

NQM 1099 Program – Underwriting Guidelines

Guideline Overview

Loans meeting the parameters outlined in these guidelines are consistent with the Dodd Frank Wall Street Reform and Consumer Protection Act's requirement that a borrower have the Ability to Repay the mortgage loan. Documentation standards are designed so that loans are made to borrowers who have demonstrated the ability and have the wherewithal to repay the debt. This program requires review and verification of documentation to ensure that the loan meets Ability-to-Repay (ATR) standards. In regard to any underwriting criteria not specifically addressed in this document, Fannie Mae standards apply.

Program Qualifications

This program is designed for borrowers who are commission based or independent contractors and would benefit from alternative loan qualification methods. 1099's are used as an alternative to tax returns to document the borrower's income.

Primary Residence									
Units	FICO ²	Loan Amount	LTV/CLTV/HCLTV ¹			DTI ⁵	Reserves (months)	Housing History	Credit Event (months) ⁴
			Purchase	Rate/Term Refinance	Cash-Out Refinance ³				
1-4	720	\$1,000,000	90%	90%	80%	55%	6	1x30x12	48
	700		90%	85%	80%				
	680		85%	85%	80%				
	660		80%	80%	75%				
	640		75%	75%	70%				
	620		75%	70%	65%				
	600		70%	65%	N/A				
	720	\$1,500,000	90%	90%	80%		9		
	700		85%	85%	80%				
	680		85%	80%	75%				
	660		80%	80%	75%				
	640		70%	70%	60%				
	620		70%	70%	N/A				
	700		\$2,000,000	85%	85%				
	680	80%		80%	75%				
	660	75%		75%	70%				
	640	65%		65%	N/A				
	720	80%		80%	70%				
	700	75%		75%	65%				
	680	70%		70%	65%				
720	\$2,500,000	75%	75%	70%	12				
700		75%	75%	65%					
680		70%	70%	65%					
720	\$3,000,000	75%	75%	70%	12				
700		75%	75%	65%					
680		70%	70%	65%					

Second Home & Investment Property									
Units	FICO ¹	Loan Amount	LTV/CLTV/HCLTV ¹			DTI	Reserves (months)	Housing History	Credit Event (months) ⁴
			Purchase	Rate/Term Refinance	Cash-Out Refinance ³				
2nd: 1-unit NOO: 1-4	680	\$1,000,000	80%	80%	75%	50%	6	1x30x12	48
	660		80%	80%	75%				
	640		80%	80%	70%				
	700	\$1,500,000	80%	80%	75%		9		
	680		80%	80%	70%				
	660		75%	75%	70%				
	640	\$2,000,000	70%	70%	N/A		12		
	720		80%	80%	75%				
	680		80%	80%	70%				
	660	\$2,500,000	75%	75%	65%		12		
	720		75%	75%	65%				
	680		70%	70%	65%				
	720	\$3,000,000	70%	70%	60%		12		
	720		70%	70%	60%				

Footnotes:

¹LTV/CLTV/HCLTV > 85%: Warrantable condos not allowed (max 75% LTV if FICO < 660)

²LTV/CLTV/HCLTV > 80%: 1) Housing History 0x30x12, 2) No non-warrantable condos, 3) Interest-Only not allowed, 4) 2-4 unit not allowed (max 75% LTV if FICO < 660), 5) Cash-out proceeds cannot be used as reserves

²Interest-Only requires minimum 700 FICO

³Cash-Out Refinances: 1) Maximum cash-out is \$500,000 if LTV > 60%. Otherwise, maximum cash-out is \$1,000,000.

⁴Minimum 2 year seasoning allowed at certain LTV – see "Credit" section of these guidelines

⁵DTI > 50%: See "Income" section of these guidelines for requirements needed

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Product Codes

Fully Amortizing		Interest Only	
Product Code	Hybrid ARM	Product Code	Hybrid ARM
IA5699	NQM 1099 Program 5/6 SOFR ARM	IA5699IO	NQM 1099 Program 5/6 SOFR ARM Interest Only
IA7699	NQM 1099 Program 7/6 SOFR ARM	IA7699IO	NQM 1099 Program 7/6 SOFR ARM Interest Only
Product Code	Fixed	Product Code	Fixed
IF3099	NQM 1099 Program 30 Year Fixed	IF3099IO	NQM 1099 Program 30 Year Fixed / 10 Year Interest Only
		IF4099IO	NQM 1099 Program 40 Year Fixed / 10 Year Interest Only

Eligibility Requirements

Adjustable Rate Details	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%;">Interest Rate</td> <td>Initial (5/6): 2% up; Subsequent: 1% up/down; Lifetime: 5% up</td> </tr> <tr> <td>Adjustment Caps</td> <td>Initial (7/6): 5% up; Subsequent: 1% up/down; Lifetime: 5% up</td> </tr> <tr> <td>Margin</td> <td>See rate sheet</td> </tr> <tr> <td>Index</td> <td>30-day average SOFR as published by the New York Federal Reserve</td> </tr> <tr> <td>Index Establish Date</td> <td>45 days prior to the change date (aka “look back period”)</td> </tr> <tr> <td>Interest Rate Floor</td> <td>Margin</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>ARM products are assumable to a qualified borrower after the fixed term, except for TX 50(a)(6)</td> </tr> <tr> <td>Negative Amortization</td> <td>None</td> </tr> <tr> <td>Interest Only Option</td> <td>Interest Only period is the first 10 years of the loan</td> </tr> <tr> <td>Notes / Riders</td> <td>Correspondent Sellers: See correspondent website “Forms and Resources/NQM Documents/Quick Reference Document Form Requirements” for specifics.</td> </tr> </table>	Interest Rate	Initial (5/6): 2% up; Subsequent: 1% up/down; Lifetime: 5% up	Adjustment Caps	Initial (7/6): 5% up; Subsequent: 1% up/down; Lifetime: 5% up	Margin	See rate sheet	Index	30-day average SOFR as published by the New York Federal Reserve	Index Establish Date	45 days prior to the change date (aka “look back period”)	Interest Rate Floor	Margin	Reset Period	6 months	Conversion Option	None	Assumption	ARM products are assumable to a qualified borrower after the fixed term, except for TX 50(a)(6)	Negative Amortization	None	Interest Only Option	Interest Only period is the first 10 years of the loan	Notes / Riders	Correspondent Sellers: See correspondent website “Forms and Resources/NQM Documents/Quick Reference Document Form Requirements” for specifics.
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Age of Documentation	<p><u>Credit Report</u>: Within 90 days of the Note Date</p> <p><u>Income/Asset/Reserves Docs</u>: The most recent income document used for income qualifying or for assets/reserves must be dated within 60 days of the Note Date. When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement. Paystubs used to document employment income for co-borrowers must be dated within this same 60 day timeframe.</p> <p><u>Title Report</u>: Within 120 days of the Note Date</p> <p><u>Appraisal</u>: Within 120 days of the Note Date. If older than 120 days from the Note Date, but within the preceding 12 months from the Note Date, the Appraisal Report may be used with an acceptable recertification of value completed on Appraisal Update and/or Completion Report (Form 1004D). An Appraisal Update and/or Completion Report 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.</p> <ul style="list-style-type: none"> • If the appraiser indicates on the Form 1004D that the property value has declined, a new appraisal for the property must be obtained. • If the appraiser indicates on the Form 1004D that the property value has <i>not</i> declined, no additional fieldwork is required. <p>Note: The appraisal update must occur within the 120 days that precede the date of the note and mortgage</p> <p>The original appraiser should complete the appraisal update; however, lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser’s opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.</p>																								

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Appraisal Requirements	<table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr> <th style="width: 50%;">Loan Amount</th> <th style="width: 50%;">Appraisal Requirement</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">≤ \$1,500,000</td> <td style="text-align: center;">One Full Appraisal</td> </tr> <tr> <td style="text-align: center;">> \$1,500,000</td> <td style="text-align: center;">Two Full Appraisals</td> </tr> </tbody> </table> <p><u>Additional Collateral Valuation Requirements (when a second appraisal is not obtained):</u></p> <ul style="list-style-type: none"> • <u>Option 1:</u> A Fannie Mae Collateral Underwriter (CU) appraisal review that meets the following: <ul style="list-style-type: none"> ○ 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) OR 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. <p>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.</p> <p>When two full appraisals are obtained, use the lesser value for LTV purposes.</p> <p>For rate/term refinance transactions, the subject property must not be currently listed for sale. It must be taken off the market prior to the application date of the new mortgage loan. For cash-out refinance transactions, the subject property must not have been listed for sale for at least 6 months prior to the application date. For all refinance transactions, the borrower must confirm their intent to occupy the subject property (for primary residence transactions) and/or their intent to retain the property going forward.</p> <p>If an appraisal (either one when two are obtained) indicates the subject property is located in a declining market, reduce maximum LTV by 5%.</p> <p>Appraisals must be ordered through an Impac approved Appraisal Management Company (AMC).</p>	Loan Amount	Appraisal Requirement	≤ \$1,500,000	One Full Appraisal	> \$1,500,000	Two Full Appraisals		
Loan Amount	Appraisal Requirement								
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Assets/Reserves	<table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr> <th style="width: 50%;">Loan Amount</th> <th style="width: 50%;">Required Reserves (PITIA) for Subject Property</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">≤ \$1,000,000</td> <td style="text-align: center;">6 months</td> </tr> <tr> <td style="text-align: center;">> \$1,000,000 and ≤ \$2,000,000</td> <td style="text-align: center;">9 months</td> </tr> <tr> <td style="text-align: center;">> \$2,000,000</td> <td style="text-align: center;">12 months</td> </tr> </tbody> </table> <p>The ARM Qualifying Rate is used to determine P&I for subject property reserves purposes. See Income/DTI section for requirements.</p> <p><u>Marketable Securities:</u> Use 90% of value. Marketable Securities are defined as legitimate stocks, bonds or mutual funds that are publicly traded.</p> <p><u>Retirement Accounts:</u> Use 70% of the vested balance (net of any outstanding loans) for IRA/SEP/Keough/401(k) accounts if not retirement age, or 80% if retirement age and no early withdrawal tax penalty applies.</p> <p><u>Business Assets:</u> Business assets are an acceptable source for down payment, closing costs, and reserves for self-employed borrowers. Ownership percentage of at least 50% and authority to access funds must be documented via CPA Letter, Operating Agreement or equivalent. The balance of the business assets must be multiplied by the ownership percentage to determine the owner's portion of the business assets allowed for the transaction. Large deposits must be sourced to validate the funds are eligible.</p> <p><u>Cash-Out for Reserves:</u> Proceeds from a cash-out refinance may be used toward the reserve requirement when LTV ≤ 80%.</p> <p><u>Gift Funds for Reserves:</u> Gift funds may be used as reserves if the subject property is a primary residence AND minimum FICO of 680.</p> <p><u>Waiver of Reserves:</u> A waiver of reserves is allowed for Rate/Term refinance transactions only provided all borrowers meet all of the following requirements:</p> <ul style="list-style-type: none"> • Minimum 680 FICO • LTV/CLTV/HCLTV ≤ 80% • Mortgage and/or rent rating of 0x30x12 (must be consecutive, no short/missing pay history allowed, no prior forbearance allowed) • No history of bankruptcy, foreclosure, short sale, deed-in-lieu of foreclosure, or mortgage charge-off 	Loan Amount	Required Reserves (PITIA) for Subject Property	≤ \$1,000,000	6 months	> \$1,000,000 and ≤ \$2,000,000	9 months	> \$2,000,000	12 months
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	<p>Additional Financed Properties Requirements: 2 months PITIA for each additional financed property. PITIA calculated using the actual mortgage payment (PITIA) of the “other” property for each additional property</p>						
Borrower Eligibility	<p><u>Eligible:</u></p> <ul style="list-style-type: none"> • U.S. Citizens • Permanent Resident Aliens • Inter Vivos Revocable Trust • First Time Home Buyer (see payment shock tolerances) • Non-occupant co-borrower (reduce max LTV by 5%) <p><u>Ineligible:</u></p> <ul style="list-style-type: none"> • Foreign Nationals • Non-Permanent Resident Aliens • Land Trusts • LLCs, Corporations and Partnerships • Nominee or Blind Trusts 						
Credit	<p><u>Credit Score:</u> The representative score for each borrower is:</p> <ul style="list-style-type: none"> • The middle score when three scores are obtained, or • The lower score when two scores are obtained • If only one score is obtained, the borrower is ineligible <p>The representative score for the loan is the lowest representative score of all borrowers.</p> <p><u>Tradeline Requirements (for borrowers who contribute income or assets in loan qualification):</u></p> <ul style="list-style-type: none"> • Minimum of 3 trade lines. • At least one trade line must be active in the last 6 months. • Trade lines may be open or closed, with one seasoned trade line having a minimum 24-month rating and one trade line with at least a \$5,000 high credit limit. • The activity, seasoning and high credit limit requirements may be met with the same trade line. • Authorized user trade lines are not eligible for any portion of the credit requirement. • When spouse is co-borrower only one borrower is required to have the credit depth listed above. <p><u>Mortgage/Rental Lates:</u> Maximum 1x30 in the last 12 consecutive months. For LTV/CLTV/HCLTV > 80%, 0x30x12 is required.</p> <ul style="list-style-type: none"> • Applies to all mortgages on all properties. Mortgages that do not appear on credit require a VOM from an institutional lender. Otherwise, private party VOM's must be substantiated by 12 months cancelled checks or bank statements. • When documenting rental payment history, a Verification of Rent (VOR) from a third party management company is required. If the VOR is from a private party, cancelled checks or bank statements are required to support the VOR. • For borrowers who currently own all property free and clear there is no mortgage/rent history requirement provided any closed mortgage meets the 1x30x12 requirement (or 0x30x12 for LTV/CLTV/HCLTV > 80%). • Free and clear ownership counts as 0x30 for all months owned free and clear. <p>The charts below detail housing payment history requirements for First Time Homebuyers and Non-First Time Homebuyers (i.e. had ownership interest in property at some point in the last 3 years). The left column details the Standard payment history requirement. The right column details restrictions when the Standard requirement cannot be met. In other words, the Standard requirement is not met when the borrower cannot document a verifiable housing payment history spanning the most recent and consecutive 12 months (e.g. borrower's history is less than 12 months or there is no verifiable history during the last 12 months). In all cases, Standard or not, housing payment history cannot exceed 1x30 in the last 12 consecutive months.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th colspan="2" style="text-align: center; background-color: #cccccc;">First Time Homebuyer (No Ownership Last 3 Years)</th> </tr> <tr> <th style="width: 50%; text-align: center;">Standard Requirement (Housing History Satisfied)</th> <th style="width: 50%; text-align: center;">Standard Requirement Not Met (Missing or < 12 Months Housing History)</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> • <u>VOR: Max 1x30x12, and</u> • Rental payment history for the most recent and consecutive 12 months preceding the loan application date. • “Rent free” status + a previous 12-month VOR may be considered on a case by case basis </td> <td style="text-align: center; vertical-align: middle;"> <p>Maximum 80% LTV</p> </td> </tr> </tbody> </table>	First Time Homebuyer (No Ownership Last 3 Years)		Standard Requirement (Housing History Satisfied)	Standard Requirement Not Met (Missing or < 12 Months Housing History)	<ul style="list-style-type: none"> • <u>VOR: Max 1x30x12, and</u> • Rental payment history for the most recent and consecutive 12 months preceding the loan application date. • “Rent free” status + a previous 12-month VOR may be considered on a case by case basis 	<p>Maximum 80% LTV</p>
First Time Homebuyer (No Ownership Last 3 Years)							
Standard Requirement (Housing History Satisfied)	Standard Requirement Not Met (Missing or < 12 Months Housing History)						
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Non-First Time Homebuyer (Ownership within Last 3 Years)	
Standard Requirement (Housing History Satisfied)	Standard Requirement Not Met (Missing or Short Housing History)
<ul style="list-style-type: none"> • <u>VOM/VOR</u>: Max 1x30x12, <u>and</u> • Payment history for the most recent and consecutive 12 months prior to application required. 	<p>Maximum 80% LTV</p>
<p>Bankruptcy (Ch. 7, 11 and 13), Short Sale, Deed-in-Lieu, Charge-off of Mortgage Accounts and Foreclosure: None in last 4 years.</p> <ul style="list-style-type: none"> • <u>Bankruptcy, Short Sale, Deed-in-Lieu, Charge-off of Mortgage Accounts</u>: If ≥ 2 years and < 4 years, max 70% LTV or existing guidelines, whichever is lower. • <u>Foreclosure</u>: If ≥ 3 years and < 4 years, max 70% LTV or existing guidelines, whichever is lower. <p>COVID-Related Forbearance: Borrower(s) must not be in forbearance on any mortgage as of the Note Date of the subject transaction. Borrower Attestation is required. Below are acceptable scenarios and seasoning requirements. In all cases, the borrower must be due for the current payment on all mortgages as of the closing date.</p> <ul style="list-style-type: none"> • <u>No Seasoning Requirement</u>: <ul style="list-style-type: none"> ○ Borrower entered forbearance but continued to make timely monthly payments. ○ Borrower entered forbearance, missed one or more monthly payments but caught up via lump sum payment. If the lump sum payment occurred after the application date, the funds used to make the lump sum payment must be documented from an eligible asset source. • <u>Seasoning Required</u>: <ul style="list-style-type: none"> ○ Borrower entered forbearance, missed one or more monthly payments and entered into a loss mitigation solution as a result of their inability to catch up and bring their mortgage payments current. Examples of loss mitigation solutions include, but are not limited to, repayment plans, payment deferrals and modifications. The new loan is eligible provided 3 timely payments have been made since the borrower entered into the loss mitigation solution. <p>Judgment/Tax Lien/Collections/Charge-Offs:</p> <ul style="list-style-type: none"> • Judgments and Tax Liens on title must be paid. If there is evidence in the file of judgments and/or tax liens and they are not on title, they may remain open provided the borrower can demonstrate a 6-month satisfactory payment history and the debt is included in the DTI. • Medical collections are excluded regardless of amount • Any charge-offs or non-medical collections in the last 12 months may remain unpaid if individually < \$1,000 or < \$2,000 in aggregate. Otherwise, accounts must be paid in full prior to or at closing. <p>Disputed Accounts: Disputed accounts are reviewed to determine current balance and derogatory information (a 30-day or more delinquency) within 2 years prior to the credit report date:</p> <ul style="list-style-type: none"> • If the disputed account(s) has no derogatory information – the underwriter must evaluate for acceptability and address their decision on the 1008. • If the disputed account(s) has derogatory information – the dispute must be removed and a new credit report must be pulled. <p>Frozen Credit: If the borrower’s credit is frozen at one of the credit repositories, the credit report is still acceptable as long as:</p> <ul style="list-style-type: none"> • Credit data is available from two repositories, • A credit score is obtained from at least one of those two repositories, and • A three in-file merged report was requested. • Loans for borrowers with credit data frozen at two or more of the credit repositories are not eligible. <p>Authorized User Accounts: The underwriter may make the determination that an authorized user account(s) has an insignificant impact on the borrower’s overall credit history and the information on the credit report is representative of the borrower’s own credit reputation. The underwriter should base their determination on the number of the borrower’s own tradelines, as well as their age, type, size and the payment history, as compared to the authorized user account(s). The underwriter must document their determination on the 1008.</p>	
Escrow Accounts / Impounds	<p>Impounds are not required unless either of the following:</p> <ul style="list-style-type: none"> • The loan is a higher-priced mortgage loan (HPML) transaction. HPML transactions require a minimum 5 year escrow period (CFPB TILA Escrow Rule). • Flood insurance is required (i.e. impounds for flood insurance are required if subject in a flood zone).
Escrow Holdbacks	Not permitted
Fraud Report	Required
Geographical Locations/Restrictions	<p>Eligible States: All states (including DC) are eligible except for:</p> <ul style="list-style-type: none"> • <u>Wholesale</u>: DE, MA, ME, MO, WY

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	<ul style="list-style-type: none"> Interest Only loans are <u>not</u> allowed in Illinois (all channels) <p><u>Texas 50(a)(6)</u>: Allowed for primary residence. Interest Only is prohibited on a Texas Section 50(a)(6) Equity Cash Out loan. Loan must be fully amortized.</p> <p>State specific regulatory requirements supersede all underwriting guidelines set forth by Impac.</p>
<p>Gift Funds / Gifts of Equity</p>	<p><u>Gift Funds Eligibility:</u></p> <ul style="list-style-type: none"> Allowed for paying off debt, equity contribution refinances, and for closing costs and down payments. <p><u>Gift Funds for Reserves:</u></p> <ul style="list-style-type: none"> Gift funds may be used as reserves if the subject property is a primary residence <u>AND</u> minimum FICO of 680. <p><u>Gift Funds and Borrower Contributions:</u></p> <ul style="list-style-type: none"> If the borrower cannot document 5% of their own funds for down payment, a 10% reduction in maximum LTV is required. <p><u>Gift of Equity:</u></p> <ul style="list-style-type: none"> Allowed at ≤ 75% LTV Gifts of equity are allowed on sales between immediate family members for existing properties only. A signed gift letter is required for all gift funds and gifts of equity. Transfer of funds or evidence of receipt must be documented prior to or at closing. <p><u>Acceptable Gift Fund and Gift of Equity Donors:</u></p> <ul style="list-style-type: none"> Borrower’s spouse, child, or other dependent Any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or the borrower’s fiancé, fiancée, or domestic partner. The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.
<p>Income/DTI</p>	<p>Borrowers must receive income in the form of commissions or as an independent contractor. At least one borrower must earn income via 1099 to qualify and must have a 2-year history of receiving 1099 income with the following exception: Borrowers who converted from W2 to 1099 and have at least one full year of receiving 1099 income from the same employer are eligible. For a primary residence, the 1099 borrower must occupy the property. 1099s and YTD documentation of income are used to qualify income for 1099 borrowers. All borrowers must be qualified using current verifiable income, not projected income.</p> <p><u>Documentation Requirements:</u></p> <ul style="list-style-type: none"> <u>Two Year Option:</u> <ul style="list-style-type: none"> Most recent 2 years of 1099s Documentation of year to date (YTD) income (e.g. paystubs, written VOE, bank statements) IRS 1099 transcripts to validate 1099s <u>One Year Option:</u> <ul style="list-style-type: none"> Most recent 1 years of 1099s Documentation of year to date (YTD) income (e.g. paystubs, written VOE, bank statements) IRS 1099 transcripts to validate 1099s <u>Additional Requirements:</u> <ul style="list-style-type: none"> If the 1099s are issued to an entity, the borrower must document 100% ownership interest in the entity via CPA letter or equivalent documentation. Borrowers with less than 2 years at the current contractor must qualify under the Two Year Option. <p><u>Income Calculation:</u></p> <p>Using the borrower’s 1099s, average income over the most recent 12 or 24 months depending on whether the One Year Option or Two Year Option is utilized. Income trends should be stable or increasing. Whenever the most recent year or YTD income is declining, a more conservative calculation should generally be applied. Declining trends may also require additional explanation and/or documentation at the underwriter’s discretion. Income from the 1099s must be further reduced for qualification purposes by a business expense factor using one of the following methods:</p> <ul style="list-style-type: none"> <u>Flat Expense Factor:</u> Reduce 1099 income for qualifying by a flat 25% expense factor. <u>Third Party Prepared Expense Statement:</u> Obtain a third-party CPA/accountant/tax preparer produced written statement specifying the actual expense ratio of the business based on the most recent year’s filed tax returns. Such statement must not include unacceptable disclaimer or exculpatory language regarding its preparation. Reduce 1099 income for qualifying by the expense factor from the written statement.

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Example: 1099 income average is \$10,000/month. Apply a 25% flat expense factor (or expense factor from third-party statement). Income for qualification/DTI purposes is \$7,500/month.

Other Income:

Other income from the 1099 borrower or co-borrower may also be used to qualify (e.g. co-borrower employment income or secondary employment income for the borrower; retirement income). All other income must be fully documented as described below. In no instance may tax returns be used to document income.

- **Employment Income:**
 - Must have 2 years' continuous employment in the same line of work. All gaps in employment are subject to review and underwriter discretion. Gaps of employment greater than 90 days must be documented and explained.
 - Most recent paystub dated no earlier than 60 days prior to the Note Date with YTD earnings (must cover minimum 30 days) + W-2s that cover the most recent 2-year period.
 - Written VOE with YTD earnings is required to substantiate overtime, bonus or commission income.
 - W-2 only transcripts from the IRS are required to validate income used to qualify.
- **Retirement/Fixed Income:**
 - Award letter or acceptable equivalent
 - 1099 only transcripts from the IRS are required to validate income used to qualify.

Rental Income:

- **Purchase Transactions:** Obtain Appraisal Form 1007. Use 75% of the gross market rent in the rental income calculation.
- **Subject Property Refinances and Non-Subject Properties:** Rental income used for qualification must be documented with an executed lease agreement. The rental amount must be discounted by a 25% vacancy factor unless the borrower can document the most recent three months' receipt of rental income. An expired lease agreement that has verbiage stating the lease agreement becomes a month-to-month lease once the initial lease term expires is allowed with evidence of three months' receipt of rental income.
- **Converting a Primary Residence to an Investment Property:** If the borrower is converting a current principal residence to an investment property, a lease agreement and evidence of security deposit and/or first months' rent may be used to qualify rental income.
- **Converting a Primary Residence to a Second Home:** If the borrower is converting a current principal residence to a second home, both the current and proposed mortgage payments (PITIA) must be used to qualify the borrower for the new transaction.
- **Short-Term Rentals:** Short-term rentals are properties in which the rental term is less than 12 months, relatively variable in duration (e.g. short weekend, two weeks, several months, etc.), and may not be subject to a traditional lease agreement. Short-term rentals are permitted. Proof of receipt for the most recent 12 months is required. Use documented 12 months of payments to derive the monthly rental amount average. If no rent is received, use zero for that month. Most recent months must be consistent with receipt patterns over the last 12 months. Otherwise, explanation and/or additional documentation may be required to determine consistency/stability

Verification of Employment:

- **1099 Borrower:** A Verbal VOE (VVOE) from the borrower's current contractor must be obtained within 10 calendar days prior to the Note Date. The VVOE cannot be obtained on or after the actual Note Date. An updated VVOE is also required within 10 calendar days prior to funding.
- **Employment:** A Verbal VOE (VVOE) must be obtained within 10 calendar days prior to the Note Date. The VVOE cannot be obtained on or after the actual Note Date. An updated VVOE is also required within 10 calendar days prior to funding.

DTI: Maximum DTI is 55%. For DTI > 50%, all of the following conditions must be met:

- Minimum 700 FICO
- Reduce maximum LTV/CLTV/HCLTV by 10%
- 12 months PITIA in reserves (cannot be waived),
- Rate/Term Refinance of primary residence only
- Minimum expense factor is 50% whenever DTI > 50%
- Housing history must be 0x30x12
- Minimum residual income \$3500

Qualifying Rate:

- **Fixed (fully amortized):** Qualify at the Note Rate
- **Fixed (30 or 40 year interest only):** Qualify using the fully amortized payment at the Note Rate based on the scheduled remaining loan term at the time of recast after the interest only period has expired

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	<p>(i.e. 30 year IO qualifies the same as a 20 year fixed rate loan, 40 year IO qualifies the same as a 30 year fixed rate loan).</p> <ul style="list-style-type: none"> • <u>ARM (fully amortized)</u>: Qualify at the greater of the Note Rate or the fully-indexed rate • <u>ARM (interest only)</u>: Qualify at the greater of the Note Rate or the fully-indexed rate based on the scheduled remaining loan term at the time of recast after the interest only period has expired. <p>Residual Income:</p> <ul style="list-style-type: none"> • DTI ≤ 50%: Minimum \$2500 • DTI > 50%: Minimum \$3500 <p>Borrower Affirmation: The borrower must acknowledge their ability to repay the loan by signing a <i>Borrower Affirmation</i> document at closing.</p>
<p>Loan Purpose</p>	<p><u>Purchase</u>: Use lesser of purchase price or appraised value for LTV calculation.</p> <p><u>Rate/Term Refinance</u>: The following are acceptable in conjunction with a rate/term refinance transaction:</p> <ul style="list-style-type: none"> • Paying off the unpaid principal balance of the existing first mortgage • Paying off a purchase money 2nd mortgage (closed end or HELOC) • Paying off a non-purchase money 2nd mortgage seasoned at least 12 months (note date to note date): <ul style="list-style-type: none"> ○ HELOC (Home Equity Line of Credit) must not have cumulative withdrawals exceeding \$2,000 in the last twelve (12) months • Paying off a PACE (aka HERO) loan • Receiving cash back not to exceed the greater of 1% of the loan amount or \$2,000. • Use appraised value for LTV calculation. <p><u>Cash-Out Refinance</u>: A cash-out refinance transaction must be used to pay off existing mortgages by obtaining a new first mortgage secured by the same property or be a new mortgage on a property that does not have a mortgage lien against it. At least one borrower must have been on title for 6 months or have made payments on the existing mortgage for 6 months to be eligible for a cash-out refinance. Use appraised value for LTV calculation.</p> <ul style="list-style-type: none"> • If a property is owned by an LLC where the borrower(s) are at least 50% owners of the LLC, the time it was held by the LLC may be counted towards meeting the borrower's 6 month ownership requirement. • Subject property purchased within the past 6 months is only eligible for a cash-out refinance provided Fannie Mae Delayed Financing Exception is met. <p><u>Maximum Cash-Out</u>:</p> <ul style="list-style-type: none"> • LTV > 60% = \$500,000; LTV ≤ 60% = \$1,000,000 <p><u>New York Consolidation, Extension & Modification Agreement (NY CEMA)</u> For all Impac refinance products, property located in the state of New York may be structured as a Consolidation, Extension, and Modification Agreement (CEMA) transaction. The most current version of Fannie Mae/Freddie Mac Uniform Instrument (Form 3172) must be used. The following documentation must be provided:</p> <ul style="list-style-type: none"> • NY Consolidation, Extension and Modification Agreement (Form 3172) • Original Note(s) – Original documents signed by the borrower • Gap Note and Gap Mortgage, if applicable • Consolidated Note – Original documents signed by the borrower • Exhibit A – Listing of all Notes & Mortgages being consolidated, extended and modified • Exhibit B – Legal description of the subject property • Exhibit C – Copy of the consolidated Note • Exhibit D – Copy of the consolidated Mortgage <p>Lost Note Affidavits are not an acceptable substitute for any of the required documents. If original documentation cannot be provided per above, then a CEMA is not allowed.</p>
<p>Minimum Loan Amount</p>	<p>\$150,000</p>
<p>Mortgage Insurance</p>	<p>Not required</p>
<p>Multiple Financed Properties and Impac Exposure</p>	<p>There is no limitation on the number of financed properties whenever the subject property is a primary residence. When the subject property is a second home or investment property, borrowers may have a maximum of 15 financed properties. Borrowers are limited to eight (8) loans with Impac not to exceed \$3,000,000.</p>
<p>Non-Arm's Length Transactions</p>	<p>Non-arm's length transactions are purchase transactions in which there is a relationship or business affiliation between the seller and the buyer of the property. Non-arm's length transactions for all occupancy types are allowed for the purchase of <u>existing</u> property. For the purchase of <u>newly constructed</u> properties, if the borrower has a relationship or business affiliation (any ownership interest, or employment) with the builder, developer, or</p>

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	seller of the property, only <u>primary residence</u> is allowed. Mortgage loans on newly constructed homes secured by a second home or investment property where there is a non-arm's length relationship are prohibited.
Payment Shock	<ul style="list-style-type: none"> • Non-First Time Home Buyer: Maximum 350% if DTI > 36% • First Time Home Buyer: Maximum 250% if DTI > 36%, OR 350% if DTI ≤ 36% • Payment shock does not apply to properties owned free and clear.
Prepayment Penalty	Not allowed
Properties Affected by a Disaster	<p>When the Federal Emergency Management Agency (FEMA) releases a disaster declaration announcement whereby <u>individual assistance</u> is made available to an area containing the subject property, the property will require a re-inspection as follows based on the "incident start date" and the "incident end date."</p> <ul style="list-style-type: none"> • Loan files containing appraisal reports with an effective date prior to the "incident start date" are <i>ineligible</i> for funding and investor delivery without an accompanying property inspection product dated after the "incident end date." • Loan files containing appraisal reports with an effective date on or after the "incident start date" are <i>ineligible</i> for funding and investor delivery without an accompanying property inspection product dated after the "incident end date." • Appraisal reports with an effective date after the published "incident end date" require <i>no action</i> and may fund and be delivered to the investor provided there is no indication from the appraiser that there is an adverse impact on the property's value, condition, or marketability as a result of the disaster. • All property inspection products must be dated after the published "incident end date" to allow loan file funding and investor delivery. <p>Required Inspection Product: An Exterior DAIR is required for inspections, including, but not limited to, earthquake, fire, landslide, and tornado. When the disaster is a flood, hurricane and/or water related disaster, and Interior inspection is also required. Regardless, all DAIR's must affirmatively indicate there is no adverse impact to value, condition, or marketability as a result of the disaster.</p> <p>Condo Requirements: In addition to the subject unit itself, the DAIR must also assess the condition of the building in which the condo unit is located and assess any damage to the condo project's common elements.</p> <p>Damage Indicated on the DAIR:</p> <ul style="list-style-type: none"> • If damage exists but does not impact the safety, soundness, or structural integrity of the property, the following is required in order to be eligible for delivery: <ul style="list-style-type: none"> ○ The repair items are covered by insurance, <u>AND</u> ○ Documentation of the professional estimates of the repair costs must be obtained and the lender must ensure that sufficient funds are available for the borrower's benefit to guarantee the completion of the repairs (i.e. borrower must document funds required to meet any applicable insurance deductible). • If the property was damaged and the damage is uninsured or the damage affects the safety, soundness, or structural integrity of the property, the property must be repaired before the loan is eligible to be delivered. • Where damage exists to the building of a condo unit and/or the condo project's common elements, escalate to Enterprise Credit Policy.
Property Types	<p><u>Eligible:</u></p> <ul style="list-style-type: none"> • 1 unit attached and detached SFR and PUDs • Condominiums • 2-4 units • Leasehold Estates (term of the lease must extend 10 years beyond the date of loan maturity and must otherwise meet Fannie Mae Guidelines) <p><u>Ineligible:</u></p> <ul style="list-style-type: none"> • Condo hotel • Co-ops • Income producing properties with acreage • Manufactured housing • Modular homes • Working farms, ranches or orchards • Vacant land or land development properties • Properties that are not readily accessible by roads that meet local standards • Properties that are not secured by real estate such as, houseboats, boat slips, timeshares, and other forms of property that are not real estate • Boarding houses • Bed and breakfast properties • Properties that are not suitable for year-round occupancy regardless of location • Properties located in Hawaiian lava zones 1 and 2

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	<p>Unique Properties: May be considered on a case-by-case basis whereby additional restrictions may apply (e.g. max LTV of 80%). In all cases, the appraisal must provide similar comparable sales and address any marketability concerns. Following are unique properties that may be considered on a case-by-case basis:</p> <ul style="list-style-type: none"> • Acreage greater than 10 acres. • Properties zoned exclusively for agricultural purposes. • Log Homes. • Mixed Use • Properties subject to oil and/or gas leases <p>Condo Project Reviews: Follow Fannie Mae guidelines for Project Review Waivers, Limited Reviews, Full Reviews (with or without CPM) and PERS Final Approvals. FHA approved condos are not permitted. Co-op and manufactured housing projects are ineligible. Condominium projects that do not meet Fannie Mae guidelines are considered non-warrantable. See below for non-warrantable project acceptability.</p> <p>Non-Warrantable Condo Project Eligibility: A condo project is still considered eligible if the LTV/CLTV/HCLTV does not exceed 80% and <u>no more than one</u> of the following characteristics exist.</p> <ul style="list-style-type: none"> • Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns up to and including 25% of the total number of units in the project. • Established Projects: For investment properties, less than 50% of the total units in the project have been conveyed to principal residence or second home purchasers. All occupancy types are allowed regardless of the project's investment property concentration. • New Projects: Less than 50% of the total units in the project or subject legal phase have been conveyed or under contract for sale to principal residence or second home purchasers. • Commercial space in the project is no more than 50% provided it is typical of the market area and has no impact on marketability.
<p>Subordinate Financing</p>	<p>Subordinate financing is allowed subject to the following requirements:</p> <ul style="list-style-type: none"> • Must have regular monthly payments that cover at least the interest due so that negative amortization does not occur. • Financing provided by the property seller is allowed for <u>arm's-length transactions only</u> in accordance with program CLTV limits. • Subordinate financing that does not fully amortize under a level monthly payment plan where the maturity or balloon payment date is less than five years after the note date of the new first mortgage is unacceptable. • Loans may be escalated for consideration when the amount of the subordinate debt is minimal relative to the borrower's financial assets and/or credit profile. • All subordinate financing must otherwise meet Fannie Mae guidelines. • Required documentation: 1) Copy of Note, 2) Copy of Subordination Agreement
<p>Title Vesting</p>	<p>Eligible Vesting: Vesting in the name of an individual(s) or an Inter Vivos Revocable Trust is allowed provided it meets the following requirements:</p> <ul style="list-style-type: none"> • Inter Vivos Revocable Trust: <ul style="list-style-type: none"> ○ Must meet Fannie Mae requirements ○ Only trusts with natural person members are allowed <p>Ineligible Vesting:</p> <ul style="list-style-type: none"> • LLCs • Corporations • Partnerships • 501(c)(3) organizations • Trusts or LLCs whose members include other LLCs, corporations, partnerships, or trusts. • Trusts or LLCs where a Power of Attorney is used.
<p>Underwriting</p>	<p>Loans must be manually underwritten and fully documented. All loans must be underwritten in compliance with the Ability to Repay standards set forth in 12 C.F.R. §1026.43. For additional topics not specifically or fully addressed by 12 C.F.R. §1026.43 guidance or herein, Fannie Mae underwriting guidelines should be followed. The underwriter must be comfortable that the borrower is able to repay the loan and that belief must be supported by information from independent third parties. All factors in the loan file must be viewed in totality to reach this conclusion.</p>

Borrower Affirmation – 1099s Used to Qualify

Date:

Loan No

Borrower Name:

- 1. I understand that my monthly payment on this loan will be as follows:
 - Fixed Mortgage
 - For _____ years
 - My monthly payment is \$ _____
 - Adjustable Rate Mortgage
 - For the first _____ years
 - My monthly payment is \$ _____
 - I understand my payment may adjust (more than once) after the first _____ years.
 - Interest Only Mortgage
 - For the first _____ years
 - My monthly payment is \$ _____
 - I understand my payment will adjust after the first _____ years.
- 2. I understand the checked items below on this property will be approximately this amount per month \$
 - Property taxes
 - Hazard Insurance
 - Flood Insurance
 - Mortgage Insurance

The checked items above will be impounded.

The items not checked will not be impounded; and if not impounded I am responsible to pay them directly.
- 3. I believe I can afford to make the monthly payment on the loan.
- 4. I am not aware of anything in the future that will affect my ability to make this loan payment.
- 5. If my loan program did not require that I submit my prior tax returns, I understand that if I had provided additional verifiable documentation of my income, such as my tax returns or W-2 wage statements or other documentation deemed necessary to support my income, I may have been able to qualify for a loan with different loan terms or conditions such as a lower interest rate.

NOTE: If there is a discrepancy between the terms in this document and the actual loan documents, the terms of the loan documents prevail.

I certify that the above information and the information on the final Uniform Residential Loan Application (Form 1003) is true and correct as of this day and that it represents an accurate picture of my financial status.

Borrower name

Borrower name

Borrower name

Borrower name