

## NQM Bank Statement 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 self-employed and would benefit from alternative loan qualification methods. Bank statements (personal and/or business) are used as an alternative to tax returns to document a self-employed borrower's income.

Purchase & Rate/Term Refinance – Primary Residence							
Units	FICO <sup>2</sup>	LTV/CLTV <sup>1</sup>	Loan Amount	DTI <sup>5</sup>	Reserves (mos)	Housing History	Credit Event <sup>4</sup>
1-4	660	90%	\$1,000,000	55%	6	1x30x12	48 mos
	620	80%					
	600	70%					
	680	90%	\$1,500,000		9		
	660	85%					
	620	80%					
	680	90%	\$2,000,000		12		
	660	85%					
	640	75%					
	760	85%	\$2,500,000		12		
	680	80%					
	700	80%					
680	70%	\$3,000,000					
Cash-Out Refinance – Primary Residence <sup>3</sup>							
Units	FICO <sup>2</sup>	LTV/CLTV <sup>1</sup>	Loan Amount	DTI	Reserves (mos)	Housing History	Credit Event <sup>4</sup>
1-4	660	85%	\$1,000,000	50%	6	1x30x12	48 mos
	640	75%					
	620	70%					
	600	65%					
	680	85%	\$1,500,000		9		
	660	80%					
	640	75%					
	620	70%					
	740	85%	\$2,000,000		12		
	700	80%					
	660	75%					
	640	70%					
	740	80%	\$2,500,000		12		
	680	75%					
	700	75%					
680	65%	\$3,000,000					
Purchase & Rate/Term Refinance – Second Home & Investment Property							
Units	FICO <sup>2</sup>	LTV/CLTV	Loan Amount	DTI	Reserves (mos)	Housing History	Credit Event <sup>4</sup>
2nd: 1-unit NOO: 1-4	660	80%	\$1,000,000	50%	6	1x30x12	48 mos
	640	75%					
	680	80%					
	660	75%	\$1,500,000		9		
	640	70%					
	680	80%					
	660	75%	\$2,000,000		12		
	720	75%					
	680	70%					
720	70%	\$3,000,000					

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

**Footnotes:**

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

<sup>2</sup>Interest-Only requires minimum 660 FICO

<sup>3</sup>Cash-Out Refinances: 1) Maximum cash-out is \$500,000 if LTV > 65%. Otherwise, cash-out is unlimited.

<sup>4</sup>Minimum 2 year seasoning allowed at certain LTV – see “Credit” section of these guidelines

<sup>5</sup>DTI > 50%: See “Income” section of these guidelines for requirements needed

### Product Codes

#### Fully Amortizing

Product Code	Hybrid ARM
IA56AD	NQM Bank Statement Program 5/6 SOFR ARM
IA76AD	NQM Bank Statement Program 7/6 SOFR ARM
Product Code	Fixed
IF30AD	NQM Bank Statement Program 30 Year Fixed

#### Interest Only

Product Code	Hybrid ARM
IA56ADIO	NQM Bank Statement Program 5/6 SOFR ARM Interest Only
IA76ADIO	NQM Bank Statement Program 7/6 SOFR ARM Interest Only
Product Code	Fixed
IF30ADIO	NQM Bank Statement Program 30 Year Fixed / 10 Year Interest Only
IF40ADIO	NQM Bank Statement Program 40 Year Fixed / 10 Year Interest Only

### Eligibility Requirements

<p><b>Adjustable Rate Details</b></p>	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="background-color: #D9E1F2;"><b>Interest Rate Adjustment Caps</b></td> <td>Initial (5/6): 2% up; Subsequent: 1% up/down; Lifetime: 5% up Initial (7/6): 5% up; Subsequent: 1% up/down; Lifetime: 5% up</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Margin</b></td> <td>See rate sheet</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Index</b></td> <td>30-day average SOFR as published by the New York Federal Reserve</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Index Establish Date</b></td> <td>45 days prior to the change date (aka “look back period”)</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Interest Rate Floor</b></td> <td>Margin</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Reset Period</b></td> <td>6 months</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Conversion Option</b></td> <td>None</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Assumption</b></td> <td>ARM products are assumable to a qualified borrower after the fixed term, except for TX 50(a)(6)</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Negative Amortization</b></td> <td>None</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Interest Only Option</b></td> <td>Interest Only period is the first 10 years of the loan</td> </tr> <tr> <td style="background-color: #D9E1F2;"><b>Notes / Riders</b></td> <td>Correspondent Sellers: See correspondent website “Forms and Resources/NQM Documents/Quick Reference Document Form Requirements” for specifics.</td> </tr> </table>	<b>Interest Rate Adjustment Caps</b>	Initial (5/6): 2% up; Subsequent: 1% up/down; Lifetime: 5% up Initial (7/6): 5% up; Subsequent: 1% up/down; Lifetime: 5% up	<b>Margin</b>	See rate sheet	<b>Index</b>	30-day average SOFR as published by the New York Federal Reserve	<b>Index Establish Date</b>	45 days prior to the change date (aka “look back period”)	<b>Interest Rate Floor</b>	Margin	<b>Reset Period</b>	6 months	<b>Conversion Option</b>	None	<b>Assumption</b>	ARM products are assumable to a qualified borrower after the fixed term, except for TX 50(a)(6)	<b>Negative Amortization</b>	None	<b>Interest Only Option</b>	Interest Only period is the first 10 years of the loan	<b>Notes / Riders</b>	Correspondent Sellers: See correspondent website “Forms and Resources/NQM Documents/Quick Reference Document Form Requirements” for specifics.
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<p><b>Age of Documentation</b></p>	<p><u>Credit Report:</u> Within 90 days of the Note Date</p> <p><u>Income/Asset/Reserves Docs:</u> The most recent bank statement(s) 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</p>																						

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	<p>of value completed on <a href="#">Appraisal Update and/or Completion Report (Form 1004D)</a>. 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"> <li>• If the appraiser indicates on the Form 1004D that the property value has declined, a new appraisal for the property must be obtained.</li> <li>• If the appraiser indicates on the Form 1004D that the property value has <i>not</i> declined, no additional fieldwork is required.</li> </ul> <p><b>Note:</b> 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>								
<b>Appraisal Requirements</b>	<table border="1" style="width: 100%; margin-bottom: 10px;"> <thead> <tr> <th style="text-align: center;">Loan Amount</th> <th style="text-align: center;">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;">&gt; \$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"> <li>• <u>Option 1:</u> A Fannie Mae Collateral Underwriter (CU) appraisal review that meets the following: <ul style="list-style-type: none"> <li>○ 1-unit property only (this is a CU limitation)</li> <li>○ CU Risk Score ≤ 2.5</li> </ul> When the above requirements are met, an ARR or CDA in Option 2 below is not required.</li> <li>• <u>Option 2:</u> A Pro Teck Valuation Services Appraisal Risk Review (ARR) <b>OR</b> 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.</li> </ul> <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		
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	<p>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 <u>AND</u> 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"> <li>• Minimum 680 FICO</li> <li>• LTV/CLTV/HCLTV ≤ 80%</li> <li>• Mortgage and/or rent rating of 0x30x12 (must be consecutive, no short/missing pay history allowed, no prior forbearance allowed)</li> <li>• No history of bankruptcy, foreclosure, short sale, deed-in-lieu of foreclosure, or mortgage charge-off</li> </ul> <p><b>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.</b></p>
<p><b>Borrower Eligibility</b></p>	<p><u>Eligible:</u></p> <ul style="list-style-type: none"> <li>• U.S. Citizens</li> <li>• Permanent Resident Aliens</li> <li>• Inter Vivos Revocable Trust</li> <li>• First Time Home Buyer (see payment shock tolerances)</li> <li>• Non-occupant co-borrower (reduce max LTV by 5%)</li> </ul> <p><u>Ineligible:</u></p> <ul style="list-style-type: none"> <li>• Foreign Nationals</li> <li>• Non-Permanent Resident Aliens</li> <li>• Land Trusts</li> <li>• LLCs, Corporations and Partnerships</li> <li>• Nominee or Blind Trusts</li> </ul>
<p><b>Credit</b></p>	<p><u>Credit Score:</u> The representative score for each borrower is:</p> <ul style="list-style-type: none"> <li>• The middle score when three scores are obtained, or</li> <li>• The lower score when two scores are obtained</li> <li>• If only one score is obtained, the borrower is ineligible</li> </ul> <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"> <li>• Minimum of 3 trade lines.</li> <li>• At least one trade line must be active in the last 6 months.</li> <li>• 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.</li> <li>• The activity, seasoning and high credit limit requirements may be met with the same trade line.</li> <li>• Authorized user trade lines are not eligible for any portion of the credit requirement.</li> <li>• When spouse is co-borrower only one borrower is required to have the credit depth listed above.</li> </ul> <p><u>Mortgage/Rental Lates:</u> Maximum 1x30 in the last 12 consecutive months. For LTV/CLTV/HCLTV &gt; 80%, 0x30x12 is required.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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 &gt; 80%).</li> <li>• Free and clear ownership counts as 0x30 for all months owned free and clear.</li> </ul> <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</p>

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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.

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"> <li>VOR: Max 1x30x12, <u>and</u></li> <li>Rental payment history for the most recent and consecutive 12 months preceding the loan application date.</li> <li>"Rent free" status + a previous 12-month VOR may be considered on a case by case basis</li> </ul>	<p>Maximum 80% LTV</p>

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"> <li>VOM/VOR: Max 1x30x12, <u>and</u></li> <li>Payment history for the most recent and consecutive 12 months prior to application required.</li> </ul>	<p>Maximum 80% LTV</p>

**Bankruptcy (Ch. 7, 11 and 13), Short Sale, Deed-in-Lieu, Charge-off of Mortgage Accounts and Foreclosure:** None in last 4 years.

- Bankruptcy, Short Sale, Deed-in-Lieu, Charge-off of Mortgage Accounts:** If  $\geq 2$  years and  $< 4$  years, max 70% LTV or existing guidelines, whichever is lower.
- Foreclosure:** If  $\geq 3$  years and  $< 4$  years, max 70% LTV or existing guidelines, whichever is lower.

**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.

- No Seasoning Requirement:**
  - 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.
- Seasoning Required:**
  - 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.

**Judgment/Tax Lien/Collections/Charge-Offs:**

- 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.

**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:

- 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.

**Frozen Credit:** If the borrower's credit is frozen at one of the credit repositories, the credit report is still acceptable as long as:

- 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.

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	<p><b>Authorized User Accounts:</b> 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>
<b>Escrow Accounts / Impounds</b>	<p>Impounds are not required unless either of the following:</p> <ul style="list-style-type: none"> <li>The loan is a higher-priced mortgage loan (HPML) transaction. HPML transactions require a minimum 5 year escrow period (CFPB TILA Escrow Rule).</li> <li>Flood insurance is required (i.e. impounds for flood insurance are required if subject in a flood zone).</li> </ul>
<b>Escrow Holdbacks</b>	Not permitted
<b>Fraud Report</b>	Required
<b>Geographical Locations/Restrictions</b>	<p><b>Eligible States:</b> All states (including DC) are eligible for all channels except for:</p> <ul style="list-style-type: none"> <li><b>Correspondent:</b> None</li> <li><b>Retail:</b> CT, DE, MA, MD, ME, MO, NY, WY</li> <li><b>Wholesale:</b> DE, MA, ME, MO, WY</li> <li>Interest Only loans are <u>not</u> allowed in Illinois (all channels)</li> </ul> <p><b>Texas 50(a)(6):</b> 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><b>New York – Subprime Home Loans</b> Impac will not purchase NQM loans in New York for primary residences (1-4 unit properties) that meet the Fannie Mae Conforming loan limits (to include High Balance loan amounts in certain high cost counties). In other words, loan amounts must be at least \$1 above the Conforming/High Balance loan limits. See FHFA Conforming Limits site: <a href="http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx">http://www.fhfa.gov/DataTools/Downloads/Pages/Conforming-Loan-Limits.aspx</a></p> <p>State specific regulatory requirements supersede all underwriting guidelines set forth by Impac.</p>
<b>Gift Funds / Gifts of Equity</b>	<p><b>Gift Funds Eligibility:</b></p> <ul style="list-style-type: none"> <li>Allowed for paying off debt, equity contribution refinances, and for closing costs and down payments.</li> </ul> <p><b>Gift Funds for Reserves:</b></p> <ul style="list-style-type: none"> <li>Gift funds may be used as reserves if the subject property is a primary residence <u>AND</u> minimum FICO of 680.</li> </ul> <p><b>Gift Funds and Borrower Contributions:</b></p> <ul style="list-style-type: none"> <li>If the borrower cannot document 5% of their own funds for down payment, a 10% reduction in maximum LTV is required.</li> </ul> <p><b>Gift of Equity:</b></p> <ul style="list-style-type: none"> <li>Allowed at ≤ 75% LTV</li> <li>Gifts of equity are allowed on sales between immediate family members for existing properties only.</li> <li>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.</li> </ul> <p><b>Acceptable Gift Fund and Gift of Equity Donors:</b></p> <ul style="list-style-type: none"> <li>Borrower's spouse, child, or other dependent</li> <li>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.</li> <li>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.</li> </ul>
<b>Income/DTI</b>	<p>At least one borrower must be self-employed to qualify. For a primary residence, the self-employed borrower must occupy the property. Bank statements are used to qualify income for self-employed borrowers. All borrowers must be qualified using current verifiable income, not projected income. Income from wage earning and retired co-borrowers is allowed.</p> <p><b>DTI:</b> Maximum DTI is 55%. For DTI &gt; 50%, all of the following conditions must be met:</p> <ul style="list-style-type: none"> <li>Minimum 700 FICO</li> <li>Reduce maximum LTV/CLTV/HCLTV by 10%</li> <li>12 months PITIA in reserves (cannot be waived),</li> <li>Rate/Term Refinance of primary residence only</li> <li>Minimum expense factor is 50% whenever DTI &gt; 50%</li> <li>Housing history must be 0x30x12</li> <li>Minimum residual income \$3500</li> </ul>

## NQM Bank Statement Program – Underwriting Guidelines

**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 (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).
- **ARM (fully amortized):** Qualify at the greater of the Note Rate or the fully-indexed rate
- **ARM (interest only):** 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.

**Residual Income:**

- DTI ≤ 50%: Minimum \$2500
- DTI > 50%: Minimum \$3500

**Self-Employment Income:** Self-employed borrowers must be self-employed with the same business for a minimum of two consecutive years. Any borrower who has a 25% or greater ownership interest in a business is considered to be self-employed and must be evaluated as such. Acceptable forms of documentation would be:

- A business license,
- A signed written statement from a CPA or a Third-Party Tax Preparer,
- A Partnership agreement,
- A business certificate filed with a governmental agency, or
- Other equivalent documentation.

Additional considerations:

- **1099 Contractor:** A borrower who is a 1099 contractor is considered self-employed for this program with acceptable documented confirmation that the borrower is a 1099 contractor. An example is a letter from a tax preparer or CPA confirming the borrower files Schedule C or Schedule E with the IRS (personal tax returns).

**Ineligible Self-Employment Sources:**

- Foreign businesses
- Businesses that function as a non-profit enterprise

**Employment Income:** Employed borrowers 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. Documentation requirements below:

- 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.

**Verification of Employment and Self-Employment:**

- **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.
- **Self-Employment:** An independent written confirmation of self-employment is required to verify the existence of the borrower's business within 30 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 30 calendar days prior to funding:
  - 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 source of the information obtained and the name and title of the lender's employee who obtained the information must be documented.

**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.

## NQM Bank Statement Program – Underwriting Guidelines

- **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.

### **Retirement and Other Income:**

- Retirement income and other fixed documentable income is allowed as qualifying income for both a self-employed borrower and for any non-self-employed or retired co-borrower.
- Other non-retirement income from the self-employed borrower (e.g., W-2 wage income) may be used. This other income must be fully documented (i.e., may not use the bank statement documentation).

**W2/1099 Transcripts:** W-2 only and/or 1099 transcripts from the IRS are required to validate income used to qualify for a wage earning or retirement income borrower and/or co-borrower.

### **Bank Statement Income Documentation and Calculation Requirements for Self-Employed Borrowers:**

Depending on how a self-employed borrower operates their business, multiple bank statement options may be used as detailed below:

- All self-employed borrowers must provide a written business narrative inclusive of (but not limited to) a description of their business operations and number of full-time equivalents and/or contractors as well as any other pertinent information.
- Whether using personal or business bank statements, 12 months of bank statements are required
- **Personal Bank Accounts:** This option applies whenever a borrower maintains separate personal and business bank accounts – requirements below:
  - Obtain the most recent 12 months' consecutive personal bank statements and the most recent 3 months' business bank statements (to support the borrower does maintain separate accounts). The Personal Bank Account is used to qualify income.
  - Deposits will be analyzed and averaged to determine monthly income. A reasonable determination must be made that deposits in the personal account came from the business. The separate business account should be cross-referenced to help make that determination. Acceptable examples include but are not limited to the following:
    - The personal account shows incoming transfers from the business account (the business account would also show outgoing transfers into the personal account).
    - Nondescript deposits into the personal account match up to reasonably similar withdrawals from the business account.
  - Unacceptable deposits as identified further below must be excluded from the income calculation. If 12 months of statements are provided and the analysis is inconclusive (e.g. large fluctuations in deposits), the borrower must provide an additional 12 months' personal bank statements showing the same activity levels. A P&L is not required, however, when a P&L is provided, monthly income will be determined from the P&L and verified by the bank statements.
  - When the borrower is an inter vivos trust, personal bank statements in the name of the trust are allowed for qualification.
- **Business Bank Accounts OR Comingled Bank Accounts:** These options apply whenever a borrower maintains separate personal and business bank accounts (Business Bank Accounts) or whenever a borrower utilizes the same bank account for personal and business purposes (Comingled Bank Accounts) – requirements below:
  - Obtain the most recent 12 months' consecutive bank statements
  - Deposits will be analyzed and averaged to determine monthly income. Unacceptable/Excluded Deposits as identified further below must be excluded from the income calculation. If 12 months of statements are provided and the analysis is inconclusive (e.g. large fluctuations in deposits), the borrower must provide an additional 12 months' bank statements showing the same activity levels. A P&L is not required, however, when a P&L is provided, monthly income will be determined from the P&L and verified by the bank statements.
  - Total deposits (after excluding any unacceptable deposits) must be multiplied by the borrower's ownership interest in the business. In order to determine a borrower's ownership interest in the business, documentation such as an Operating Agreement (LLC) or Articles of Incorporation (S-Corp) is required.
  - Total deposits (after applying ownership percentage) must be further reduced by one of the following options:
    - A flat 50% expense factor may be utilized; **OR**,



## NQM Bank Statement Program – Underwriting Guidelines

	<ul style="list-style-type: none"> <li>• A third-party CPA/accountant/tax preparer produced written statement specifying the actual expense ratio of the business (including cost of goods sold and all other business expenses) based on the most recent year's filed tax returns. Such statement must not include unacceptable disclaimer or exculpatory language regarding its preparation; <b>OR</b>,</li> <li>• A third-party CPA/accountant/tax preparer produced Profit and Loss (P&amp;L) statement accompanied by a written statement that the CPA or tax preparer has reviewed the P&amp;L. The P&amp;L and accompanying statement must not have unacceptable disclaimer or exculpatory language regarding its preparation. Net income from the P&amp;L will be used for qualifying provided revenue is supported by the bank statements provided (i.e. the deposits on the bank statements must be at least 75% of the Gross Receipts on the P&amp;L).</li> </ul> <p><b><u>Unacceptable/Excluded Deposits – not limited to the following:</u></b></p> <ul style="list-style-type: none"> <li>• Cash advances from credit cards</li> <li>• Income sources already taken into account</li> <li>• Non-business related account transfers</li> <li>• Tax refunds</li> <li>• Product returns/credits</li> <li>• Gift funds</li> <li>• Credit line deposits/business financing</li> </ul> <p><b><u>Bank Statement Analysis:</u></b></p> <ul style="list-style-type: none"> <li>• <b><u>Ending Balances:</u></b> The bank statements should show a trend of ending balances that are stable or increasing over the 12 month (or other examination) period. Low ending balances must be explained; additional documentation may be required.</li> <li>• <b><u>Income Trends:</u></b> <ul style="list-style-type: none"> <li>○ Decreasing income trends must be explained; additional documentation (inclusive of additional bank statements) may be required.</li> <li>○ In all cases, income must be deemed stable to be eligible.</li> </ul> </li> <li>• <b><u>Deposits:</u></b> Net deposits must not reflect any other income sources already taken into consideration (i.e. deduct SS payments, W-2 wage earnings, etc., that have already been used for income calculation).</li> <li>• <b><u>Non-Sufficient Funds (NSF)/Overdraft Protection</u></b> <ul style="list-style-type: none"> <li>○ <b><u>NSF:</u></b> An NSF is any occurrence whereby the account ends the day with a negative balance. With a satisfactory LOE, Impac will allow no more than 3 such occurrences in the last 12 months.</li> <li>○ <b><u>Overdraft Protection:</u></b> An overdraft is any occurrence whereby the account balance goes negative but is linked to another depository account or line of credit with the same financial institution. Such occurrences are not considered in the 3 occurrence limit described above provided the account does not reflect in a negative balance, the account shows a transfer from the other account, and the underwriter has no concerns over the viability of the business. A satisfactory LOE is also required.</li> </ul> </li> <li>• <b><u>Additional Bank Statements:</u></b> Up to 24 months of bank statements may be required at the underwriter's discretion. Income situations that may require additional bank statements for review include but are not limited to inconsistencies in cash flows consistent with occupation type or seasonal types of self-employment. <ul style="list-style-type: none"> <li>○ Examples include seasonal income such as that received by a tax accountant whose primary income occurs in the first half of a year, or large isolated payments such as those received by political consultants or promoters who are paid for a specific events or contracts and have a history of similar types of payments.</li> </ul> </li> </ul> <p><b><u>Non-Traditional Income Sources:</u></b> Reviewed on a case-by-case basis</p> <p><b><u>Borrower Affirmation:</u></b> The borrower must acknowledge their ability to repay the loan by signing a <i>Borrower Affirmation</i> document at closing.</p>
<b>Loan Purpose</b>	<p><b><u>Purchase:</u></b> Use lesser of purchase price or appraised value for LTV calculation.</p> <p><b><u>Rate/Term Refinance:</u></b> The following are acceptable in conjunction with a rate/term refinance transaction:</p> <ul style="list-style-type: none"> <li>• Paying off the unpaid principal balance of the existing first mortgage</li> <li>• Paying off a purchase money 2<sup>nd</sup> mortgage (closed end or HELOC)</li> <li>• Paying off a non-purchase money 2<sup>nd</sup> mortgage seasoned at least 12 months (note date to note date): <ul style="list-style-type: none"> <li>○ HELOC (Home Equity Line of Credit) must not have cumulative withdrawals exceeding \$2,000 in the last twelve (12) months</li> </ul> </li> <li>• Paying off a PACE (aka HERO) loan</li> </ul>

## NQM Bank Statement Program – Underwriting Guidelines

	<ul style="list-style-type: none"> <li>Receiving cash back not to exceed the greater of 1% of the loan amount or \$2,000.</li> <li>Use appraised value for LTV calculation.</li> </ul> <p><b>Cash-Out Refinance:</b> 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"> <li>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.</li> <li>Subject property purchased within the past 6 months is only eligible for a cash-out refinance provided Fannie Mae Delayed Financing Exception is met.</li> </ul> <p><b>Maximum Cash-Out:</b></p> <ul style="list-style-type: none"> <li>LTV &gt; 65% = \$500,000; LTV ≤ 65% = Unlimited</li> </ul> <p><b>New York Consolidation, Extension &amp; Modification Agreement (NY CEMA)</b> 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"> <li>NY Consolidation, Extension and Modification Agreement (Form 3172)</li> <li>Original Note(s) – Original documents signed by the borrower</li> <li>Gap Note and Gap Mortgage, if applicable</li> <li>Consolidated Note – Original documents signed by the borrower</li> <li>Exhibit A – Listing of all Notes &amp; Mortgages being consolidated, extended and modified</li> <li>Exhibit B – Legal description of the subject property</li> <li>Exhibit C – Copy of the consolidated Note</li> <li>Exhibit D – Copy of the consolidated Mortgage</li> </ul> <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>
<b>Minimum Loan Amount</b>	\$100,000
<b>Mortgage Insurance</b>	Not required
<b>Multiple Financed Properties and Impac Exposure</b>	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.
<b>Non-Arm's Length Transactions</b>	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 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.
<b>Payment Shock</b>	<ul style="list-style-type: none"> <li>Non-First Time Home Buyer: Maximum 350% if DTI &gt; 36%</li> <li>First Time Home Buyer: Maximum 250% if DTI &gt; 36%, OR 350% if DTI ≤ 36%</li> <li>Payment shock does not apply to properties owned free and clear.</li> </ul>
<b>Prepayment Penalty</b>	Not allowed
<b>Properties Affected by a Disaster</b>	<p>When the Federal Emergency Management Agency (FEMA) releases a disaster declaration announcement whereby <b>individual assistance</b> 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"> <li>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."</li> <li>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."</li> <li>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.</li> <li>All property inspection products must be dated after the published "incident end date" to allow loan file funding and investor delivery.</li> </ul>

## NQM Bank Statement Program – Underwriting Guidelines

	<p><b>Required Inspection Product:</b> 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><b>Condo Requirements:</b> 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><b>Damage Indicated on the DAIR:</b></p> <ul style="list-style-type: none"> <li>• 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"> <li>○ The repair items are covered by insurance, <u>AND</u></li> <li>○ 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).</li> </ul> </li> <li>• 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.</li> <li>• Where damage exists to the building of a condo unit and/or the condo project's common elements, escalate to Enterprise Credit Policy.</li> </ul>
<p><b>Property Types</b></p>	<p><b>Eligible:</b></p> <ul style="list-style-type: none"> <li>• 1 unit attached and detached SFR and PUDs</li> <li>• Condominiums</li> <li>• 2-4 units</li> <li>• Leasehold Estates (term of the lease must extend 10 years beyond the date of loan maturity and must otherwise meet Fannie Mae Guidelines)</li> </ul> <p><b>Ineligible:</b></p> <ul style="list-style-type: none"> <li>• Condo hotel</li> <li>• Co-ops</li> <li>• Income producing properties with acreage</li> <li>• Manufactured housing</li> <li>• Modular homes</li> <li>• Working farms, ranches or orchards</li> <li>• Vacant land or land development properties</li> <li>• Properties that are not readily accessible by roads that meet local standards</li> <li>• Properties that are not secured by real estate such as, houseboats, boat slips, timeshares, and other forms of property that are not real estate</li> <li>• Boarding houses</li> <li>• Bed and breakfast properties</li> <li>• Properties that are not suitable for year-round occupancy regardless of location</li> <li>• Properties located in Hawaiian lava zones 1 and 2</li> </ul> <p><b>Unique Properties:</b> 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"> <li>• Acreage greater than 10 acres.</li> <li>• Properties zoned exclusively for agricultural purposes.</li> <li>• Log Homes.</li> <li>• Mixed Use</li> <li>• Properties subject to oil and/or gas leases</li> </ul> <p><b>Condo Project Reviews:</b> 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><b>Non-Warrantable Condo Project Eligibility:</b> 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"> <li>• 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.</li> <li>• <b>Established Projects:</b> 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.</li> <li>• <b>New Projects:</b> 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.</li> </ul>

## NQM Bank Statement Program – Underwriting Guidelines

	<ul style="list-style-type: none"> <li>• Commercial space in the project is no more than 50% provided it is typical of the market area and has no impact on marketability.</li> </ul>
<b>Subordinate Financing</b>	<p>Subordinate financing is allowed subject to the following requirements:</p> <ul style="list-style-type: none"> <li>• Must have regular monthly payments that cover at least the interest due so that negative amortization does not occur.</li> <li>• Financing provided by the property seller is allowed for <u>arm's-length transactions only</u> in accordance with program CLTV limits.</li> <li>• 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.</li> <li>• 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.</li> <li>• All subordinate financing must otherwise meet Fannie Mae guidelines.</li> <li>• Required documentation: 1) Copy of Note, 2) Copy of Subordination Agreement.</li> </ul>
<b>Title Vesting</b>	<p><u>Eligible Vesting:</u> 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"> <li>• Inter Vivos Revocable Trust: <ul style="list-style-type: none"> <li>○ Must meet Fannie Mae requirements</li> <li>○ Only trusts with natural person members are allowed</li> </ul> </li> </ul> <p><u>Ineligible Vesting:</u></p> <ul style="list-style-type: none"> <li>• LLCs</li> <li>• Corporations</li> <li>• Partnerships</li> <li>• 501(c)(3) organizations</li> <li>• Trusts or LLCs whose members include other LLCs, corporations, partnerships, or trusts.</li> <li>• Trusts or LLCs where a Power of Attorney is used.</li> </ul>
<b>Underwriting</b>	<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 – Bank Statements 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