Guideline Overview

Loans meeting the parameters outlined in these guidelines are consistent with the Dodd Frank Wall Street Reform Act Ability to Repay (ATR), Qualified Mortgage (QM) and TRID requirements. Documentation standards are designed so that loans are made to borrowers who have demonstrated the ability and have the capacity to repay the debt thus satisfying Ability-to-Repay standards.

Program Qualifications

This program offers a fixed rate option only. Full documentation of income and assets as outlined in Appendix Q is required. Where these guidelines are silent, default to Fannie Mae guidelines provided Appendix Q requirements are met. Loans in this program must be underwritten manually.

Purchase & Rate/Term Refinance – Primary Residence							
Units	FICO	LTV	Loan Amount	DTI	Reserves (mos)	Housing History[1]	Credit Event (mos)
SFR, PUD	720	85%	$1,000,000	43%	12	0x30x12	Short Sale/Pre-FC/Loan Mod: 48 BK/DIL/FC: 84
SFR, PUD Condo or 2-4 unit	680	80%			1-unit and Loan Amt ≤ $1MM = 9 mos 2-4 unit and/or Loan Amt > $1MM = 12 mos		
	700	80%	$1,500,000				
	720	75%	$2,000,000				
	700	70%					
	720	75%	$2,500,000				
	740	70%	$3,000,000				

Cash-Out Refinance – Primary Residence[2]							
Units	FICO	LTV	Loan Amount	DTI	Reserves (mos)	Housing History[1]	Credit Event (mos)
SFR, PUD or Condo	720	80%	$1,000,000	43%	Loan Amt ≤ $1MM = 9 mos Loan Amt > $1MM = 12 mos	0x30x12	Short Sale/Pre-FC/Loan Mod: 48 BK/DIL/FC: 84
	700	75%					
	720	75%	$1,500,000				
	700	70%					
	720	70%	$2,000,000				
	700	65%					

Purchase & Rate/Term Refinance – Second Home							
Units	FICO	LTV	Loan Amount	DTI	Reserves (mos)	Housing History[1]	Credit Event (mos)
SFR/PUD or Condo	720	80%	$1,000,000	43%	12	0x30x12	Short Sale/Pre-FC/Loan Mod: 48 BK/DIL/FC: 84
	700	75%					
	720		$1,500,000				
	700	70%					

Cash-Out Refinance – Second Home[2]							
Units	FICO	LTV	Loan Amount	DTI	Reserves (mos)	Housing History[1]	Credit Event (mos)
SFR/PUD	720	70%	$1,500,000	43%	12	0x30x12	Short Sale/Pre-FC/Loan Mod: 48 BK/DIL/FC: 84
	700	65%					
Condo	720	60%					

Purchase & Rate/Term Refinance – Investment Property							
Units	FICO	LTV	Loan Amount	DTI	Reserves (mos)	Housing History[1]	Credit Event (mos)
SFR/PUD or Condo	720	75%	$1,000,000	43%	12	0x30x12	Short Sale/Pre-FC/Loan Mod: 48 BK/DIL/FC: 84
	700	70%					
	720		$1,500,000				
	700	65%					

Cash-Out Refinance – Investment Property[2]							
Units	FICO	LTV	Loan Amount	DTI	Reserves (mos)	Housing History[1]	Credit Event (mos)
SFR/PUD or Condo	720	60%	$1,500,000	43%	12	0x30x12	Short Sale/Pre-FC/Loan Mod: 48 BK/DIL/FC: 84

Footnotes:

[1] Housing History must be 0x30x12, 1x30x24

[2] Maximum cash-out: LTV ≤ 50% = $500,000; LTV > 50% = $350,000

Product Codes

Product Code	Fixed
JF30M	Jumbo 30 Year Fixed
Product Code	**ARM**
JA07M	Jumbo 7/6 SOFR ARM

Eligibility Requirements

<table>
<tr><td>Adjustable Rate Details</td><td>
<table>
<tr><td>Interest Rate Adjustment Caps</td><td>5/1/5 – Initial: 5% up; Subsequent: 1% up/down; Lifetime: 5% up</td></tr>
<tr><td>Margin</td><td>See rate sheet</td></tr>
<tr><td>Rounding</td><td>To the nearest one-eighth of one percentage point (0.125%)</td></tr>
<tr><td>Index</td><td>SOFR</td></tr>
<tr><td>Lookback</td><td>45 days</td></tr>
<tr><td>Interest Rate Floor</td><td>Subject to minimum margin and caps</td></tr>
<tr><td>Reset Period</td><td>6 months</td></tr>
<tr><td>Conversion Option</td><td>None</td></tr>
<tr><td>Assumption</td><td>Not allowed</td></tr>
</table>
Qualifying Rate: 7/6 ARM qualifies at the fully amortizing Note Rate</td></tr>
<tr><td>Age of Documentation</td><td><u>Credit Report</u>: Must be not more than 90 days old on the Note Date.

<u>Income and Asset Documentation</u>: Must be no more than 60 days old on the Note Date. When consecutive income/asset documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 60 days old on the note date

<u>Appraisal</u>: The appraisal report must be completed within 120 days of closing. A recertification of value is not acceptable.</td></tr>
<tr><td>Appraisal</td><td>
<table>
<tr><th>Loan Amount</th><th>Appraisal Requirement</th></tr>
<tr><td>≤ $1,500,000</td><td>One Full Appraisal</td></tr>
<tr><td>> $1,500,000</td><td>Two Full Appraisals</td></tr>
</table>
<u>Additional Collateral Valuation Requirements (when a second appraisal is not obtained)</u>:

<u>Option 1</u>: A Fannie Mae Collateral Underwriter (CU) appraisal review that meets the following:
1-unit property only (this is a CU limitation)
CU Risk Score ≤ 2.5
When the above requirements are met, an ARR or CDA in Option 2 below is not required.
<u>Option 2</u>: A Pro Teck Valuation Services Appraisal Risk Review (ARR) <u>OR</u> a Clear Capital Collateral Desktop Analysis (CDA) from an approved vendor is required and must support the value within no more than 10% below the appraised value.

If the ARR/CDA is higher than the appraised value or less than 10% below the appraised value, use the appraised value for LTV purposes. If the ARR/CDA is more than 10% below the appraised value, then a second appraisal is required whereby the lower of the two values must be utilized for LTV purposes.

When 2 full appraisals are obtained, the lower of the 2 appraised values will be used to determine LTV, unless the sales price is lower than both appraisals (in which case the sales price will be used to determine LTV).

Declining Property Values:
Reduce maximum LTV by 5% for any property located in an area of declining property value as reported by appraiser.
<u>Properties Located in a Disaster Area</u>:
For loans secured by properties appraised in a Presidential/State or FEMA declared disaster area, an exterior inspection of the subject property is required.

The original appraiser should perform the inspection and provide a certification verifying:
The subject property is free from damage and is in the same condition as previously appraised.
If the re-inspection indicates damage:</td></tr>
</table>

	• The repairs are required to be completed. Form 1004D/442 (Appraisal Update and/or Completion Report), with photos of interior, exterior, and neighborhood is required verifying repairs are completed • Marketability and value remain the same

Assets	**Asset Documentation**
	The file must evidence third party verification of sufficient funds for down payment, closing costs and reserves. Assets must be sourced/seasoned for 60 days and may be verified using:
	• Direct written verification, completed by the depository OR
	• Recent and consecutive account statements covering a period of two (2) months for each bank, brokerage, mutual fund account or investment portfolio. Account statements must provide all of the following information:
	  o Borrower as the account holder
	  o Account number
	  o Time period covered
	  o Current balance in US Dollars ($)
	  o Statement date
	
	Acceptable Funds
	The following items are acceptable for down payment and closing funds, 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
	• 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
	• Proceeds from liquidated stock, retirement accounts. Documentation must include seasoning and proof of liquidation
	• 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 (may be used for down payment and reserves. Loan must meet the FNMA requirements for use of business assets
	• 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
	• Bridge loans
	
	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)
	• Gifts from seller-funded programs
	• Trade Equity IRS 1031 Exchange
	• Unsecured Loans
	
	Reserves Requirements
	Reserves are assets remaining after down payment and closing costs have been paid. 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
	• Special assessments, Association dues, Ground rent
	• Any subordinate financing payments on mortgages secured by the subject property
	
	The following reserve requirements apply to all loans:
	• 9 months PITIA required for:
	  o 1-unit primary residence with LTV ≤ 80% and loan amount ≤ $1,000,000
	• 12 months PITIA required for:
	  o LTV > 80%
	  o Loan Amount > $1mm
	  o 2-4 unit property
	  o Second Home
	  o Investment Homes

For each additional financed property owned add 6 months PITIA in reserves for each property. The 6 months PITIA reserves requirement for financed properties should be based on the PITIA of the financed properties.

The occupying borrower(s) must make at least three percent (3%) of the down payment from their own funds

Acceptable 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.

100% of the value for non-retirement assets can be used (checking, savings, money market, CDs, stocks, bonds, mutual funds, etc.). Assets that have restrictions on liquidating such as Private Equity, RSUs cannot be considered.

- 60% of the value for retirement accounts can be used (IRA accounts, 401(k), KEOGH, 403(b) and other IRS qualified retirement plans) less any outstanding loans

Unacceptable Reserves

- UGMA (Uniform Gift to Minors Act) or UTMA (Uniform Transfers to Minors Act) accounts
- Cash on hand
- Assets that are not vested (such as non-vested stock options and non-vested restricted stock)
- Funds that cannot be withdrawn
- Stock held in an unlisted corporation
- Cash out proceeds
- Gifts funds

Down Payment
On purchase transactions, a minimum of three percent (3%) of the purchase price must come from the Borrower's own funds.

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 two (2) months' 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.

Large Deposits
Large deposits are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. When there is a large deposit, a signed letter of explanation from the borrower is required, as well as documentation supporting the source of funds.

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, (donor must be a relative or family member)
  - Donor's address, phone number and dollar amount of gift
  - Certification it is an outright gift with no repayment required
- Evidence of the donor's ability to provide funds
- Evidence of transfer of funds, such as a cancelled check or evidence of wire transfer from donor to Borrower. Documentation must also include a bank statement or other evidence from the depository institution that receives the funds
- The occupying borrower(s) must make at least three percent (3%) of the down payment from their own funds

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

- Signed gift letter is provided
- Gift of equity is listed on the Closing Disclosure

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 provides a written statement verifying the Borrower has full access to the funds.

Interested Party Contributions
Interested party contributions (IPCs) are costs that are normally the responsibility of the property purchaser that are paid directly or indirectly by someone else who has a financial interest in, or can influence the terms and the sale or transfer of, the subject property. IPCs are subject to the requirements in the FNMA Selling guide as well as the below limitations:

	<table><tr><th>Occupancy Type</th><th>Maximum IPC</th></tr><tr><td>Primary Residence</td><td>6%</td></tr><tr><td>Second Home</td><td>3%</td></tr><tr><td>Investment Property</td><td>2%</td></tr></table>
Benefit to Borrower	One or more of the following items is required: • Lower principal and interest housing payment • Lower total monthly payments • Lower interest rate • Conversion from adjustable rate to fixed rate • Pay off of a balloon payment • Conversion from negative amortization to fully amortizing • Prime Guidelines July 1, 2019 9 • Reduction of loan term • Reduction of total interest payments • Consolidation of debt • Pay off of a tax lien • Proceeds (cash-out) to Borrower in excess of the costs and fees to refinance • Pay off of a construction loan • Paying off of property taxes • Title transfer/Court order • Eliminating mortgage insurance

Borrower Eligibility	**Eligible**:
	• U.S. Citizen
	• Permanent Resident Alien
	  ○ Copy of Green Card (Form I-551) required.
	• Non-Permanent Resident Alien
	  ○ Acceptable visa types: E-1, E-2, E-3, G-1, G-2, G-3, G-4, G-5, H-1B, H-1C, I, L-1A, L-1B, O-1, O-2, P-1 to P-3 and TN
	  ○ Must have valid SSN
	  ○ 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.
	  ○ Funds for down payment, closing costs, and reserves must be held in a U.S. financial institution. Any funds to close that were transferred from a foreign financial institution will require documentation of source of funds. All supporting documents must be translated by an Underwriting approved translator or a disinterested third party, and be stated in U.S. dollars.
	• Inter Vivos Revocable Trust (must meet Fannie Mae guidelines)
	• Non-Occupying Co-Borrowers (as long as income from non-occupying co-borrowers is not used in the DTI)
	
	Ineligible:
	• Foreign Nationals
	• Borrowers w/ Diplomatic Immunity
	• Non-occupant co-borrowers contributing income
	• Irrevocable trusts
	• IL Land Trust
	• Community Land Trust
	• Borrowers w/ ITIN
	• Corporations, limited partnerships, general partnerships, and LLCs
	
	Maximum of 4 borrowers per loan.

COVID-19 Attestation	All borrowers must sign and date Impac's COVID-19 Attestation with regard to forbearance and the borrower's ability to repay the loan.
Credit	**Credit Report** 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. **Minimum Credit History** The borrower with the representative credit score for the loan 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 • Authorized user accounts will not be considered as a credit reference for establishing this minimum required history, and alternative credit histories not permitted • Credit report must be dated within 90 days of closing

Mortgage Payment History

- The housing payment delinquency requirements apply to the borrower(s) primary residence, and to any mortgage loans on a Second/Vacation Home or Investment Property
- No mortgage payment, including subordinate liens, may be (at closing):
  - 30 or more days past due in the last 12 months (0x30x12)
  - More than one (1) time 30 days past due in the last 24 months (1x30x24)
- At least one borrower must have a 24 month Rental or Mortgage History:
  - Borrowers who have been living "rent free" and do not have a 24 month rental or mortgage history are not eligible
  - Borrowers who have been living "rent free" temporarily, but can document a 24 month rental or mortgage history are eligible (ex. Borrower sold his or her home and moved in with family temporarily until closing on a new property)
  - Borrowers who have been living "rent free" but have a 24 month satisfactory mortgage history on an a second or investment home are eligible
  - Borrowers who own a house free and clear meet the Mortgage Payment History requirements provided there is documentation that that taxes and insurance have been paid on time for the last 24 months
  - A VOR (verification of rent) would be required if there is no mortgage history

Forbearance

Borrower(s) must not be in forbearance on any mortgage. Loans that were reinstated prior to the note date per Fannie Mae guidelines are eligible. However, loans that previously entered into a loss mitigation solution (e.g. payment deferral, loan modification, repayment plan) are not eligible. Borrower Attestation is required.

Delinquency and Derogatory Credit

None in the past seven (7) years (to date of loan application)

- Bankruptcy – date discharged or dismissed
- Foreclosure – date of last action (i.e., final summary judgment
- Deed-in-Lieu of Foreclosure – date of last action (i.e., date of transfer)

None in the past four (4) years (to date of loan application)

- Short Sale – date of last action (i.e., date of property sale and resolution of debt)
- Pre-foreclosure sale – date of last action
- Loan Modification – last mod date

Note: A loan modification that can be documented to indicate that it was only to reduce the interest rate and did not change any other loan terms will not be considered adverse credit and therefore is permitted regardless of date modified.

Major Adverse Derogatory Credit (Collections, Charge-offs, Judgments, Liens)

At or prior to loan closing, all delinquent credit that will impact title – including delinquent taxes, judgments, charge-off accounts, tax liens and mechanics liens – must be paid off. 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.

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
- 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

Delinquent Credit Belonging to Co-signer

Delinquent credit that belongs to co-signer must be considered in determining the Borrower's credit acceptance.

Written Explanations

A satisfactory written explanation signed by the Borrower(s) explaining the reason(s) for adverse credit is required if the determination is made that the adverse credit has a significant negative impact on the creditworthiness of the Borrower(s).

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. Any additional debt must be verified and included in the DTI.

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.
Documentation	All income and asset documentation must be dated prior to the Note Date (e.g. paystubs, bank/account statements, etc.). In addition, when the borrower(s) is required to sign and/or date any document, that document must be signed and/or dated prior to the Note Date. The signature/date on the document cannot be obtained at closing. Examples include but are not limited to the following: • Personal and business tax returns • Credit inquiry letters • Letters of explanation • Gift letters • Lease agreements • Purchase contracts/addendums/counter offers
Escrows	Unless required by applicable state law, escrow waivers are permitted. Escrows for flood insurance (if subject located in a flood zone) are required. Escrow holdbacks not permitted.
Fraud Report	A third-party fraud report is required to identify any borrower information discrepancies and indications of possible fraudulent activity.
Geographical Locations/Restrictions	Ineligible States: DE, MA, ME, MO, WY Additional Restrictions: • Hawaii: Lava zones 1 and 2 not eligible. • Illinois: Illinois Land Trust not allowed. • New York: CEMA not allowed. • Texas: 50(a)(6) not permitted.
Insurance	**Homeowners Insurance** Each borrower has the right to select his or her own insurance carrier to provide property insurance for the subject property, provided that the insurance policy and coverage meet Fannie Mae's requirements . The lender must ensure that the insurance carrier, policy, and coverage meet the requirements in the Fannie Mae Selling Guide. **Rent Loss Insurance** Not required **Flood Insurance** Flood insurance is required for any property located within any area designated by FEMA as an Area of Special Flood Hazard. Flood insurance should be in the form of the standard policy issued under the NFIP or by a private insurer. The terms and conditions of the flood insurance coverage must be at least equivalent to the terms and conditions of coverage provided under the standard policy of the NFIP for the appropriate property type. The Policy Declaration page of a policy is acceptable evidence of coverage. The amount of flood insurance provided by the NFIP or by a private insurer must meet Fannie Mae's minimum coverage requirements for the appropriate property type. In addition, private carriers must meet Fannie Mae's minimum rating requirements for insurance underwriters. Flood insurance premiums are required to be escrowed. 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”). **Private Mortgage Insurance** Not required
Income/Employment	All Income and Liability requirements outlined Appendix Q to Part 1026 – Standards for Determining Monthly Debt and Income must be followed. **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. Gaps in Employment: Borrower must explain, in writing, any job gaps that span one (1) month or more. Borrowers who are re-entering the workforce: A Borrower’s income may be considered effective and stable when recently returning to work after an extended absence if they:

- Are employed in the current job for six months or longer
- Can fully document a two year work history prior to an absence from employment using either traditional employment verifications and/or Copies of IRS Form W-2s or paystubs

Previously in School or Military:
The Borrower to indicate whether he or she is or has been in school or the military for the recent two (2) full years and, if so, provide evidence supporting this claim, such as college transcripts, or discharge papers.

Source of Income
The income of each Borrower must be reasonable expected to continue. 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 to qualify the Borrower. Unreimbursed expenses, for either the Borrower or co-Borrower, must be subtracted from qualifying income.

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.

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 or losses, the capital gain or loss must be considered when determining the income. Three (3) years' tax returns are required to evaluate an earnings trend. If the trend:

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

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.

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
  - Tax returns or Court records

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
- 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
- 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

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.

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
- 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

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

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.

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 bank statements or deposit slips that support a two (2) year history.

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
- Proficiency pay

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

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.

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

- Is considered gross income
- Cannot be used to offset the mortgage payment directly, even if the employer pays the servicing creditor directly

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

- 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.

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
- Other income that is documented as being exempt from Federal income taxes

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:
    - Must document and support the amount of income grossed up for any non-taxable income source
    - Should use the tax rate used to calculate the Borrower's last year's income tax

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

Part-Time/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.

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.

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 and a current lease.

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:
When using Schedule E, the rental income is calculated by using the net rental income or loss and adding back depreciation, mortgage interest, taxes, insurance and HOA dues, then subtracting the PITIA (i.e. FNMA method).

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 a primary 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:
    - Documented equity of at least 30% in the property being rented (derived from an appraisal no older than six (6) months and
    - 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.
- If 30% equity cannot be documented (derived from an appraisal no older than 6 months), rental income from the prior residence may not be used to qualify

Short-term rental income (e.g. Airbnb, VRBO) is ineligible.

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

Pension: Retirement income from a pension may be used as qualifying income. Acceptable documentation includes any of the following:

- 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.
- 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 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

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
- Expects to be rehired the next season

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. 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
- Year to date profit and loss (P&L) statement and balance sheet
- All tax returns (whether business or personal) must be signed and dated PRIOR to the Note Date (i.e. cannot be signed at or after closing).

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 filings, 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

Income Analysis: Individual Tax Returns (IRS Form 1040)
1. 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.

2. 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 or losses, the capital gain or loss must be considered when determining the income. Three (3) years tax returns are required to evaluate an earnings trend. If they trend: Results in a gain, it may be added as effective income, or Consistently shows a loss, it must be deducted from the total income. Creditor must document anticipated continuation of income through verified assets. 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 If 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)
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
- 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
- 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 1040 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)

- 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
- In addition, the income must also be reduced proportionately by the total obligations payable by the corporation in less than one (1) year
- 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)

- 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.
- Income must also be reduced proportionately by the total obligations payable by the partnership in less than one (1) year

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.

Stock Options and Restricted Stock Units (RSUs)

Stock Options and RSUs may be used as a source of funds for down payment and closing costs. They are not an eligible source of funds for income purpose.

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.

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.

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
- 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.

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
- Illegal income or income not reported to IRS
- Bank statement income

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.

VA Benefits

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.

EMPLOYMENT/INCOME DOCUMENTATION

Pay stubs and IRS Form W-2s

Paystubs and W-2's are required for income and employment verification. The documentation must meet the following criteria:

- Most-recent computer generated paystub(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

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

Written Verification of Employment

A Written Verification of Employment should only be used to support the pay stubs and W2s (when commission, bonus, overtime, etc. is being used) but should not be used solely without pay stubs and two (2) years W2s.

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.

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.

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
  - The source of the phone number
- If a borrower has been employed for less than 2 years with their current employer, a VVOE is required for all prior employers to complete a full 2 year history.

	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 20 business days prior to the note date
	  ○ From a third party, such as a CPA, regulatory agency, or the applicable licensing bureau, if possible OR,
	  ○ By verifying a phone listing and address for the borrower's business using a telephone book, the Internet, or directory assistance
	• The lender must document the source of the information obtained and the name and title of the lender's employee who obtained the information.
	
	IRS Tax Transcripts
	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.
	• The originator must process the executed 4506-C and obtain full tax return transcripts for the two (2) most recent years
	• The tax transcripts must be reviewed and compared to the qualifying income. The transcripts must support the income used to qualify the loan

Ineligible Transactions	• Loans that are not Qualified Mortgages eligible for safe harbor protection under 12 CFR Part 1026.43 • Loans that do not meet the Ability to Repay requirements of TILA • Construction to Permanent financing • Land contracts • Section 32 and/or High Cost Loans • Blanket loans • Bridge loans • 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 • Property/Land Flip Transactions • 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 • Foreclosure Bailouts of any kind (arms-length purchase of a short sale is not deemed a foreclosure bailout) • Interest Only Loans • Temporary Buydowns • Lease Purchase Option • Model Home Lease Back • Prepayment Penalty • Texas Refinance 50(a)(6) transactions • Loans with Escrow Holdbacks
Liabilities	**Installment Debt** These payments must be included in the Borrower’s DTI ratio calculation. The monthly payments may be excluded from the DTI calculation if there are fewer than ten (10) monthly payments. Debts lasting less than ten months must be included if the amount of the debt affects the Borrower's ability to pay the mortgage during the months immediately after loan closing, especially if the Borrower will have limited or no cash assets after loan closing. **Revolving Debt** Monthly payments on revolving accounts, regardless of the balance, are counted as a liability for qualifying purposes, even if the account appears likely to be paid off within 10 months or less. Use the minimum required payment as stated on the credit report, or current statement, as a liability when calculating the DTI. If no minimum required payment can be confirmed, then use the greater of five percent (5%) of the outstanding balance or $10. as a liability when calculating the DTI. If the actual monthly payment is documented from the creditor or the originator obtains a copy of the current statement reflecting the monthly payment, that amount may be used for qualifying purposes. In order from Revolving Debt to be excluded from the DTI ratio, documentation must be provided that the account was both paid in full AND CLOSED either prior to closing or at closing.

Alimony/Child Support/Separate Maintenance
Monthly alimony, child support and separate maintenance fees, payments and obligations must be considered for qualifying purposes, even if it appears likely that these obligations will be satisfied within 10 months or less. Since there are tax consequences of alimony payments, the monthly alimony obligation may be treated as a reduction from the Borrower's gross income when calculating the DTI ratio, rather than treating it as a monthly debt obligation.

Business Debt
Business debts for which the Borrower is personally liable are included in the debt calculation.

Retirement/Savings Plan Loans (i.e.401K, Insurance Policy)
Repayment for loans against financial assets, do not have to be included in the DTI. Value of the asset must be reduced by the amount of the debt when calculating total assets/reserves.

Lease Obligations
Lease obligations, regardless of time remaining on the lease, are included in the DTI.

Student Loans
If a monthly student loan payment is provided on the credit report, the lender may use that amount for qualifying purposes. If the credit report does not reflect the correct monthly payment, the lender may use the monthly payment that is on the student loan documentation (the most recent student loan statement) to qualify the borrower. If the credit report does not provide a monthly payment for the student loan, or if the credit report shows $0 as the monthly payment, the lender must determine the qualifying monthly payment using one of the options below.

If the borrower is on an income-driven payment plan, the lender may obtain student loan documentation to verify the actual monthly payment is $0. The lender may then qualify the borrower with a $0 payment.

For deferred loans or loans in forbearance, the lender may calculate:
- Payment equal to one percent (1%) of the outstanding student loan balance (even if this amount is lower than the actual fully amortizing payment) OR
- A fully amortizing payment using the documented loan repayment terms

Housing Payments
See Section 106.2 (Debt to Income Ratio) for items included in the monthly housing expense.

Contingent Liability on Cosigned Obligations
Contingent liability applies, and the debt must be included in the underwriting analysis, if an individual applying for a mortgage is a cosigner/co-obligor on:
- A car loan
- A student loan
- A mortgage OR
- Any other obligation

If the creditor obtains documented proof that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the Borrower's monthly obligations.

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 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.

Balloon-payment notes that come due within one year of loan closing must be considered in the underwriting analysis.

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
- Child care
- Voluntary deductions

	Bridge/Swing Loan A bridge loan is typically a short-term secured loan (one (1) year or less), that is based on the equity in the Borrower's current home. It is paid off when the current home is sold and closed. If the Borrower obtains a bridge loan, the monthly payment for the bridge loan must be included in the debt unless the Borrower can provide a copy of the executed sales contract for the property that is secured by the bridge loan. **Calculating Total Monthly Obligation** The total monthly obligation is the sum of the following: • The monthly housing expense of the borrower's principal residence (or the qualifying payment amount if the subject mortgage loan is secured by the borrower's principal residence • The qualifying payment amount if the subject mortgage loan is secured by a second home or investment property • Monthly payments on installment debts and other mortgage debts that extend beyond 10 months • Monthly payments on installment debts and other mortgage debts that extend 10 months or less if the payments significantly affect the borrower's ability to meet credit obligations • Monthly payments on revolving debts • Monthly payments on lease agreements, regardless of the expiration date of the lease • Monthly alimony, child support, or maintenance payments that extend beyond ten months (alimony (but not child support or maintenance) may instead be deducted from income • Monthly payments for other recurring monthly obligations • Any net loss from a rental property
Minimum Loan Amount	Minimum loan amount is $1 over the Conforming limit

Multiple Financed Properties	• Borrowers may not own more than four (4) financed properties (including their primary residence.
	• Six (6) months PITIA in reserves required for each additional financed property owned
	• The following property types are not subject to these limitations, even if the borrower is personally obligated on a mortgage:
	  ○ Properties owned free and clear
	  ○ Commercial real estate
	  ○ Multifamily property consisting of more than four units
	  ○ Ownership in a timeshare
	  ○ Ownership of a vacant lot (residential or commercial) OR
	  ○ Ownership of a manufactured home on a leasehold estate not titled as real property (chattel lien on the home)

Non-Arms Length Transactions	Non-arms 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. 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-arms 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.) • In purchase transactions where the seller is a corporation, partnership or any other business entity, the lender 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-arms length transaction • Foreclosure bailouts not allowed. Payoff statement and VOM on subject required as verification; • The Closing Disclosure must reflect all liens on title are paid and not all loan proceeds going to the family member • Current appraised value is used for LTV purposes
Power of Attorney	A Limited Power of Attorney is acceptable when all of the following are met: • 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 • The Borrower who executed the POA signed the initial 1003

	• No interested party to the transaction (such as seller, broker, loan officer, realtor, etc.) may act as Power of Attorney
Prepayment Penalty	Not allowed
Property Types	**Eligible**: • Single-Family Residence Detached & Attached • Low and High Rise Condominium • Site Condominium • Planned Unit Development (PUD) Attached and Detached • 2-4 unit • Ground Lease / Leasehold Property 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. Average or better than average condition • Represent the “highest and best” use of the subject property • Be free of all health and safety violations • NOT be in violation of any housing codes or exhibit items that adversely affect the ownership, habitability or marketability of the subject property **Ineligible Properties**: • Co-ops • Modular Homes • Condominium Conversion • Non-Warrantable Condominium • Manufactured Home • Condotels or Condo Hotels • Log Homes • Raw Land • Mixed Use Property • Farms / Working Farms • Corporate Properties • Earth Homes, Burm Homes, or Basement Homes • Environmental Conditions • Dwellings with > 4 units • Lagoons/Cesspools • Churches • Timeshares • Rooming/Boarding • Limited Marketability/Unique Properties • Properties located in Lava Zones • Postponed Improvements or Proposed Construction • Factory Built Housing • Properties over 10 acres **Rural Properties**: A property indicated by the appraisal as rural 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 10 acres, which includes road frontage and the subject property • 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 • Subject property cannot be subject to any idle acreage tax benefit or other tax incentive program **Condominiums**: All condominiums must meet FNMA warrantable Condominium requirements. The file must have documentation confirming FNMA requirements have been met. Depending FNMA 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
	
	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.
	
	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 sublesse
	• 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
	• The lease must provide lenders with:
	    o The right to receive a minimum of 30 days' notice of any default by the borrower
	    o The option to either cure the default or take over the borrower's rights under the lease
	
	Private Roads:
	Properties on private roads are acceptable subject to the following:
	• The title company must affirmatively insure access to the subject property from a public street.
	• 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.
	• 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.
	
	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 Fannie Mae Selling Guide.
	
	Resale Deed Restrictions:
	Properties with age-related deed restrictions are acceptable provided:
	• Senior Communities comply with applicable laws
	• 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.

Subordinate Financing	Not allowed
Title	**Title Insurance**: Loans must be covered by a valid title insurance policy. The title insurer and the tile policy must conform to the requirements in the FNMA Selling Guide including but not limited to policy amount, acceptable insurer rating, acceptable form, etc. **Title History Review**: All files are to contain a 24 month title history from an acceptable source. Required information is as follows: Transfer date, price, and buyer and seller names on any title transfers that occurred within the previous 24

	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. **<u>Final Title Policy</u>**: 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. **<u>Continuity of Obligation</u>**: For a refinance transaction 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) • 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 If there is no lien currently outstanding on the subject property, the transaction will be considered a cash-out refinance. **<u>Acceptable Title Exceptions</u>**: 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 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 • 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 **<u>Survey Requirements</u>**: 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.
Transaction Types	<u>Purchase Transactions</u>: A purchase money 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, (from the date seller takes title to date sales contract executed) • A 24 month chain of title review is required to ensure that this is not a flip transaction. Property flipping schemes and other similar types of transactions are not permitted When the Borrower is purchasing a new property as a primary 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
	• If the current principal residence is being converted to an investment property, see Income/Employment section for rental income requirements.
	
	Refinance Transactions:
	A refinance is a mortgage transaction on a property for which the Borrower already has ownership. For purposes of calculating the LTV, if the property was acquired six (6) months or less from the application date, the lower of the sales price or appraised value is used to determine the value of the property. Otherwise, the appraised value is used to determine value. Further, properties currently listed for sale or listed within the past 6 months are not eligible for refinance transactions. Day off the market is calculated from the application date.
	
	Rate-Term Refinance/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: 1) 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 2) 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
	• Cash to Borrower no greater than $5,000
	
	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.
	• 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.
	• The maximum amount of cash out for a cash-out refinance transaction is $500,000 when the HCLTV/CLTV/LTV is less than or equal to 50% or $350,000 when the HCLTV/CLTV/LTV is greater than 50%. Cash out maximums include any consumer debt being paid off (inclusive of a non-seasoned 2nd mortgage paid off in a cash-out transaction).
	
	If the subject property was inherited less than 6 months prior to application, the transaction can be cash out refinanced subject to the following:
	o Proceeds only used to buy-out the documented equity interest of others. Equity owners must be paid through settlement
	o The subject property has cleared probate and property is vested in the Borrower's name
	o Current appraised value is used for LTV/CLTV/HCLTV determination.
	
	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:
	  o 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
	  o 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. Debt Consolidation: A Debt Consolidation loan is classified as a Cash-Out Refinance for pricing and loan eligibility purposes.
Underwriting	Manual underwrite only.