cost) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance); or
- A Replacement Cost Endorsement (under which the insurer agrees to pay up to 100% of the subject property's insurable replacement cost, but no more) and, if the policy includes a coinsurance clause, an Agreed Amount Endorsement (which waives the requirement for coinsurance).

The amount of liability coverage must be at least $1,000,000 for bodily injury and property damage for any single occurrence.

The policy must provide for at least ten (10) days' written notice to the owners' association before the insurer can cancel or substantially modify it. For condominium projects, similar notice must also be given to each holder of a first mortgage or share loan on an individual unit in the project.

Unless a higher maximum amount is required by state law, the maximum deductible amount for policies covering the common elements in a PUD project and for policies covering condominium projects is the lesser of $10,000 or 5% of the policy face amount. However, for losses related to individual PUD units that are covered by the blanket policy for the project, the maximum deductible related to the individual unit may not exceed 5% of the face amount of the insurance policy. Funds to cover these deductible amounts must be included in the operating reserve account that is maintained by the owners' association.

112.1.2 Rent Loss Insurance

Not required.

112.2 FLOOD INSURANCE

Flood insurance is required for any property located within any area designated by the Federal Emergency Management Agency (FEMA) as an Area of Special Flood Hazard. This is typically denoted as Flood Zone A or Zone V (coastal areas). Properties in Flood Zone A or V must be located in a community which participates in the FEMA program to be eligible for financing.

112.2.1 Flood Certificate

Determination whether a subject property is in a flood zone must be established by a Flood Certificate provided by the Federal Emergency Management Agency (FEMA). In addition, the appraisal report must accurately reflect the flood zone.

112.2.2 Coverage and Deductibles

If the subject property is located in a Special Flood Hazard Area, flood insurance is required. The amount of flood insurance must be at least equal to the lesser of 100% of the insurable value of the facilities or the maximum coverage available under the appropriate National Flood Insurance Administration program. For condominium projects, the condo association must provide a project blanket policy (RCBAP) with coverage for the building in which the unit is located. Coverage must be the lesser of 100% of the replacement cost of the building in which the unit is located, including all the common elements and property, or (the maximum coverage available under the National Flood Insurance Administration Program times the number of units in the building.

Other requirements:

- Deductibles permitted up to the maximum deductible available under the National Flood Insurance Program (NFIP);
- The Borrower name and the subject property must be on the flood insurance
- application or binder;
- The flood insurance policy must contain a mortgagee clause, naming Loan Purchaser as the loss payee;
- Evidence of coverage must be provided at closing; and
- The insurance must be maintained throughout the duration of the loan.

The flood insurance requirement may be waived if:

- The subject property improvements are not in the area of Special Flood Hazard, even though part of the land is in Flood Zone A or V; or
- The Borrowers obtain a letter from FEMA stating that its maps have been amended so that the subject property is no longer in an area of Special Flood Hazard.

The appraisal report must accurately reflect the flood zone.

112.3 CATASTROPHIC INSURANCE

In specific geologic locations, catastrophic events may occur on a more regular basis. Catastrophic Insurance may be required if indicated by the Appraiser.

113 PROPERTY

The originator is responsible for:

- The accuracy and completeness of the appraisal and its assessment of the marketability of the property;
- Underwriting the completed appraisal report to determine whether the subject property presents adequate collateral for the mortgage;
- Continually evaluating the quality of the appraiser's work through normal underwriting review of all appraisal reports and spot-check field review of appraisals as part of its quality control program;
- Ensuring that the appraiser uses sound reasoning and provides evidence to support the methodology used for developing the value opinion;
- Ensuring that the appraiser provides an accurate opinion, an adequately supported value, and an accurate description of the property;
- Ensuring that the appraiser provides his or her license or certification on the appraisal report;
- Complying with the Appraiser Independence requirements published by Fannie Mae or Freddie Mac (and other applicable appraiser independence requirements, such as those under Regulation Z under TILA);
- Disclosing to the appraiser any information about the subject property of which it is aware of that could impact the marketability of the property;
- Providing the appraiser with the ratified sales contract and other financing or sales concessions that are associated with the transaction;
- Receiving the appraisal report for each mortgage transaction, appraisal transfers are permitted; and
- Ensuring the appraiser does not use unsupported assumptions or use race, color, religion, sex, handicap, familial status or national origin for any party in the transaction as the basis for market value.

113.1 APPRAISER QUALIFICATION

Real estate appraisers are to be state-certified or state-licensed in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. They must have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and property type as well as have access to the necessary and appropriate data sources for the appropriate area of the appraisal assignment.

The originator must have a process in place to ensure the appraisers it selects have the appropriate knowledge, experience, access to the appropriate data sources, geographic competence and the ability to generate a quality appraisal report. The originator may choose to use an appraisal management company; however, the originator must establish appropriate procedures and qualifications as well continue to meet all requirements noted in these guidelines.

113.2 APPRAISAL REPORT FORMS

For uniformity and efficiency, all appraisers are required to use appraisal report forms that are acceptable to Fannie Mae/Freddie Mac (form version March 2005). The following appraisal report forms must be used:

- Uniform Residential Appraisal Form, FNMA Form 1004;
- Small Residential Income Property Appraisal Report, FNMA Form 1025;
- Individual Condominium Unit Appraisal Report, FNMA Form 1073; or
- Single Family Comparable Rent Schedule, Form 1007

The following items must be contained in the appraisal report:

- Certification and Statement of Limiting Conditions, FNMA Form 1004 signed by the appraiser;
- A Street map showing the location of the subject property and all comparables used;
- An exterior building sketch of the improvements indicating dimensions. A floor plan sketch is required along with calculations demonstrating how the estimate for gross living area is determined. For units in condominium or cooperative projects, interior perimeter unit dimensions are required instead of exterior building dimensions;
- Original color photographs or digital color images of the front, street and rear views of the subject property. Original digital black and white photographs/pictures are permitted if the appraisal clearly indicates the subject property meets our standards;
- Interior photos of the subject are required, to include; the kitchen, all bathrooms, the main living area, any areas with physical deterioration, and any renovations/improvements;
- Any other data as an attachment or addendum to the appraisal report form necessary to provide an adequately supported estimate of market value;
- Appraisal report must contain an analysis of all agreements of sale, options or listings for the subject property current as of the effective date of the appraisal, and an analysis of all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal;
- Appraisal report must include a completed Sales Comparison Approach section of FNMA form 1004 where there are comparables used with more than one (1) sale or transfer in the 12 months prior to the effective date of the appraisal;
- Any unfavorable conditions, such as adverse environmental or economic factors, and how those conditions impact the market value of the property. In those cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected; and
- Meets the Appraiser Independence Requirements.

An unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed appraiser may perform a significant amount of the appraisal as long as the appraisal report is signed by a licensed or certified appraiser and is acceptable under state law. A supervisory

appraiser or any appraiser signing on the left-hand side of the appraisal report as the "Appraiser" must have performed the level of inspection of the subject property required by the assignment.

Loan Purchaser will accept appraisal reports which have been transmitted electronically using internet, wireless transmissions, or other types of electronic transmissions provided the following are met:

- The appraisal report accurately identifies the appraiser and is signed by the appraiser. Digitized signatures are acceptable.
- The appraisal report was created by the appraiser whose name appears on the appraisal report and that the appraisal is complete unaltered and was submitted by the identified appraiser. Any appraiser signing the left-hand side as "Appraiser" must perform the level of inspection required by the assignment.

113.2.1 Appraisal Form Requirements

A full URAR appraisal is required on all loans.

Appraisal Requirement	
Purchase and all Refinance transactions	
Loan Amount less than or equal to $2,000,000	One (1) full Appraisal
Loan Amount greater than $2,000,001	Two (2) full Appraisals

Loan amounts < $2,000,000 require a secondary valuation product. Secondary valuation must be within -10% tolerance of appraised value. Acceptable products are:

- CDA or Enhanced Desk Review OR
- Field Review OR
- A 2nd full appraisal

Note: Loans subject to 12 C.F.R. § 1026.35 of Regulation Z may be subject to additional appraisal requirements.

The lower of the two (2) appraised values will be used to determine LTV/CLTV/HCLTV, unless the sales price is lower than both appraisals (in which case the sales price will be used to determine loan to value). Appraisals must be completed by two (2) different, independent appraisers.

113.3 AGE OF APPRAISAL

The appraisal must be completed within 120 days of closing. After 120 days an appraisal update can be utilized in lieu of a new appraisal but, in all cases, the original appraisal cannot exceed 180 days. See requirements under 110.4 Appraisal Updates.

113.4 APPRAISAL UPDATES

When an appraisal report will be more than 120 days old on the date of the note, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. A new appraisal report is required for any appraisal > 180 days old. This inspection and results of the analysis must be reported on the Appraisal Update and/or Completion Report (Form 1004D), with interior and exterior photos.

- If the appraiser indicates on the Form 1004D that the property value has declined, then the Originator must obtain a new appraisal for the property; or
- If the appraiser indicates on the Form 1004D that the property value has not declined, then the Originator may proceed with the loan in process without requiring any additional fieldwork.

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113.5 DISASTER AREAS

The following policy applies to properties located in Presidential/State or FEMA declared disaster areas. The list can be found on FEMA's website at http://www.fema.gov/news/disasters.fema.

Property appraised prior to disaster: For loans secured by properties appraised prior to the Presidential/State declaration, the following post-disaster guidelines apply:

- An exterior inspection of the subject property is required; and
- The original appraiser must perform the inspection and provide a certification stating:
  - Subject property is free from damage and is in the same condition as previously appraised; and
  - Marketability and value remain the same.

Property Types	Allowed	Comments
Single-Family Residence Detached	Yes	
Single-Family Residence Attached	Yes	
Low-Rise Condominium	Yes	1-4 Stories
High-Rise Condominium	Yes	5+ Stories
Site Condominium	Yes	Detached condo
Condominium Conversion	No	
Non-Warrantable Condominium	Yes	See section 110.10.8
Planned Unit Development (PUD) Attached	Yes	
Planned Unit Development (PUD) Detached	Yes	
Manufactured Home	No	AKA Mobile Home, Double-Wide Mobile Home
Cooperative Units (Co-op)	Yes	
Condotels or Condo Hotels	Yes	See section 110.10.8 (Condotels)
Modular	Yes	Per FNMA requirements
Two-unit	Yes	

Three-unit	Yes	
Four-unit	Yes	
Log Homes	No	
Raw Land	No	
Single Family Residence Attached	Yes	
Mixed Use Property	No	
Farms / Working Farms	No	
Corporate Properties	No	Properties that are titled to corporations.
Earth Homes, Burm Homes, or Basement Homes	No	Properties which are generally built underground.
Environmental Conditions	No	Properties with health and/or safety hazards, etc.
Dwellings with > 4 units	No	
Ground Lease / Leasehold Property	Yes	See Section 111 (Leasehold Property)
Rural Properties	Yes	
Lagoons/Cesspools	No	
Properties designated by the government as places of worship (i.e., Churches)	No	
Historical Homes	Yes	Two (2) comps listed with historical society. Comps must have the same CCR filing.
Timeshares	No	
Rooming/Boarding Houses	No	
Unique Properties	No	
Properties Greater than 20 acres	No	
Properties Less than 600 Square Feet	No	

113.6 LAND VALUE

Acreage and land value must be typical and common for the subject's market. Maximum acreage permitted is twenty (20) acres. Special consideration must be taken for properties with land values that exceed 35% of the total property value to ensure the value is justified and the property has marketability. The appraisal report must provide data which indicates like-size properties with similar land values are typical and common in the subject's market area.

113.7 PROPERTY VALUES

The value of subject property must be in line with the home prices in the subject's market area. The appraiser must report on the primary indicators of market condition for properties in the subject neighborhood by noting items such as: 1) the trend of property values, 2) the supply of properties in the subject neighborhood, and 3) marketing time for properties. The appraisal must be closely reviewed to ensure that the appraiser is specific with regard to the impact a market decline has upon the transaction being evaluated.

Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.

Additionally, older comparable sales that are the best indicator of value for the subject property can be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate 3 truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as they explain why they are being used.

113.7.1 Rural Properties

A property indicated by the appraisal as rural, or containing any of the following characteristics, is usually considered a rural property:

- Neighborhood is less than 25% built-up;
- Area around the subject is zoned agricultural;
- The photographs of the subject show a dirt road;
- Comparables are more than five (5) miles away from the subject property;
- Subject is located in a community with a population of less than 25,000;
- Distance to schools and/or amenities are greater than 25 miles;
- Subject property and or comparables have lot sizes greater than ten (10) acres; or
- Subject property and or comparables have outbuilding or large storage sheds.
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Rural properties must comply with the following criteria:

- The primary use must be residential;
- The property must not be agricultural, or otherwise providing a source of income to the Borrower or for the subject loan;
- The lot size and acreage must be typical for the area and similar to the surrounding properties;
- The maximum acreage allowed is 20 acres;
- The present use must be the “highest and best use” for the subject property;
- The condition, quality and use of outbuildings may be considered in determining the market value of the subject property when the appraiser clearly supports the adjustments with similar comparable information; and
- Subject property cannot be subject to any idle acreage tax

benefit or other tax incentive program.

113.7.2 Redlining Prohibition

Prohibited bases such as race, ethnicity, gender, minority geography or any other prohibited basis category must not be included as an appraisal factor or considered when reviewing an appraisal. As a matter of policy, appraisal reports which make reference to a prohibited basis category (e.g., race or minority geography) are not acceptable.

The use of code phrases as proxies for race, which are not necessarily descriptive of value or risk, is a poor appraisal practice and is unacceptable. The information in the appraisal report must support in an objective manner any statement or conclusion contained in the report.

113.8 PROPERTY CONSIDERATIONS

113.8.1 Condominiums

All condominiums must meet FNMA warrantable Condominium requirements. Acceptable project reviews include:

- Limited Review Process;
- Full Review Process;
- Full Review: Attached Units in New and Newly Converted Condo Projects
- Project Eligibility Review Service (PERS) Approved projects
- Exempt from warrantability review: Detached Condos & 2-4 unit Condo project

Insurance Requirements:

Confirm there is sufficient hazard and flood insurance (if applicable) per the FNMA Sales Manual. This may include but is not limited to H0-6 Coverage, a Blanket Insurance Policy and liability insurance.

113.8.2 Condominium Hotels (Condotels)

A condo project with hotel like features is eligible for financing, provided the hotel like features do not adversely impact the marketability and are common and customary to the area. Condotels or condos with hotel like features which make the condo non-warrantable are subject to the non-warrantable condo pricing adjustment. Condo units located in condotel or hotel like projects are subject to the following guidelines:

• Max 75 LTV
• Unit must have a minimum 500 square feet with at least one separate bedroom and a fully functioning kitchen with stove/oven (cooktop only not permissible)
• Must be in a resort area or metropolitan area
• Nationally recognized chain (such as Westin, Four Seasons, Ritz etc) obtain condo

questionnaire by HOA OR

- Non-affiliated condotel obtain condo questionnaire by HOA and:
    - Project must be established minimum of 3 years
    - < 35% of HOA dues are allowed > 60 days delinquent
    - >1% replacement reserves; < 3% for reserve study
    - No special assessments allowed for repairs/replacement of major components. Non- mandatory repairs such as lobby redesign or front entry beautification are acceptable
    - Must be professionally managed by property management company with individual property manager holding designation such as CAM or CPM

• No fractional ownership permitted (including timeshare)
• Mandatory rental pools and/or rental requirements are not permitted. Borrower must have exclusive use of the unit
• Commercial space limit may be increased to 50% (Parking not included in calculation)
• Occupancy restrictions or black-out dates not permitting year-round owner occupancy are not permitted

113.8.3 Properties Purchased through Auctions

Not eligible.

113.8.4 Co-operative Properties (Co-ops)

Permitted, all Co-ops must meet FNMA requirements.

113.8.5 Dampness

If the appraisal report notes evidence of dampness, the appraiser must clearly define the effect on value and marketability of the subject property, as well as comment regarding the probable cause of the dampness problem and if typically, incurable in the surrounding neighborhood. Generally, a structural engineer's report is required prior to making a loan decision.

The cause of the dampness must be corrected prior to closing must the dampness problem indicate a structural deficiency and/or significant negative impact on value and marketability.

113.8.6 Deferred Maintenance

Property must be in average or better condition. Deferred maintenance may be permissible provided the neglected item is not structural in nature (as noted by the appraiser). Deferred items may be left "as is" if the aggregate cost to correct doesn't exceed $5,000.

113.8.7 Earthquake Area/Seismic Study Zone

Earthquake insurance is required if the appraisal report or any other document (survey or title work) indicates the subject is located on or in close proximity to a fault or seismic study area. If no mention is made regarding earthquake exposure, insurance must not be required.

113.8.8 Electrical Systems

An electrical certification from a licensed electrician is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to closing.

113.8.9 Environmental Hazards

The appraisal report must note the existence of known environmental hazards and its effect on value and marketability of the subject property. Properties located adjacent to or containing environmental hazards are ineligible for financing. Environmental hazards include but are not limited to:

- Evidence of radon above EPA safety levels which is left untreated;
- Properties built on or near toxic waste dumps, clean-up sites, etc.; and
- Properties must conform to Fannie Mae/Freddie Mac hazardous substance guidelines when issued.

113.9 PROPERTY OVERVIEW

Most residential use properties are eligible. However, specific risks are factored into loan eligibility standards such as product types, maximum loan to values and required documentation. Atypical improvements are considered, provided marketability has been demonstrated through the appraisal; however, they may not be eligible. All properties must:

- Be improved real property;
- Be designed and available for year around residential use;
- Be complete with kitchen and bathroom facilities;
- Contain a minimum of 600 square feet of gross living area;
- Be heated by a continuously fueled heat source which is permanently affixed to the real estate. Alternative heat sources are acceptable when marketability has been demonstrated;
- Average or better than average condition;
- Represent the “highest and best” use of the subject property;
- Be free of all health and safety violations; and
- NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability or marketability of the subject property.

113.9.1 Escrows for Work Completion (Escrow Holdback)

Not Permitted.

113.9.2 Foundation Settlement

If the appraisal report notes evidence of excessive settlement, the appraiser must clearly define the effect on value and marketability of the subject property. Settlement problems which denote structural deficiencies and/or significant negative impact on value and marketability must be corrected prior to closing. Generally, a structural engineer's report is required prior to making a loan decision.

113.9.3 Heating Systems

A central heat source with ductwork or baseboard in all rooms is required on all properties except those in geographic regions where heating is not required. If subject does not have central heat, the appraiser must provide similar comparable properties and an addendum indicating:

- The heat source is typical for the area;
- The heat source is permanently attached;
- The heat source is adequate for the dwelling; and
- The heat source is externally vented.

113.9.4 Non-conforming (Unpermitted) Addition/Granny or In-Law/Accessory Units

Properties with non-conforming accessory units, also known as Granny units, mother-in-law suites, etc., may be acceptable if all of the following are met:

- One (1) unit property;
- Subject is typical, common and readily acceptable in the subject's market area;
- Appraisal contains three (3) comparables with similar additional accessory units;
- Rental income from the accessory unit may not be used to help the Borrower qualify;
- Existence of the unit must not jeopardize any future hazard insurance claim;
- Subject properties must conform to all zoning laws and/or regulations;
- Legal non-conforming use may be acceptable provided its current use does not adversely affect its market value and marketability; and
- Accessory unit is substantially smaller than the primary unit.

113.9.5 Leasehold Property

Leasehold properties are eligible provided the appraisal indicates leasehold property is common for the subject's area. Leaseholds are reviewed for compliance with the following:

- The term of the leasehold estate must run for at least five (5) years beyond the maturity date of the mortgage, unless fee simple title will vest at an earlier date in the borrower;
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee;
- The lease must provide for the borrower to retain voting rights in any homeowners' association;
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those he or she is paying on the improvements;
- The lease must be valid, in good standing, and in full force and effect in all respects;
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents;
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation;
- The lease must be serviced by either the lender that delivers the mortgage or the servicer it designates to service the mortgage; and
- The lease must provide lenders with:
    - The right to receive a minimum of 30 days' notice of any default by the Borrower; and
    - The option to either cure the default or take over the borrower's rights under the lease.

113.9.6 Mixed-Use Properties

Not allowed.

113.9.7 Multiple Dwellings on One Lot

Single family properties containing additional residential dwellings (guesthouse, carriage house, etc.) must comply with local zoning regulations. They must be typical and common within the subject's neighborhood. Typically, the additional dwelling(s) are smaller than the main dwelling and will not be rented. The subject property must be appraised as a

single-family residence. Any value for the additional dwellings must be supported by comparable sales.

Properties with two (2) or more detached single-family homes on a single lot are generally ineligible for financing but exceptions are considered if typical and common for the subject's market area.

113.9.8 Non-Warrantable Condominium

Commercial/Non-Residential Space

- Subject Unit must be 100% residential
- Commercial space is restricted to 50% of the project/building
- If commercial space exists, appraiser must state the commercial space is "typical for the market and does not have a negative impact on marketability
- Commercial space percentage to be documented via the condo questionnaire completed by the HOA
- Mandatory Membership Fees Permitted
- HOA Lien Priority States
    - In the event of foreclosure or deed-in-lieu of foreclosure, the mortgagee can be responsible for paying up to 12 months of delinquent common expense assessments
- Number of months of delinquent HOA dues the mortgagee will be responsible for paying documented via the condo questionnaire completed by the HOA
- Pending Litigation allowed when HOA is named as plaintiff
- Examples of pending litigation include:
    - HOA is named as plaintiff in a foreclosure action, or in an action for past due assessments.
    - Suit against builder/developer or contractor for recoupment of fees HOA paid for repairs.
- Pending Litigation not allowed under any circumstances:
    - Litigation that involves structural items or items that impact safety or marketability
- Budget/Replacement Reserve Study Requirements allowed subject to the following requirements:
    - < 3% allocation to replacement reserves, obtain condo questionnaire completed by HOA, copy of annual budget and a reserve study completed within the previous 5 years by a professional (CPA< General Contractor, or Property Manager with 3 years experience)
- Non-Incidental business income allowed

- HOA Delinquencies allowed subject to the following documentation requirements: o No More than 35% of HOA Dues are greater than 60 days delinquent, document via the condo questionnaire completed by the HOA
- Established Project
- A Project with all of the following characteristics is considered established:
    - At least 70% of all units have been conveyed to purchasers
    - Construction of the Condo project is complete and no additional phases are pending or planned for the future
    - Project common areas and amenities are complete and in operation for use by all unit owners
    - The builder/developer is no longer in control of the HOA
    - The project is fully complete and is not subject to additional phasing or annexation; however, the builder/developer is still in control. The project has been fully completed for at a minimum of 5 years to still be allowed to be in builder/developer control.
- The subject unit and the building in which the subject unit is located must be structurally sound and habitable; subject to only buyer's selections
- Single Entity Ownership
    - Allow single entity ownership up to 50%
- Timeshare/Fractional Ownership Buildings subject to:
    - Subject property is not allowed to participate or be required to party to timeshare or fractional ownership obligations
    - No More than 20% of the project is in involved in timeshare/fractional ownership
- Condotels Allowed subject to:
    - Nationally Recognized Chain; condotels affiliated with chains such as Westin, Four Seasons, Ritz, ETC (obtain condo questionnaire completed by the HOA)
    - Non-affiliated Condotel: Obtain Completed condo questionnaire by the HOA, additional documentation will be required for review:
    - Project must be established for a minimum of 1 year
    - <35% Of HOA dues are allowed to > 60 days DQ
    - >1% replacement reserves; < 3% will require a reserve study
    - No Special Assessments allowed for repair/replacement of major components (special assessments for non-mandatory items such as lobby re-design and updating or front entrance re-beautification are acceptable)
    - Project must be professionally management by either a property management company of an individual property

manager holding a designation such as CAM or CPM

Ineligible project characteristics

- Manufactured housing condo
- Minimum FICO requirement is 680
- 2-4 unit properties
- Units < 475 square feet
- New projects as defined by FNMA
- Houseboat
- Common Interest Apartments, Tenants-in-Common or Continuity Interest Apartment
- Continuing Care Retirement Communities
- Projects with Private Transfer Fees
- Deed Restricted Communities
- Multi-Dwelling/Units (aka lock off units)
- Live/Work Condos
- Investment Securities Project registered with the SEC
- Units with less than full kitchens allowed within the project, but not permitted on the subject property unit. All kitchens must have a minimum 14 cu. Ft refrigerator, 2 burner cooktop, oven and sink

113.9.9 Pest Infestation

If the appraisal report or sales contract notes evidence of termites or other insect infestation, a pest inspection report certifying treatment of the infestation prior to closing is required. Any significant structural damage due to pest infestation must be corrected prior to closing.

113.9.10 Plumbing

A plumbing certification from a licensed plumber is required whenever the appraisal states a fair or poor rating concerning the adequacy or condition of the system. Any inadequacies must be corrected prior to closing.

113.9.11 Private Roads

Properties on private roads are acceptable subject to the following:

If the private road is covered by a Homeowners Association and included as part of a condominium or Planned Unit Development, then the following does not apply. Otherwise:

- The title company must affirmatively insure access to the subject property from a

public street; and

- An adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement must include provisions for the responsibility for payment of repairs, including each party's representative share, default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations, and the effective term of the agreement which in most cases must be perpetual and binding on any future owners. 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. Any maintenance costs are to be included in the Borrower's housing ratios**.**

113.9.12 PUD (Planned Unit Development)

A real estate project in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (for example, a parking space). Loans located in PUDs must meet all requirements of the FNMA Selling Guide.

113.9.13 Repair Requirements

The appraisal must identify items that require immediate repair and items where maintenance may have been deferred which may or may not require immediate repair. It must also include and describe physical deficiencies that could affect a property's soundness, structural integrity, livability or improvements that are incomplete. Any immediate or necessary repairs must be completed and re-inspected by the appraiser prior to closing.

113.9.14 Sewage Disposal System

Sewage disposal systems may require certification if the appraiser or purchase contract indicates the necessity. The report must be provided by a city, county, state (or governing body) official or qualified entity stating:

- 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; or
- 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 subject property.

For systems one (1) year old or less, the certification may be no more than one (1) year old on the date of closing. For systems more than one (1) year old, the certification may be no more than 120 days old on the date of closing. SFR Attached with No HOA

Townhouses or single family attached properties use a method of construction of individual homes with common side walls and a common roof. Certain geographic areas have an architectural style that is not subject to a homeowner's association.

113.9.15 Unconventional Floor Plans

Properties with unusual floor plans or functional obsolescence are considered, if the appraisal demonstrates acceptability in the marketplace and includes appropriate adjustments. A floor plan sketch must be submitted with the appraisal in such cases.

113.9.16 Water Supply

Water certification is required if the appraiser or purchase contract indicates the necessity. The report must be provided by a city, county, state (or governing body) official or a qualified entity stating:

- The water supply system is in proper working order and pumping an adequate supply of water for the subject property; and
- 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).

The water certification(s) for existing properties may be no more than one-hundred twenty (120) days old on the date of closing. If new construction, the report may be one

(1) year old as of the date of closing.

113.9.17 Zoning and Land Use Regulations

The appraiser in his or her analysis of the subject property must compare the existing and potential use of the subject property to the zoning regulations. In addition, the appraiser must reflect any adverse effect that a non-conforming use has on the value and marketability of the property that is being appraised.

Property improvements must constitute a legally permissible use of the land based on the zoning ordinance. If the improvements represent a legal, non-conforming use of land, a letter from the local building authority or appraiser must be obtained to certify the subject property can be rebuilt “as is” in the event of partial or total destruction.

Special consideration must be given to properties that are subject to other types of land use regulations, such as coastal tideland or wetland laws. This is especially true in situations in which the law creates setback lines or other provisions that would prevent reconstruction or maintenance of the property improvements in the event of damage or destruction.

The intent of some land use regulations is to remove existing land uses and to stop land development (including the maintenance, or new construction, or seawalls) within specific setback lines. Except as stated above, properties with land use restrictions which prohibit the reconstruction to maintenance the dwelling are ineligible.

113.9.18 Resale Deed Restrictions

Properties with age-related deed restrictions are acceptable provided:

- Senior Communities comply with applicable laws; and
- Appraiser notates that the age-related deed restriction was considered in the valuation of the property**.**

Note: Age-related deed restrictions generally apply to the unit occupant and frequently require only one occupant to be aged 55 and over. In such a case, the Borrower could be younger than 55 provided there is a unit occupant aged 55 and over. This occupant can be a non-Borrower household member.

113.9.19 Properties located in Lava Zones

Follow FNMA

113.9.20 Postponed Improvements or Proposed Construction

Not eligible.

113.10 VALUE CONSIDERATIONS

113.10.1 Neighborhood Analysis

The neighborhood section must contain an accurate description of the subject's neighborhood and any factors about the neighborhood that may influence value. Specific neighborhood characteristics include the following:

- Degree of development
- Demand and supply
- Present land use
- Owner-occupancy
- Price range and predominant value
- Age of subject property
- Appeal to market and marketing time

113.10.2 Compatibility of Subject Property and Neighborhood

The age and price of the subject property must generally be within the age and price ranges of properties in the subject neighborhood as reported on the appraisal report form. Neighborhood factors indicating compatibility of the subject, such as present land use, predominant occupancy, and anticipated change in present land use as reported on the appraisal form is considered.

Residential properties in areas that are zoned as either agricultural or commercial may be considered acceptable risks so long as their location does not impact marketability.

113.11 VALUATION ANALYSIS

113.11.1 Cost Approach

When completed, the cost approach must clearly segregate value attributed to land, outbuildings, etc. If the ratio of land value to total value exceeds 35%, an explanation from the appraiser may be required to demonstrate conformance with neighboring

properties. Appraisals that rely solely on the cost approach as an indicator of value are not acceptable.

113.11.2 Market Approach

Each appraisal must contain an estimate of market value. Market value is defined as the most probable price which a property must bring in a competitive and open market under all condition's requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interest;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the subject property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Comparable sales utilized in the market approach must:

- Generally, be within one (1) mile of the subject property;
- Have been closed within the last six (6) months;
- Indicate properties that are similar to the subject property with respect to age, size, features, amenities, etc.;
- Result in an overall net adjustment not exceeding 15% of the sales price of that comparable and a gross adjustment not exceeding 25% of the sales price of that comparable. Adjustments for individual line items must not exceed 10%;
- Have a sales price that is within the general range of value as the subject property; and
- At least three (3) of the comparables must be recently closed sales.

In instances where comparables conforming to the criteria stated above cannot be used, the appraiser must clearly justify reasons for alternate comparables.

For properties located in a new or newly converted condominium/PUD project or new subdivision, at least one (1) comparable sale that is both outside the development and from another builder must be provided.

113.11.3 Income Approach

The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. The income approach to value is required in the valuation of two-unit to four-unit properties and may be appropriate in neighborhoods that consist of one-unit properties when there is a substantial rental market. The income approach to value may not be appropriate in areas that consist mostly of owner-occupied properties because adequate rental data does not exist for those areas. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. If the appraiser believes the income approach is necessary for credible assignment results, then the income approach must be included. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. If the appraiser has completed the income approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the income approach are consistent with comments mentioned elsewhere in the report.

113.11.4 Valuation Analysis and Final Reconciliation

In the final reconciliation, appraisers must reconcile the reasonableness and reliability of each applicable approach to value along with validity of the indicated values. The appraiser must select and report the approaches that were given the most weight – an averaging technique cannot be used.

114 TITLE INSURANCE

114.1 TITLE INSURANCE

Loans must be covered by a title insurance policy or other approved form of title evidence that has been paid in full, and is valid, binding and remains in full force and effect.

The title insurer must be qualified to do business in the state where the subject property is located. The title insurer and policy must conform to Fannie Mae/Freddie Mac requirements. The following general requirements apply:

- The title policy must be written on one (1) of the following forms:
  - The 2006 American Land Title Association (ALTA) standard form;

- The ALTA short form; or
- The ALTA form with amendments required by state law in states in which standard ALTA forms of coverage are not used or in which the 2006 ALTA forms have not yet been adopted, provided those amendments are acceptable to Fannie Mae or Freddie Mac.

- The amount of title insurance coverage must be at least equal to the original principal amount of the mortgage;12-month chain of title;
- Borrower name must be indicated on the title commitment;
- If Borrower's marital status appears to be different than on 1003, the discrepancy must be addressed;
- Seller's name must be cross referenced to the purchase agreement and valuation chain of title; and
- Title policy must ensure the Originator or the Originator's correspondent as its name appears in the security instrument and must also include the language "its successors and assigns as their interest may appear." MERS cannot be named as the title policy beneficiary.

114.1.1 Project-related Title Insurance Requirements

The following specific requirements apply to title insurance coverage for project-related properties:

Condominiums

- An ALTA 4-06 or 4.1-06 endorsement or equivalent is required to be attached and incorporated into the text of the policy.
- If the homeowner's association owns the common areas or facilities of the project separately, the title insurance must insure that ownership.
- The title policy must provide for the following:
  - That the mortgage must be superior to any lien for unpaid common expense assessments;
  - Against any impairment or loss of title by any past, present, or future violations of any covenants, conditions, or restrictions of the master deed for the project;
  - That the unit does not encroach on another unit or any of the common areas/facilities;
  - That the mortgage is secured by a unit in the condo project that has been created in compliance with applicable statutes; and
  - The real estate taxes are assessable and lienable only against the condo unit and its undivided interest in the common elements rather than the project as a whole.

Leasehold Estates

- An ALTA 13.1-06 endorsement or equivalent is required to be attached and incorporated into the text of the policy.

114.2 TITLE HISTORY REVIEW

The following information outlines required documentation and/or acceptable sources to satisfactorily verify property ownership for at least 12 months. All files are to contain a 12-month title history from an acceptable source.

114.2.1 Required Information

Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 12 months. Title Commitments/Preliminary Title is good for a maximum of 90 days from the approval and may be extended to a maximum of 120 days from the note date.

114.3 ACCEPTABLE SOURCES FOR TITLE TRANSFER VERIFICATION

- Title commitments, Preliminary Title, full Attorney's Title Opinion, Short Form Title policy;
- Copies of recorded title transfer deed; or
- Third-party database sources such as Data Quick, SiteX TM, Appintell, History Pro.

NOTE: The appraisal is not an acceptable source to support transfer information. Preliminary Title report/Title Commitment – must be dated no later than one hundred twenty (120) days prior to closing. Any requirements by title, such as Statements of Information or copies of Trust Agreements, must be cleared prior to closing. The Preliminary policy or Title Commitment must indicate that Final Title Policy is issued after closing.

114.4 FINAL TITLE POLICY

All loans must be covered by a title insurance policy or other approved form of title evidence that is paid in full, and is valid, binding and remains in full force and effect.

114.5 CHAIN OF TITLE / CONTINUITY OF OBLIGATION

For a refinance transaction (either rate and term/limited cash-out or cash-out), there must be a continuity of obligation if there is currently an outstanding lien that will be satisfied through the refinance transaction.

An acceptable Continuity of Obligation exists when any of the following exist:

- There is at least one (1) Borrower obligated on the new loan who was also a Borrower obligated on the existing loan that is

being refinanced;

- The Borrower has been on title and residing in the property for at least six (6) months and has either paid the mortgage for the last six (6) months or can demonstrate a relationship (parent, spouse, domestic partner, sibling, etc.) with the current obligor;
- The Borrower has recently inherited or was legally awarded the property (divorce, separation); or
- The existing loan being refinanced, and the title have been held in the name of a natural person or a limited liability company as long as the Borrower was a member of the limited liability company prior to transfer. The loan must have been transferred out of Limited Liability Company prior to application. Transfer of ownership from a corporation to individual does not meet Continuity of Obligation. DSCR is exempt from this requirement.

If there is no lien currently outstanding on the subject property, the transaction will be considered a cash-out refinance.

114.5.1 Acceptable Title Exceptions

- Customary public utility subsurface easements, the location of which are fixed and can be verified. The exercise of rights of easement will not interfere with the use and enjoyment of any present improvement of the subject property or proposed improvements upon which the appraisal or loan is based;
- Above-surface public utility easements that extend along one (1) or more property lines for distribution purposes or along the rear property line for drainage, provided they do not extend more than 12 feet from the subject property lines and do not interfere with any of the buildings or improvements, or with the use of the subject property; restrictions, provided their violation will not result in the forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the subject property;
- Mutual easement agreements that establish joint driveways or party walls constructed on the subject property and on an adjoining property, provided all future owners have

unlimited and unrestricted use of them;

- Encroachments on one (1) foot or less on adjoining property by eaves or other overhanging projections or by driveways provided there is at least a ten (10) foot clearance between the buildings on the subject property and the property line affected by the encroachments;

- Encroachments on the subject property by improvements on adjoining property provided these encroachments extend one (1) foot or less over the property line of the subject property, have a total area of 50 square feet or less, do not touch any buildings, and do not interfere with the use of any improvements on the subject property or the use of the subject property not occupied by improvements;
- Encroachments on adjoining properties by hedges or removable fences;
- Liens for real estate or ad valor taxes and assessments not yet due and payable; or
- Outstanding oil, water, or mineral rights as long as they do not materially alter the contour of the property or impair its value or usefulness for its intended purposes.

114.6 SURVEY REQUIREMENTS

If not insured against loss by title insurance, each loan must contain a survey. Surveys must be certified, dated, and signed by the licensed civil engineer or registered surveyor performing the survey. Unimproved land surveys are not acceptable.

Surveys must be reviewed for easements, encroachments, flood zone impacts and possible boundary violations taking into account the location of the dwelling on the property.